

**440th meeting of the Accounts Commission for Scotland**  
**Thursday 9 November 2017, 10.15am**  
**In the offices of Audit Scotland, 102 West Port, Edinburgh**

**Agenda**

1. **Apologies for absence.**
2. **Declarations of interest.**
3. **Decisions on taking business in private:** The Commission will consider whether to take items 11 to 14 in private.
4. **Minutes of meeting of 12 October 2017.**
5. **Audit Scotland Board update:** The Commission will consider a verbal report by the Chair and Secretary to the Commission.
6. **Update report by the Secretary to the Accounts Commission:** The Commission will consider a report by the Secretary to the Commission.
7. **Update report by the Controller of Audit:** The Commission will consider a verbal report by the Controller of Audit.
8. **Shared risk assessment 2018/19:** The Commission will consider a report by the Director of Performance Audit and Best Value.
9. **Audit of Best Value: follow-up - East Dunbartonshire Council:** The Commission will consider a report by the Controller of Audit.
10. **Best Value Assurance Report: West Lothian Council:** The Commission will consider a report by the Controller of Audit.

***The following items are proposed to be considered in private:***

11. **Audit of Best Value: follow-up - East Dunbartonshire Council:** The Commission will consider the actions that it wishes to take.
12. **Best Value Assurance Report: West Lothian Council:** The Commission will consider the actions that it wishes to take.
13. **Local government financial overview: draft report:** The Commission will consider a report by the Director of Performance Audit and Best Value.
14. **Commission business matters:** The Commission will discuss matters of interest.

\* It is proposed that items 11 to 14 be considered in private because:

- Item 11 requires the Commission to consider actions in relation to a report by the Controller of Audit. The Commission is then obliged by statute to inform the council in question of its decision, which the Commission does before making the decision public.
- Item 12 requires the Commission to consider actions in relation to a report by the Controller of Audit. The Commission is then obliged by statute to inform the council in question of its decision, which the Commission does before making the decision public.
- Item 13 proposes a draft audit report which the Commission is to consider in private before publishing.
- Item 14 may be required if there are any confidential matters that require to be discussed outwith the public domain. The Chair will inform the meeting in public at the start of the meeting if this item is required and what it covers.

The following papers are enclosed for this meeting:

<b>Agenda Item</b>	<b>Paper number</b>
<b>Agenda Item 4:</b> Minutes of meeting of 12 October 2017	AC.2017.8.1
<b>Agenda Item 5:</b> Minutes of Audit Scotland Board Update	AC.2017.8.2
<b>Agenda Item 6:</b> Report by Secretary to the Commission	AC.2017.8.3
<b>Agenda Item 8:</b> Report by Director of Performance Audit and Best Value	AC.2017.8.4
<b>Agenda Item 9:</b> Report by Controller of Audit	AC.2017.8.5
<b>Agenda Item 10:</b> Report by Controller of Audit	AC.2017.8.6
<b>Agenda Item 13:</b> Report by Director of Performance Audit and Best Value	AC.2017.8.7

MEETING: 9 NOVEMBER 2017

MINUTES OF PREVIOUS MEETING

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Minutes of the 439th meeting of the Accounts Commission held in the offices of Audit Scotland at 102 West Port, Edinburgh, on Thursday, 12 October 2017, at 10.15am

PRESENT: Ronnie Hinds (Acting Chair)  
Alan Campbell  
Sandy Cumming  
Christine May  
Geraldine Wooley  
Pauline Weetman  
Sheila Gunn  
Sophie Flemig  
Stephen Moore  
Tim McKay  
Graham Sharp

IN ATTENDANCE: Paul Reilly, Secretary to the Commission  
Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)  
Elaine Barrowman, Senior Audit Manager, Audit Services Group (ASG) [Items 13 and 14]  
Douglas Black, Audit Manager, PABV [Items 13 and 14]  
Elaine Boyd, Assistant Director, Audit Strategy [Item 16]  
Russell Frith, Assistant Auditor General [Item 16]  
John Gilchrist, Manager, Audit Strategy [Item 16]  
David McConnell, Assistant Director, ASG [Items 13 and 14]  
Owen Smith, Senior Manager, Procurement & National Fraud Initiative [Item 16]  
Claire Sweeney, Associate Director, PABV [Item 12]  
Eva Thomas-Tudo, Audit Officer, PABV [Items 13 and 14]

Item No   Subject

1. Apologies for absence
2. Declarations of interest
3. Decisions on taking business in private
4. Minutes of meeting of 10 August 2017
5. Minutes of meeting Financial Audit and Assurance Committee of 24 August 2017
6. Minutes of meeting Financial Audit and Assurance Committee of 28 September 2017
7. Minutes of Performance Audit Committee of 24 August 2017
8. Minutes of Performance Audit Committee of 28 September 2017
9. Audit Scotland Board Update
10. Update report by the Secretary to the Accounts Commission
11. Update report by the Controller of Audit
12. Strategic Scrutiny Group Update
13. Audit of Best Value: East Renfrewshire Council
14. Audit of Best Value: East Renfrewshire Council
15. Scottish government consultation: draft response: Education
16. Review of audit quality
17. Mid-Year Strategy Seminar: Outputs
18. Commission business matters

1. Apologies for absence

It was noted that no apologies for absence had been received.

2. Declarations of interest

The following declarations of interest were made:

- Sheila Gunn, in item 10, as a non-executive Director of the Wheatley Group, in relation to references to housing matters.
- Stephen Moore, in items 13 and 14, as a resident of East Renfrewshire and having a family member involved in the provision of council services.

Advice from Fraser McKinlay, Controller of Audit, was noted that he was declaring an interest in items 13 and 14, as a family member is a former chief officer of East Renfrewshire Council.

3. Decisions on taking business in private

It was agreed that the following items be taken in private:

- Item 14 requires the Commission to consider actions in relation to a report by the Controller of Audit. The Commission is then obliged by statute to inform the council in question of its decision, which the Commission does before making the decision public.
- Item 15 proposes a draft response to a consultation, which may include confidential policy matters that the Commission would wish to discuss in private before publishing its response.
- Item 16 proposes a report from the Assistant Auditor General on the quality of audit, in relation to which the Commission may wish to discuss confidential audit matters with the author.
- Item 17 presents outputs from the Commission's private Mid-Year Strategy Seminar which may include confidential policy matters that the Commission would wish to discuss in private before proceeding.
- Item 18 may be required if there are any confidential matters that require to be discussed outwith the public domain.

No business was notified for item 18 and thus the Chair advised that the item would not require discussion.

4. Minutes of meeting of 10 August 2017

The Commission approved as a correct record the minutes of the meeting of 10 August.

Arising therefrom, the Commission noted advice from the Secretary that:

- In relation to item 7, the Commission had submitted a response to the call for evidence by the Scottish Parliament's Equalities and Human Rights Committee in its Stage 1 scrutiny of the Gender Representation on Public Board (Scotland) Bill, a copy of which had been placed on the members' extranet portal.
- In relation to paragraph 11, the Commission had published the Best Value Assurance Report on Renfrewshire Council on 31 August.

- In relation to paragraph 13, the Commission had published the performance audit report on equal pay in Scottish councils on 7 September.

5. Minutes of meeting Financial Audit and Assurance Committee of 24 August 2017

The Commission noted that, at its meeting of 28 September 2017, the Financial Audit and Assurance Committee had approved as a correct record the minutes of its meeting of 24 August 2017.

6. Minutes of meeting Financial Audit and Assurance Committee of 28 September 2017

The Commission approved as a correct record the minutes of the meeting of the Financial Audit and Assurance Committee of 28 September 2017.

7. Minutes of Performance Audit Committee of 24 August 2017

The Commission noted that, at its meeting of 28 September 2017, the Performance Audit Committee had approved as a correct record the minutes of its meeting of 24 August 2017.

Arising therefrom, in relation to item 5, in response to a query from Ronnie Hinds, the Commission noted advice from the Director of PABV that the proposed round table on educational attainment would take place in early 2018.

8. Minutes of Performance Audit Committee of 28 September 2017

The Commission approved as a correct record the minutes of the meeting of the Performance Audit Committee of 28 September 2017.

9. Audit Scotland Board Update

The Commission considered a report by the Secretary providing an update on the business of the Audit Scotland Board.

The Commission noted the report.

10. Update report by the Secretary to the Accounts Commission

The Commission considered a report by the Secretary to the Commission providing an update on significant recent activity relating to local government and issues of relevance or interest across the wider public sector.

During discussion, the Commission:

- Noted advice from the Secretary that the Acting Chair would be meeting Bob Doris MSP, Convener of the Scottish Parliament's Local Government and Communities Committee, on 24 October.
- Noted advice from the Secretary that Audit Scotland's Communications Team had been named by the Chartered Institute of Public Relations (CIPR) as Public Sector Communications Team of the Year, and had also been nominated for the CIPR Public Sector Publication of the Year for the Audit Scotland annual report 2017.
- In relation to paragraph 40, in response to a query from Sandy Cumming, agreed that further information be provided on the role of local authorities in relation to the proposed South of Scotland Enterprise Agency.

*Action: Director of PABV*

- In relation to paragraph 48, in response to a query from Ronnie Hinds, agreed that the 2016 Scottish Household Survey results be considered by the Local Government Overview team.

*Action: Director of PABV*

- In relation to paragraph 95, in response to a query from Christine May, agreed that more information be provided on the progress of the Improvement Service's Spatial Hub initiative.

*Action: Director of PABV*

- In relation to paragraph 98, in response to a query from Sophie Flemig, noted advice from the Director of PABV that the audit team for the performance audit on early learning and childcare would be in contact with the new officer resource established by the Improvement Service in this regard.

Following discussion, the Commission agreed to note the report.

#### 11. Update report by the Controller of Audit

The Controller of Audit provided a verbal update on his recent activity including meetings and discussions with stakeholders.

Following discussion, the Commission noted the update.

#### 12. Strategic Scrutiny Group Update

The Commission considered a report by Director of PABV providing an update on the progress of the Strategic Scrutiny Group (SSG), particularly in relation to its review of the Shared Risk Assessment process, its consideration of a collective scrutiny approach to community empowerment, and its forward work programme.

During discussion, the Commission agreed:

- That more information be provided on the Scottish Government's work with Participatory Budgeting Partners on participatory and community budgeting across Scotland.

*Action: Director of PABV*

- To note advice from the Director of PABV, in response to a query from Tim McKay in relation to paragraph 25 of the report, on the effect of scrutiny demands arising from new devolved financial powers on Audit Scotland's budget proposal to the Scottish Commission for Public Audit in coming months.
- To note advice from the Director of PABV, in response to a query from Alan Campbell in relation to paragraph 21 of the report, that the SSG continue to look at how to improve the quality of local scrutiny plans.
- That a committee day lunchtime speaker session be dedicated to community empowerment.

*Action: Secretary*

- To note that further updates on progress with these SSG developments will be brought to future Commission meetings.



13. Audit of Best Value: East Renfrewshire Council

The Commission considered a report by the Secretary to the Commission presenting the Controller of Audit's report of the Best Value Assurance Report of East Renfrewshire Council and seeking direction on how to proceed.

Following questions to the Controller of Audit, the Commission agreed to consider in private how to proceed.

14. Audit of Best Value: East Renfrewshire Council [in private]

The Commission discussed how to proceed in relation to the statutory report by the Controller of Audit on the audit of Best Value Assurance in East Renfrewshire Council.

Following discussion, the Commission agreed to make findings, to be published on 7 November 2017.

*Actions: Secretary and Controller or Audit*

15. Scottish government consultation: draft response: – Fair funding to achieve excellence and equity in education [in private]

The Commission considered a report by the Director of PABV proposing a response to the Scottish Government's consultation 'Fair Funding to achieve excellence and equity in education'.

Following discussion, the Commission agreed to approve the terms of its response, to be made jointly with the Auditor General and Audit Scotland.

*Actions: Director of PABV*

16. Review of audit quality [in private]

The Commission considered a report by the Assistant Auditor General providing a progress update and areas for discussion and comment on the review of audit quality arrangements across all audit work.

During discussion, the Commission agreed to:

- Endorse the draft Audit Quality Framework, subject to changes agreed in the discussion, to be addressed by the Assistant Auditor General in consultation with the Secretary to the Commission.
- Note the changes to the management arrangements for quality, procurement and technical support.
- Note progress on procurement of external assurance.
- Endorse the initial key performance indicators to be provided through the biannual reports on quality to the Commission.
- Note in this regard that further development of the key performance indicators would take place, with the Commission being apprised of progress as appropriate.
- Note that further discussion between the Secretary and Assistant Auditor General would take place with regard to the role of ethics partner, including ethical advice in relation to, for example, non audit services, to be reported further to the Commission.

*Actions: Assistant Auditor General and Secretary*

17. Mid- Year Strategy Seminar: Outputs [in private]

The Commission considered a report by the Secretary to the Commission setting out a summary of the recent mid-year strategy seminar and proposed a number of actions for the Commission's approval.

During discussion, the Commission agreed:

- To approve for its interest the note of the event contained in the report.
- To approve the proposed next steps as set out in the report.
- Specifically, to approve the proposed revised remits for the Commission committees.
- That Sophie Flemig, Tim McKay and Pauline Weetman form a sub-group of members to review improvements to the members' extranet.

18. Commission business matters

The Chair, having advised that there was no business for this item, closed the meeting.

MEETING: 9 NOVEMBER 2017

REPORT BY: SECRETARY TO THE COMMISSION

AUDIT SCOTLAND BOARD UPDATE

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**Purpose**

1. This report provides an update on the business of the Audit Scotland Board.

**Background**

2. Audit Scotland is established in statute to “provide such assistance and support as the Auditor General and the Accounts Commission require in the exercise of their respective functions and, in particular, is to provide them, or ensure that they are provided, with the property, staff and services which they require for the exercise of those functions”.<sup>1</sup>
3. Audit Scotland (i.e. its Board) consists of the Auditor General, the Chair of the Commission, and three other members.<sup>2</sup> These three members, including a Chair, are appointed by the Scottish Commission for Public Audit.<sup>3</sup>
4. As well as being a member of Audit Scotland’s Board, the Commission Chair is also a member of its two committees, the Audit Committee and the Human Resources and Remuneration Committee.
5. In *Public Audit in Scotland*<sup>4</sup>, the Commission, the Auditor General and Audit Scotland set out how they together deliver public audit in Scotland. They state that “by working together and each fulfilling our distinct roles, the Auditor General, the Accounts Commission and Audit Scotland will ensure a strong system of public audit works to support transparency and promote improvement in the performance of public bodies.”
6. To this end, the Commission at its meetings considers for its interest the business of Audit Scotland’s board.

**Current Board business**

7. This report provides the Commission with the latest available minute from a meeting of the Audit Scotland board, in this case the meeting of 23 August 2017. It is attached in the Appendix.
8. The most recent meeting of the board was on 25 October 2017, but the minute of this meeting is not yet publicly available as it is yet to be ratified by the board. This will be available after the next board meeting on 29 November 2017 and considered by the Commission thereafter.

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<sup>1</sup> Public Finance and Accountability (Scotland) Act 2000, Section 10(3).

<sup>2</sup> Public Finance and Accountability (Scotland) Act 2000, Section 10(2).

<sup>3</sup> The Scottish Commission for Public Audit was established under Section 12 of the Public Finance and Accountability (Scotland) Act 2000 and is made up of 5 MSPs. Its main areas of responsibility are to (a) examine Audit Scotland’s proposals for the use of resources and expenditure and report on them to the Parliament; (b) appoint an auditor to audit the accounts of Audit Scotland; (c) lay these accounts and auditor’s report before the Parliament; and (d) appoint three of the five members of Audit Scotland’s Board , including its Chair.

<sup>4</sup> *Public Audit in Scotland*, Accounts Commission, Auditor General and Audit Scotland, May 2015.

9. The Chair will, however, provide a verbal update on any relevant business for members' interest, and invites questions from members to this end.

### **Conclusion**

10. The Commission is invited to consider this update for its interest and seek further information from the Chair as appropriate.

**Paul Reilly**  
**Secretary to the Commission**  
**1 November 2017**

# Minutes

Wednesday 23 August 2017, 10.30am

Audit Scotland offices, 102 West Port, Edinburgh EH3 9DN

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## Present:

I Leitch (Chair)  
C Gardner  
H Logan  
R Hinds  
R Griggs

## Apologies:

None

## In attendance:

D McGiffen, Chief Operating Officer  
R Frith, Assistant Auditor General  
M Walker, Assistant Director, Corporate Performance and Risk  
D Hanlon, Corporate Finance Manager  
S Dennis, Corporate Finance Manager  
F Kordiak, Director, Audit Services Group  
R Seidel, Audit Manager, Performance Audit and Best Value  
F McKinlay, Director, Performance Audit and Best Value  
J Webber, Senior Executive Assistant

### 1. Private meeting

A private meeting was held by the Chair and Board members, prior to the start of the Board meeting. There were no matters raised in addition to those items on the agenda, which had been previously circulated.

### 2. Welcome and apologies

The Board noted that no apologies had been received.

### 3. Declarations of interest

There were no declarations of interest.

### 4. Chair's report

Ian Leitch provided a verbal update to members of regular meetings with Caroline Gardner and Diane McGiffen on business matters generally and on the forthcoming SCPA business planning meeting on 31 August 2017.

The members welcomed the update.

## **5. Accountable Officer's report**

Caroline Gardner invited the Board to note the busy publication schedule including the Common Agriculture Policy Futures Programme and Scotland's Colleges 2017 reports, involvement with the Budget Process Review Group, Parliamentary reform in light of the new financial powers and speaking engagements at last week's Holyrood Summer School.

Caroline invited the Board to note that the first year of the new audit appointments was going well. She advised that audit teams were part way through their busiest period with all NHS audits being signed off at the end June, while work continues to finalise Central Government and Local Government audits.

Turning to the review of quality and the change of responsibilities with Russell Frith's departure at the end of the year, Caroline referred to the review underway with Audit Strategy and of professional leadership developments within the wider Leadership Group which would be discussed with the Board at its October 2017 meeting.

Caroline then advised of engagement with UK audit bodies including recent visits by the NAO and her appointment to the panel for the recruitment for the next Auditor General for Wales.

She invited Diane McGiffen to provide more detail and Diane advised of recent engagements with the new executive team at the National Audit Office both in London and Edinburgh. Diane also invited the Board to note the refurbishment of the Glasgow had been completed and shared photographs of the refurbishment.

Following discussion, the Board welcomed the update.

## **6. Accounts Commission report**

Ronnie Hinds, the Acting Chair of the Accounts Commission, provided a verbal update on his recent engagements, including publication of the joint report by the Auditor General for Scotland and the Accounts Commission on Self Directed Support and the forthcoming BV report on Renfrewshire Council.

Ronnie advised that the interviews for the appointment of the new Chair of the Accounts Commission were scheduled for the end of August with that appointment taking effect from 1 November 2017.

Ronnie invited the Board to note of a forthcoming meeting with the Chief Executives of local authorities to engage and consult on the work programme for the Accounts Commission.

The Board welcomed the update.

## **7. Review of minutes**

### **Board meeting, 2 June 2017**

The Board considered the minutes of the meeting on 2 June 2017, which had been previously circulated, and subject to a minor correction, confirmed that these were an accurate record of the meeting.

## **8. Review of actions tracker**

The Board noted the updates provided by the action tracker and sought clarification around quality reporting at action ASB24. Russell advised the Audit Committee would consider a report at its meeting on 13 September before approval was sought by the Board at its meeting on 25 October 2017.

In relation to action ASB49, Working with Young Scot, Heather Logan requested a verbal update on progress at the next meeting of the Board in October 2017.

## 9. Q1 Financial performance report 2017/18

*David Hanlon and Stuart Dennis, Corporate Finance Managers, joined the meeting*

The Chair welcomed Stuart Dennis, Finance Manager to his first Board meeting and wished him success in his new role, taking over from David Hanlon.

David Hanlon introduced the Q1 Financial performance report 2017/18, a copy of which had been previously circulated.

David invited the Board to note the performance reported was as expected.

Heather Logan requested clarification on the allocation of costs and Ronnie Hinds sought clarification on the variation of fees above predicted fees charged by firms at 4.5% and Audit Services at 1.9%. Russell Frith referred to the fee strategy and allocation of costs to public bodies and advised of the annual monitoring of price and volume changes which had resulted in a reduction in firms agreeing additional fees. The Board noted the commitment to provide continued reporting on fees and funding quarterly through the performance report and annually in a more detailed review of trends. Following discussion, the Board noted the financial performance reported for Q1.

The Board noted David's forthcoming retirement in September and wished to record their thanks for his services recognising his diligence in supporting Audit Scotland on financial matters during his ten years as Corporate Finance Manager.

## 10. Q1 Corporate performance 2016/17

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Audit Scotland Q1 Corporate Performance 2016/17, which had been previously circulated.

Martin invited the Board to note the overall strong corporate performance during Q1 and welcomed comments on the new reporting focus and format and the proposals for reporting.

Heather Logan welcomed the advances in the focus of reporting and asked for more detail on the alignment of personal objectives with the vision and direction of the organisation and for measuring the effectiveness and positive impact of our work. Martin advised that review of the performance management framework was under-way and these points feature in that review.

In relation to the KPIs for managing people effectively, Ronnie Hinds queried whether there were any underlying issues for a reduction in the examination passes reported. Diane clarified that the pass rate reported was for those results received in the quarter, highlighting some of the recent successes of trainees and that there were few exam failures and resits were planned for these. She advised that the annual pass rates reported in item 13 provided the longer term trends.

Following discussion, the Board welcomed the report and agreed they would welcome continuing to receive the underlying detail of reporting as shown in Appendix 2.

## 11. Q1 Becoming world class improvement programme report 2017/18

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the Audit Scotland Q1 Becoming World Class Improvement Programme, which had been previously circulated.

Martin invited the Board to consider the progress made to date on the improvement programme and the next steps.

The Board discussed the Securing World Class Audit workstream. Martin advised that improvement programme update reports provided a snapshot of progress each quarter. Previous reports had noted the completion of the new code of audit practice, the procurement and appointment of auditors and the revised fees and funding arrangements. Martin advised that the new audit quality framework would be considered by the Audit Committee at its meeting

on 13 September 2017 and by the Auditor General, the Accounts Commission and the Board in October. He advised that good progress was being made on the strategic objectives in the 2015-2018 Corporate Plan.

*Ronnie Hinds left the meeting, agreeing business should continue in his absence.*

## **12. 2018/19 Budget financial strategy initial proposals**

*Fiona Kordiak, Director of Audit Services, and Rebecca Seidel, Audit Manager, Performance Audit and Best Value, joined the meeting.*

Diane McGiffen introduced the 2018/19 Budget finance strategy initial proposals, which had been previously circulated.

Diane invited the Board to agree the assumptions set out in the report which provided information on the implications of new financial powers and constitutional change for Audit Scotland's budget, set out in Appendix 1. Diane advised the Board that the date for submission of our draft budget had yet to be confirmed, but that it was hoped that the Board would be able to agree the budget assumptions in the report so that if necessary, a submission could be agreed by correspondence between Board meetings if requested by the Scottish Parliament timetable.

The Chair enquired as to the basis for assessing the increased resources for supporting the work arising from the new financial powers.

*Ronnie Hinds re-joined the meeting.*

Fiona Kordiak, Director of Audit Services Group, advised the Board that the proposals for resource were the best estimate of resources required and phased to allow flexibility as implementation of new financial powers progress. Rebecca Seidel confirmed that detailed assessments had been undertaken to calculate individual pieces of work based on knowledge of work and the number of audit days required, using the existing grade mix of staff.

Ronnie Hinds queried the efficiencies required to absorb the longer term costs for new financial powers and Rebecca advised these would come following the implementation and transitional work during 2018/19 when the work moves from the development and preparation phase to delivering audit work.

Turning to the operational costs, the Chair requested clarification around the figures reported in Appendices 3 and 4 David Hanlon advised that Appendix 4 did not account for pension costs which explained the different figures. David advised the Board that the budget assumptions proposed would offer an overall real price reduction in fees.

The Chair asked whether the budget assumptions also took account of the implementation of EU exit. Rebecca confirmed these were not included for this draft budget but anticipated that any requirements would become clearer during 2018/19. The Board recognised the necessity for auditors to become familiar with their role, new risks and duties of new audit bodies.

Heather Logan asked for further information on the budget for agency staff and Fiona provided assurance that this was largely to support peak periods of financial audit work over the summer and in some instances for maternity cover across the organisation.

Following discussion, the Board approved the assumptions for the draft budget as set out in the report.

The Board welcomed the discussion.

*Rebecca Seidel, Audit Manager, Performance Audit and Best Value left the meeting.*



### 13. Building a Better Organisation– Delivering best value in Audit Scotland

*Fraser McKinlay, Director, Performance Audit and Best Value, joined the meeting.*

Diane McGiffen introduced the Delivering Best Value in Audit Scotland report, which had been previously circulated.

Diane reminded the Board of the background to the report, which had begun as a comparison of Audit Services cost during the procurement process. She advised that following discussion on Audit Services performance, the Board had requested an overview of Audit Scotland's delivery of value for money.

Diane invited the Board to note this report had been expanded to include information in respect of the Performance Audit and Best Value, Audit Strategy and Corporate Services business groups in addition to Audit Services as previously reported in January 2017. She advised that the report aimed to report best value consistently across all business groups but over time that had not always been possible.

The Board welcomed the report which sought to provide assurance of the efficiency of the business groups, acknowledging the reduction in overall costs while recognising there was more to be done to capture the central costs associated with performance audit. Fraser McKinlay advised of ongoing external benchmarking work.

The Board noted the report and welcomed the discussion.

*David Hanlon, Stuart Dennis, Corporate Finance Managers, Fiona Kordiak, Director of Audit Services and Fraser McKinlay, Director of Performance Audit and Best Value, left the meeting.*

### 14. Openness and transparency

Martin Walker, Assistant Director, Corporate Performance and Risk, introduced the report on Openness and transparency, which had been previously circulated.

Martin invited the Board to consider the report as part of its ongoing development and commitment to openness and transparency.

The Chair invited views from members on any changes they wished to make with reference to the On Board guidance and the options presented in the report.

During the discussion, the Board noted the current arrangements around the publication of Board, Audit Committee and Management Team minutes, the publication of Board papers and the publication of strategic plans and the suite of annual performance reports.

The Board agreed that it should meet in public and that Martin should report back with options and detailed proposals on the practicalities and arrangements for supporting public meetings.

**Action ASB60: Martin Walker to report back with detailed options and proposals on the practicalities and arrangements for supporting public meetings of the Board. (October 2017)**

### 15. Annual review of information government policies

The Chair invited members to note the Annual review of information governance policies and welcomed any comments.

The Board noted and approved each of the Freedom of Information, Data Protection and Records Management policies. Heather Logan enquired as to the lessons learned from the data incident report in relation to records and Martin confirmed a review had been carried out and a report was scheduled for Management Team on 29 August 2017 before being considered by the Audit Committee on 13 September 2017.

The Board welcomed the approval received from the National Records of Scotland of Audit Scotland's records management plan and recorded their congratulations to the team for this achievement.

## **16. Giving something back overview**

Diane McGiffen invited the Board to note the work and fundraising activities of colleagues across Audit Scotland in support of our corporate charity, The Brain Tumour Charity. The charity had been nominated for and voted by colleagues last year and so far had raised £3,125.99.

The Board recorded their appreciation of the efforts by colleagues to support the charity and of forthcoming fundraising events.

## **17. Publication of Reports**

The Board approved the publication of reports with the exception of item 12, being the initial proposals for the 2018-19 Budget financial strategy, noting that the strategy would be published in due course.

## **18. Any Other Business**

There was no further business.

## **19. Review of Meeting**

The members agreed the meeting had been conducted efficiently.

## **20. Date of Next Meeting**

It was noted that the next Audit Scotland Board meeting was scheduled for 25 October 2017 in the offices of Audit Scotland, 102 West Port, Edinburgh.

MEETING: 9 NOVEMBER 2017

REPORT BY: SECRETARY TO THE COMMISSION

UPDATE REPORT

### Introduction

1. The purpose of this report is to provide a regular update to the Accounts Commission on significant recent activity relating to local government, as well as issues of relevance or interest across the wider public sector.
2. The regular Controller of Audit report to the Accounts Commission which updates the Commission on his activity complements this report. The Commission's Financial Audit and Assurance Committee (FAAC) also receives a more detailed update on issues relating to local government. This report also complements the weekly briefing provided by Audit Scotland's Communication Team made available on the Commission members' extranet portal, which provides more detailed news coverage of a range of local government related issues.
3. The information featured is also available on the Accounts Commission members' portal. Hyperlinks are provided in the electronic version of this report for ease of reference.

### Commission business

#### *Publications*

4. The download statistics (with the increase from last month) for the reports published by the Commission over the last 12 months (as at 27 October) are shown below:

Report	Date	Report downloads	Report podcasts
<a href="#">Equal pay in Scottish councils</a>	7 Sep 2017	615 (+171)	157 (+34)
<a href="#">Best Value Assurance Report: Renfrewshire Council</a>	31 Aug 2017	452 (+144)	<20
<a href="#">Self-directed support: 2017 progress report</a>	24 Aug 2017	1945 (+361)	78 (+27)
<a href="#">Best Value Assurance Report: Inverclyde Council</a>	1 Jun 2017	1060 (+100)	276
<a href="#">Accounts Commission annual report 2016/17</a>	25 May 2017	851 (+42)	
<a href="#">Accounts Commission strategy and annual action plan 2017-22</a>	25 May 2017	612 (+59)	
<a href="#">Accounts Commission engagement strategy and engagement plan 2017/18</a>	25 May 2017	278 (+43)	
<a href="#">Accounts Commission engagement plan 2016/17</a>	25 May 2017	112 (+0)	
<a href="#">Accounts Commission action plan 2016/17</a>	25 May 2017	115 (+0)	
<a href="#">Local government in Scotland: Performance and challenges 2017</a>	7 Mar 2017	4880 (+85)	45 (+0)

Report	Date	Report downloads	Report podcasts
<a href="#">East Dunbartonshire Council: Best Value audit report</a>	15 Dec 2016	945 (+36)	86 (+0)
<a href="#">Falkirk Council: Best Value audit report</a>	1 Dec 2016	1109 (+36)	170 (+0)
<a href="#">Local government in Scotland: Financial Overview 2015/16</a>	29 Nov 2016	3894 (+41)	181 (+0)
<a href="#">How Councils Work – Roles and working relationships in councils: are you still getting it right?</a>	8 Nov 2016	3501 (+164)	

5. On 7 November, the Commission published the Best Value Assurance Report and findings on East Renfrewshire Council. Details of media coverage will be covered in my report to the Commission at its December meeting. Meantime, members of the Commission – Ronnie Hinds, Sophie Flemig and Pauline Weetman will meet the Council to discuss the report on 15 November.

### ***Other business***

6. On 30 October, the Minister for Local Government and Housing, Kevin Stewart, [announced](#) the appointment of Graham Sharp as the new Chair of the Accounts Commission for Scotland. The appointment will be for four years and will run from 1 November 2017 to 31 October 2021. Graham has been a member of the Accounts Commission since 1 October 2009.
7. On 24 October, Acting Chair Ronnie Hinds and Commission Secretary Paul Reilly met with Bob Doris MSP, Convener of the Local Government and Communities Committee. The meeting covered the respective work programmes of the Commission and the Committee and discussed in particular the Committee's desire to use the Commission's forthcoming local government financial overview report as part of its forthcoming scrutiny of the Scottish Budget.

### **Auditor General for Scotland**

8. On 10 October, the Auditor General for Scotland published [the 2016/17 audit of NHS Tayside: Financial sustainability](#). She reported for a third consecutive year on the board's progress with addressing significant financial difficulties, and the high risk that the board will not achieve financial balance in 2017/18. The board plans to achieve financial balance by 2018/19. The report has been downloaded 411 times.
9. On 19 October, the Auditor General published [Transport Scotland's ferries services](#). It found that spending on Scotland's ferry services has more than doubled since 2007/08, increasing vital links to the islands but the full extent of future spending requirements is not known and could be substantial. It stated that Transport Scotland needs a new long-term plan for Scotland's ferry services. The report has been downloaded 350 times.
10. On 26 October, the Auditor General published [NHS in Scotland 2017](#). While it acknowledged that staff are committed and overall patient satisfaction is high, it noted increasing costs and growing demand for services, amid signs that the NHS is struggling to maintain the quality of care. It has been downloaded 445 times.

### **Issues affecting local government**

#### ***Scottish Government***

11. On 4 October, the Scottish Government provided [an update on universal credit roll-](#)

- [out](#). It confirmed that new measures to [improve the flexibility of Universal Credit payments](#) have been implemented across Scotland. Claimants can opt to receive payments twice monthly and can also elect to have the housing element of any payment directed to their landlord.
12. On 4 October, the Scottish Government launched [a consultation](#) on measuring the attainment gap and milestones towards closing it (to be closed on 20 November). It proposes an approach that could be used to assess progress in literacy, numeracy and health and wellbeing for children and young people aged 3-18. It also seeks views on key milestones for closing the gap between those from the most and least disadvantaged backgrounds. The Scottish Government aims at substantially eliminating the gap within ten years and making demonstrable progress during the lifetime of this Parliament. Audit Scotland will prepare a submission on behalf of the Commission and the Auditor General, to be agreed with the Commission Chair and shared subsequently with the Commission.
  13. On 5 October, the Scottish government asked the UK Government to amend Scotland's block grant funding arrangement in connection with [the devolution of air passenger duty \(APD\)](#), to enable Scotland to maintain its highlands and islands exemption under the new air departure tax without suffering a significant drop in revenue. An exemption from APD for flights from the highlands and islands has been in place since 2001. Transferring the exemption to the new air departure tax requires European Commission approval under EU state aid rules.
  14. On 5 October, [the sixth meeting of a Ministerial Working Group](#) set up to review building and fire safety following the Grenfell Tower tragedy was held. The Group received an update on how residents and building owners in Glasgow are being kept informed on the progress being made to identify and test cladding. The Housing Minister Kevin Stewart stated that he has written to remind local authorities of the breadth of their building safety enforcement powers and Scottish Government expectation that they would use those powers to ensure public safety.
  15. On 5 October, [the short-term Homelessness and Rough Sleeping Action Group](#), which was announced in the Programme for Government, met for the first time. The membership includes officers from Glasgow City Council and the third sector, and will examine how the Scottish Government's commitment to end rough sleeping can be achieved and how best a new £50 million fund can support this.
  16. On 6 October, the Scottish Government published [Planning Review: Analysis of Position Statement Responses](#). It provides the analysis of the responses to the Scottish Government's Position Statement following the consultation on Places, People and Planning. The next step is for the Scottish Government to draft the Planning Bill, previously announced as part of the Programme for Government.
  17. On 10 October, the First Minister Nicola Sturgeon announced that the Scottish Government will [double spending on childcare](#) to £840 million a year by 2022. She also announced that a [£6 million Rural Tourism Infrastructure Fund](#) will be launched in early 2018 to provide investment in infrastructure to support sustainable growth in rural tourism (2018/19 and 2019/20). She further announced that the Glasgow City will be the first city to put in place [a Low Emission Zone \(LEZ\)](#).
  18. On 11 October, the Scottish Government published [Brexit: What's at stake for businesses](#). It reiterates that the UK should remain in the single market and customs unions in the long-term, noting businesses were already considering preparations for Brexit such as whether to invest, relocate or cut back.
  19. On 12 October, the Housing Minister Kevin Stewart announced [the launch of a Rental Income Guarantee Scheme](#), to support new investment in private rented housing. The scheme guarantees 50 per cent of any gap between actual and

projected rental income of a development which will provide greater certainty of rental income to investors and landlords during the initial years of letting.

20. On 20 October, the Scottish Government published [council tax base statistics for 2017](#). The figures provided data on dwellings subject to council tax in Scottish local authorities. The council tax base increased to 1.97 million Band D equivalents in 2017. There are 2.473 million chargeable dwellings in Scotland in 2017, of which 73 per cent are in Bands A to D and 27 per cent in Bands E to H.
21. On 22 October, the Scottish Government announced that its £428 million [Digital Scotland Superfast Broadband scheme is on track](#) to meet its target of 95 per cent of homes and businesses in Scotland accessing superfast broadband by the end of this year. More than 800,000 premises in Scotland can now have access to fibre broadband.
22. On 23 October, the Scottish Government [launched a new campaign](#) to recruit up to 11,000 people into the childcare profession. The campaign aims to encourage more school leavers into the profession to deliver the expansion of funded early learning and childcare (ELC) to 1,140 hours a year by 2020.
23. On 23 October, the Scottish Government published [the Equality Impact Assessment results in relation to the Scottish Attainment Challenge](#). The assessment did not identify indirect or direct discrimination through the policy intention and identified a number of actions being taken to ensure that the Attainment Challenge does not directly or indirectly, unlawfully discriminate, for example, through Pupil Equity Funding.
24. On 25 October, the Scottish Government announced the introduction of greater flexibility to shared equity schemes in order to provide older people with greater access to [affordable homes](#). For the first time, older people will be able to access a range of homeownership schemes offered by the government, including support to buy a retirement or supported home.
25. On 26 October, the National Records of Scotland published its [latest population estimates](#). The population of Scotland is projected to continue to increase and to age over the next 25 years from 5.4 million in 2016 to 5.7 million in 2041. All of the projected increase over the next ten years is due to net in-migration to Scotland (over half is projected to come from overseas). The number of people aged 75 and over is projected to increase by 27 per cent over the next ten years and increase by 79 per cent over the next 25 years.
26. On 26 October, the Scottish Government published its [science, technology, engineering and mathematics \(STEM\) strategy, 2017-22](#). The strategy outlines key actions for increasing Scotland's interest in STEM, including strengthening the delivery of STEM education and addressing unconscious bias and gender stereotyping. An implementation group will be established to oversee the delivery of the strategy and publish an annual report on progress.
27. On 27 October, the Scottish Government announced that [about 170 community and third sector projects](#) have been allocated a share of £29 million, to deliver projects tackling inequality and supporting inclusion. The funding includes £12.5 million from the European Social Fund, which supports the Fairer Scotland Action Plan, published last year.
28. On 29 October, the Scottish Government announced that council leaders have agreed that at least one per cent of local government budgets will be subject to [participatory budgeting](#) by the end of 2021, giving communities more influence to make decisions on how funding is spent in their localities. The Scottish Government



and COSLA are creating an overall framework for the operation of the fund. Local authorities will decide how to take forward the work to reach the target.

29. On 31 October, the Scottish Government published [a Quality Action Plan](#) to underpin the expansion of early learning and childcare to 1140 hours per year by 2020. It sets out 15 actions including strengthening continuous professional learning for staff and ensuring fair pay and good working conditions, promoting greater use of outdoor learning and empowering parents to make the choice of ELC setting that is right for their child. The Commission will be considering the draft performance audit on early learning and childcare at its December meeting, with a view to publication in early 2018.
30. On 31 October, Scotland's Chief Statistician published [the latest housing revenue account statistics](#). It shows that in 2016-17 Scottish councils spent £620 million on the day-to-day management and maintenance of council housing and £270 million on loan charges. They also invested £685 million in capital housing projects, including £260 million on new council houses and £375 million on enhancement to existing council houses.

### **Scottish Parliament**

#### General:

31. In October, the Scottish Parliament published [Gender Pay Gap and Equal Pay Report 2016](#), before the legal deadline of March 2018. The figures show the Parliament has a pay gap of 11.1 per cent, slightly lower than the Scotland-wide pay gap of 15.6 per cent. The report includes an action plan to reduce the pay gap, which includes undertaking further research to understand the data and reviewing recruitment and gender balance on internal project boards.
32. On 10 October, Scottish Parliament Information Centre (SPICe) published a briefing on [GDP for the second quarter of 2017](#). Scotland's GDP has increased by 0.5 per cent, compared to the second quarter of 2016, while the UK's GDP increased by 1.5 per cent, compared to the same period.
33. On 12 October, SPICe published a briefing on [Air Passenger Duty and Air Departure Tax - Highlands and Islands exemption](#). This is a short note on the Air Passenger Duty (APD) exemption for passengers departing from areas in the Scottish Highlands and Islands and the Scottish Government's intention to put in place a similar exemption under Air Departure Tax, which is intended to replace APD in Scotland from 2018/19.
34. On 13 October, SPICe published a briefing on [Scotland's Employment by Industry and Geography](#). Health was the largest industry (16 per cent of all employment) in terms of contribution to Scottish employment. Employment in Glasgow City, City of Edinburgh and Aberdeen City accounted for just below 40 per cent of all Scottish employment (16.7 per cent, 13.2 per cent and 7.1 per cent, respectively), while Orkney Islands and Na h-Eileanan Siar both had the smallest proportions of employment at 0.4 per cent.
35. On 1 November, the Parliament debated a [Scottish Labour motion on health](#) which referred to the Auditor General's report, 'NHS in Scotland 2017'. The debate motion states: "that Parliament notes the publication of (the report), believes that many of the issues addressed in the report are the result of mismanagement by the Scottish Government over the last decade; further believes that NHS staff and patients alike are being let down by the Scottish Government's leadership of the health service, and condemns the Scottish Government's mismanagement of the health service in Scotland."

## Parliamentary Committees:

### *Local Government and Communities Committee*

36. On 5 October, the Committee received [a letter](#) from the Cabinet Secretary for Finance Derek Mackay on the transparency of the presentation of the local government draft budget. In response to the Committee's [letter](#), he reiterated that he would implement the Budget Review Group's recommendation on this matter as part of the 2018/19 draft budget document. On the day of his budget 2018/19 announcement, he will provide a reconciliation of the local government budget figures between budget publications and a full reconciliation between the budget and the presentation of the total local government funding contained within the consultation Local Government Finance Circular. Within one week of the budget publication, he will also provide further written confirmation to the Committee with a list of all the funding streams that the Scottish Government provides to councils.
37. At its [meetings](#) on 25 October, the Committee considered a draft report on Building Regulations and Fire Safety in Scotland and agreed the arrangements for its publication. It also took evidence on homelessness from COSLA, City of Edinburgh Council and the voluntary sector and considered the evidence heard.
38. On 30 October, the Committee published its report on [Building Regulations and Fire Safety in Scotland](#). It outlined the key issues arising from the Committee's work between February and June as well as the evidence taken in September with the purpose of informing the chamber debate in autumn. The paper noted there needed to be more new build purchaser support in the event of building defects and poor build quality and recommended that the Scottish Government considers ways in which this additional support can be provided.

### *Public Audit and Post Legislative Scrutiny Committee*

39. At its [meeting](#) on 5 October, the Committee took evidence on the Auditor General for Scotland's section 22 report, the 2016/17 audit of the Scottish Government Consolidated Accounts, from Caroline Gardner, Auditor General for Scotland and Stephen Boyle, Assistant Director, and Michael Oliphant, Senior Audit Manager, Audit Scotland. The Committee agreed to write to the Scottish Government about issues raised in the audit. It also considered its work programme and agreed to write to the Education and Skills Committee to highlight policy issues arising from its scrutiny of the Auditor General's report Scotland's Colleges 2017. It agreed to ask SPICe to consider using its academic fellow service to undertake research on post-legislative scrutiny.
40. At its [meeting](#) on 26 October, the Committee took evidence on lessons learned from public sector IT projects from Scottish Government and Audit Scotland (Fraser McKinlay, Director of Performance Audit and Best Value, and Morag Campsie, Audit Manager). It agreed to request further information from the Scottish Government on this issue. The Committee also agreed to write to the Auditor General for Scotland to highlight correspondence from other committees suggesting ways in which they could work closer together with Audit Scotland.

### *Finance and Constitution Committee*

41. At its meeting on [4](#) and [25](#) October, the Committee took evidence on legislative consent memorandum of European Union (Withdrawal) Bill (UK Parliament Legislation) from Welsh Government, COSLA and others, and considered the evidence heard. The Committee also agreed a submission to the lead committee (the Social Security Committee) on the Financial Memorandum of Social Security (Scotland) Bill.



## Others

42. On 19 October, the Economy, Jobs and Fair Work Committee [published correspondence](#) from the Cabinet Secretary for the Economy, Jobs and Fair Work, Keith Brown, in which he announced that Lena Wilson would step down as Chief Executive of Scottish Enterprise on 20 October, with Paul Lewis of Scottish Development International taking her place on an interim basis.
43. The Public Petitions Committee has lodged [a petition](#) calling on the Scottish Parliament to urge the Scottish Government to create an independent body with a remit to make findings of fact in complaints involving local authorities. In September, the Committee wrote to the Scottish Government, COSLA, SPSO and others to provide their views. So far, five bodies responded and none supported a creation of another independent body. In its response, the Society of Local Authority Chief Executives Scotland (SOLACE), in refuting the petitioner's assertion that "there is no mechanism to highlight potential wrong doing, poor management or injustice" notes that "external auditors, Audit Scotland, the Accounts Commission and numerous regulatory and inspection bodies", as well as councils themselves, have a role in this regard.

## Current activity and news in Scottish local government

### COSLA

44. On 5 October, COSLA announced the winners of the [2017 COSLA Excellence Awards](#). Eight councils and their partners were awarded for outstanding quality of public service.

Category	Organisation	Project
Delivering better services	Glasgow City Council	Tomorrow's Support Services
Achieving better outcomes in partnership	East Renfrewshire Council	Reducing Teenage Pregnancy in Auchenback
Tackling inequalities and improving health	North Ayrshire Health and Social Care Partnership	Café Solace
Strong and sustainable communities	North Ayrshire Council	Youth Participation and Empowerment
Local matters	Renfrewshire Community Safety Partnership and St Mirren F.C.	Street Stuff
The SOLACE Best Team Award	Stirling Council	Waste Services Alternative Delivery Model
The COSLA Chairperson's Award	Dundee City Council	Co-location of Welfare Rights Advisers in GP Surgeries
The Scottish Government Award for delivering excellence	Aberdeenshire Council	DLITE Teacher Recruitment
The Excellent People, Excellent Outcomes Award	Clackmannanshire Council and NHS Forth Valley	Young Parents Project

45. On 10 October, COSLA [responded](#) to the First Minister's announcement (see paragraph 29) on multi-year funding on early learning and childcare, stating that the figures have not been developed in partnership with local authorities, seeking to focus on how it works together with the Scottish Government.

46. On 12 October, following a statement by [Bield](#), one of Scotland's largest elderly care providers, that it will close all residential care homes, COSLA [stated](#) that Bield's decision is due to "the long term unsustainable nature of the business model". It said that "local partnerships are considering how to ensure continuity of high quality care for residents in the different localities affected". COSLA also said it "has called a meeting of the National Contingency Planning Group which includes providers, Scottish Government, Care Inspectorate, IJBs and Local Government to consider any collective or national assurance and action that might be needed to manage the consequences of this decision".
47. On 23 October, COSLA's President and Vice-President [met with the EU Brexit Negotiator, Michel Barnier](#) and discussed the potential impacts on public services, local economic sectors, citizen's rights and community cohesion in Scotland of the UK withdrawal from the EU. They agreed to share further ideas and information with the EU side over the coming months.

### ***Improvement Service***

48. In September, the Improvement Service published a briefing note on [the chief social work officer](#). The paper advises elected members of the role and functions of the chief social work officer and continues to promote an effective working relationship with these officers.
49. In October, the Improvement Service published a briefing note on [Alcohol Harm in Communities](#). The paper examines the role elected members can play in tackling the harms caused in their communities and improving local outcomes.

### ***Individual councils: by-elections***

50. There have been two by-elections since my last report.
- On 28 September, Alasdair Rhind (independent) gained a seat in the Tain and Easter Ross ward of The Highland Council on 28 September 2017, following the resignation of Liberal Democrats Councillor Jamie Stone after being elected MP for Caithness, Sutherland and Easter Ross in June.
  - On 12 October, Lesley Berry (Conservatives) held the seat in the Inverurie and District ward of Aberdeenshire Council, following the resignation of Conservative Councillor Colin Clark after being elected MP for Gordon in June.

## **Scrutiny, inspection, regulatory and related bodies**

### ***Education Scotland***

51. On 17 October, Education Scotland published [research summary reports](#) available to practitioners working on closing the poverty-related attainment gap. Educational psychologists from across Scotland have assessed some of the techniques being used, in particular in the fields of numeracy and health and wellbeing.

### ***Scottish Housing Regulator***

52. On 2 October, the Scottish Housing Regulator published [its annual report and accounts for 2016/17](#). It showed how the Regulator worked to protect the interests of tenants, homeless people and others who use social landlords' services. It reported that it engaged with 51 Registered Social Landlords and 19 councils (five councils for scrutiny and 14 for on-going monitoring), following its annual risk assessment.

### **Scottish Public Sector Ombudsman (SPSO)**

53. The SPSO's [newsletter – October](#) outlines investigation reports, recent SPSO news and highlights emerging issues. More information on the SPSO's work, including detailed investigations and decision reports, is available on the '[Our findings](#)' webpage. The FAAC meeting will consider more detailed intelligence from the SPSO six-monthly.
54. On 26 October, the SPSO published [its annual report 2016/17](#). Over the year, it received 4,182 complaints. Local authority counted for the largest proportion, 37 per cent of the total. Of these, 156 complaints went to the investigation stage, of which 60 per cent were upheld or partly upheld (higher than 52 per cent across all the sectors), resulting in 249 recommendations.

### **Commissioner for Ethical Standards in Public Life in Scotland**

55. Since my last report, the Commissioner published two decisions on complaints relating to councillors. The Commissioner decided that both cases breached the Councillors' Code of Conduct.
- [Councillor Paul Mack](#), Renfrewshire Council (see paragraph 56 for details)
  - [Councillor Frank Ross](#), City of Edinburgh Council (breach of various parts of the Code)

Both cases have been sent to the Standards Commission to hold a public hearing to determine whether a contravention of the Code has occurred and, if so, the sanction to be imposed.

### **Standards Commission for Scotland**

56. On 4 October, the Standards Commission published a quarterly professional briefing. The paper includes details of recent Advice Notes for [councillors](#) and for [members of devolved public bodies](#), which aims to outline the approach its hearing panels will take when issues that concern the application of Article ten of the European Convention on Human Rights and the right to freedom of expression arise.
57. There has been one hearing by the Standards Commission since my last report. At a [hearing](#) on 23 October, the Commission suspended Councillor Paul Mack of Renfrewshire Council, for seven months, for failing to observe the requirement in the Code to respect the chair and any at council meetings. He breached the Code for the second time in two years.

### **UK Government**

58. On 6 October, the Department for Work and Pensions published an [update on the future of DWP jobcentres](#), confirming that a number of smaller jobcentres will be merged or co-located within local government premises. Jobcentres in Glasgow and Broxburn are among those affected by the plans.

### **UK Parliament**

59. On 12 October, [a new inter-parliamentary Forum on Brexit related issues](#), including the implications of the European Union (Withdrawal) Bill upon the devolution settlements, held its first meeting. The meeting, organised by the House of Lords European Union Select Committee, brought together Chairs, Conveners and representatives of Committees in the Scottish Parliament (Finance and Constitution, Culture, Tourism, Europe and External Relations and Delegated Powers and Law Reform Committees), National Assembly for Wales, Northern Ireland Assembly, House of Commons and House of Lords. A [joint statement](#) following the meeting

emphasised that it is essential that Ministers from the Department for Exiting the European Union provide evidence to all parliamentary committees with a role in scrutinising the Bill.

#### Communities and Local Government Committee

60. On 17 October, the Committee [launched an inquiry into Brexit](#) (to be closed on 14 November), to examine the impact of leaving the EU and the role local authorities could play post-Brexit.
61. On 23 October, the Committee took evidence on [housing for older people](#) in England from think tanks and housing networks. The inquiry examines whether the housing on offer for this group of people is sufficiently available and suitable for their needs and, in doing so, considers how older people wish to live.
62. On 30 October, the Committee took evidence from staff and members of overview and scrutiny committees as part of [its inquiry into local authority scrutiny](#). It examined the political independence of chairs and whether committees have the resources to carry out effective scrutiny.
63. On 1 November, the Committee examined [proposed changes to the way the need for new homes is calculated](#) for each local authority in a one-off evidence session with the Housing Minister. The inquiry is held ahead of the closure of the Government's 'Planning for the right homes in the right places' consultation which is aimed at finding a new standardised methodology for assessing housing need on a council-by-council basis, replacing inconsistent methods used across different authorities at present. It examined the Government's intention to produce a revised National Planning Policy Framework in early 2018.

#### Scottish Affairs Committee

64. On 16 October, the Committee [held evidence session on the current issues](#) in the areas of economy and business, welfare and social security, UK policy framework after leaving the EU and equality and demographics. Witnesses from business organisations, the voluntary sector and key demographic groups attended as the panels, suggesting ideas to the Committee.
65. On 16 October, the Committee launched [an inquiry into immigration in Scotland](#). The Committee will investigate the immigration requirements of the Scottish economy and whether they are well served by the UK's current framework. Evidence is being accepted at least until the end of 2017 and meetings are scheduled for mid-November.
66. On 17 October, the Committee launched [an inquiry into sustainable employment in Scotland](#) (to be closed on 30 November). This is a follow-up on the Committee's work in the last parliament. The focus will be on whether any further action is necessary, following the Taylor review on modern employment practices, to combat unfair employment practices in Scotland and ensure employment legislation reflects modern employment practices. It will also look at how the UK and Scottish governments can work together to improve employment opportunities and standards of employment in Scotland.
67. On 17 October, the Committee published the [Government response](#) to its report into Jobcentre closures in Scotland (published in April). The report raised a number of concerns about the decision to close a number of Jobcentre Plus offices, including eight in Glasgow, and called on the Government to conduct a review of Jobcentre provision in Glasgow that took into account the geography and transport links. The Government has rejected this recommendation.

68. On 24 October, the Committee took evidence from Ministers on [the effectiveness of the Scotland Office](#), particularly in the context of the UK's withdrawal from the EU. The UK Government has introduced the European Union (Withdrawal) Bill which does make changes to Scotland's devolution settlement.
69. On 31 October, the Committee took evidence from small businesses and others to consider challenges faced by businesses, the prospects offered by minimum wage jobs and the prevalence of unfair work practices. This is as part of its inquiry into [sustainable employment](#) in Scotland.
70. On 31 October, the Committee announced that [members of the public are invited](#) to attend open events in Inverness and Selkirk on 20 November to tell the Committee what issues they should be exploring in this Parliament. These events are part of the Committee's My Scottish Affairs inquiry, and attendees will be invited to suggest ideas for future inquiries and discuss them with the MPs.

## Other UK Audit Bodies

### *National Audit Office (NAO)*

71. On 3 October, the NAO published [a short guide to local authorities](#). It outlined how local government is funded, the pressures local authorities face, staffing, major recent developments and what to look out for in the main local authority services. The paper is part of a series of short guides for the new Parliament.

### *Wales Audit Office (WAO)*

72. On 11 October, the WAO published a report, [Good governance when determining significant service changes – National Summary](#), to share practice and promote further discussions between councils and beyond. It found that governance arrangements for determining significant service change are generally clear and well understood. The report includes no recommendations as each council received recommendations with relevant proposals for improvement in their own local report.
73. On 17 October, the WAO published a report, [public procurement in Wales](#). It concluded that national governance arrangements for procurement could be strengthened and there is clear scope for improvement in procurement arrangements at a national and local level. Public bodies also face challenges in balancing potentially competing procurement priorities, responding to new policy, legislation and technology, and in the recruitment and retention of key personnel.

## Others

74. On 12 October, LGiU, a local authority membership organisation, published a report, [Beyond Devolution – the final report of the Local Democracy Network](#). Reviewing the current state of local democracy in England, the report made recommendations which will be taken forward into 2018. These include that a Mayors' Senate should be established, giving directly elected mayors from individual and combined authorities a firm constitutional role, shaping Brexit and scrutinising legislation; and a Constitutional Settlement should be pursued in order to provide a framework and consistency over the roles and responsibilities of central and local government.
75. On 19 October, the County Councils Network (CCN) published [its new analysis](#) which showed county authorities' funding gap will treble to £2.54 billion in four years' time, with leaders arguing the situation is rapidly becoming unsustainable. The CCN states that the funding gap is driven by the 'extreme' rising demands faced by all 37 county authorities, and it calls for government to use the Autumn Budget to invest additional resource over the next two years into the services facing the biggest

pressures, ahead the conclusion of the fair funding review and expected introduction of business rates retention.

76. On 28 October, the Scottish Futures Trust published its [LED Lighting Programme](#). It said that by councils accelerating their LED street lighting investment programmes, additional savings of £175 million will be generated over the next ten years.

### **Conclusion**

77. The Commission is invited to:

- a) consider and note this report.
- b) in particular, note in relation to paragraph 12 that Audit Scotland will prepare a response to the Scottish Government consultation on measuring the attainment gap on behalf of the Commission and the Auditor General, to be agreed with the Commission Chair and shared subsequently with the Commission.

**Paul Reilly**  
**Secretary to the Commission**  
**1 November 2017**



**MEETING: 9 NOVEMBER 2017****REPORT BY: DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE****SHARED RISK ASSESSMENT 2018/19**

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**Purpose**

1. The purpose of this report is to inform the Accounts Commission of the proposed approach to, and timetable for, the Shared Risk Assessment (SRA) process for scrutiny work in 2018/19.

**Background**

2. Each year, I provide the Commission with a briefing on the arrangements for the annual round of shared risk assessments across councils. This heralds the start of the process, which is conducted by 32 local area networks (LANs).
3. LANs are made up of representatives from each of the main local government scrutiny bodies - the appointed auditor, the Care Inspectorate, Education Scotland and the Scottish Housing Regulator – and convened by a LAN lead for each council. The purpose of the LAN is to share and discuss relevant risk, audit and inspection, and performance intelligence, which is then used to determine a proportionate and risk-based scrutiny programme for the council. The majority of LANs tend to be led by Audit Scotland staff, but in reflecting that the exercise is a shared enterprise, some LANs have been led by senior staff from Education Scotland and the Care Inspectorate. Changes to LAN leadership and membership for 2018/19 are set out later in this report.
4. Members will recall that I provided an update on the progress of the Strategic Scrutiny Group (SSG) to the last meeting of the Commission. This included details of recent discussions at the SSG regarding the SRA process and how it can be improved. As part of this year's SRA process, we will address some of the issues raised. However, the wider implications will be addressed over time and with more engagement with the SSG over the coming months.

**Scrutiny developments informing the 2018/19 SRA process**

5. Last year, the Commission agreed several significant developments to the SRA process for 2017/18. These included, aligning the risk assessment process with the new approach to auditing Best Value and the Accounts Commission's strategic audit priorities, and making some initial assessments in relation to Integration Joint Boards (IJBs) for Health and Social Care. These enhanced the quality of discussion and joint assessment around scrutiny risk.
6. After the changes last year, we do not propose any substantial shifts in the process for 2018/19. However, there are a number of other scrutiny developments and issues that the Commission should be aware of, and that will inform and influence the SRA. These are:

### Joint inspection of services for children

7. At the request of Scottish Ministers, the Care Inspectorate, along with Education Scotland, Healthcare Improvement Scotland and HM Inspectorate of Constabulary in Scotland (HMICS), are developing proposals for a revised approach to joint inspections of services for children from 2018 onwards. The revised approach will focus on providing assurance and supporting improvement in services for children who are subject to child protection measures or at risk, and children and young people who are subject to corporate parenting requirements. The Minister has agreed inspections should be risk-based and intelligence-led. The scrutiny partners are currently exploring what this means in practice. In particular, whether the approach taken to date, where local authorities know they will be inspected up to a year in advance because it appears on their plan, is really conducive to an intelligence-led and risk based approach and sufficiently responsive to a dynamic environment.

### Joint inspections of services for adults

8. Joint inspections of services for adults will see a significant change this year as the Care Inspectorate and Healthcare Improvement Scotland start to deliver on the responsibilities placed on both bodies from 1 April 2017 to comment on strategic planning undertaken by integration authorities (IJBs). The two organisations have agreed a process for assessing risk and intelligence to determine sites for inspection, and are currently planning how many of these inspections will be carried out in 2018/19.

### Self-Directed Support (SDS)

9. The Care Inspectorate has announced its intention to undertake scrutiny of SDS, following up the key threads from the Accounts Commission / Auditor General report this year. Plans for this are still being developed.

### Developments contained in the SSG's work programme

10. As set out in my update report on the SSG submitted to October's Commission meeting, the SSG is considering its response to a number of policy developments and changes in the public sector landscape. In relation to the Commission's interests specifically, this includes health and social care integration, educational attainment, housing, community empowerment / community assets and children's services.

### **Operational improvements for the process**

11. As indicated above, there are a number of improvements to the SRA process arising from the recent discussions at the SSG.
  - Better co-ordination and planning of activity across scrutiny bodies, bringing it more in line with the SRA process and timetable.
  - Providing more explanation in the Local Scrutiny Plan (LSP) for each council, on issues such as when information on scrutiny that is not available by April 2018 will be issued, and more information on the reasoning behind individual councils being the subject of specific scrutiny.
  - Improved engagement, communications within LANs and sharing of intelligence, including on an ongoing basis throughout the year.
  - Improved coverage in the process of key scrutiny risk areas for councils, including partnership working, IJBs and community empowerment. This will include arrangements for more intelligence being incorporated that reflects health issues and services, including input from Health Improvement Scotland (HIS).



12. In the SRA process for 2017/18, each of the private sector audit firms took on the LAN lead role at one of the councils in their audit portfolio for the first time. This was consistent with the Commission's commitment to integrating audit processes across local government, and the introduction of the "wider scope" in the new Code of Audit Practice. It also strengthened appointed auditors' engagement with senior council officers and members during the first year of the new audit appointments.
13. Education Scotland has said that it will no longer be able to resource LAN leads for the 2018/19 round. It had previously provided the lead for East Ayrshire, North Ayrshire, North Lanarkshire and Shetland Islands councils. We are currently considering options for resourcing LAN leads in these areas.
14. The main local government scrutiny bodies - Audit Scotland /firms, the Care Inspectorate, Education Scotland and the Scottish Housing Regulator - have formed the core membership of local area networks to date. Other bodies with a secondary interest in local government (Healthcare Improvement Scotland, HMI Fire and Rescue and HMI Constabulary) do not participate in LANs, but instead share intelligence at national level to inform the scheduling of scrutiny activity at Scotland's 32 councils and for inclusion in the national scrutiny plan that is published each year by the Strategic Scrutiny Group.
15. The Care Inspectorate contributes intelligence to the LANs from joint inspections which have been carried out in partnership with HIS and HMICS and ensures that the SRA is taken into account when determining the scope of joint inspections in the forthcoming year.
16. These arrangements will largely continue for the 2018/19 SRA process. However, as a consequence of budget reductions and reduced staff resources, the Scottish Housing Regulator (SHR) plans to only attend LAN meetings where it has identified a scrutiny risk. SHR will continue to carry out its risk assessment of housing and homelessness services to support all LANs so as not to compromise the effectiveness of the process.

### **Engagement with councils**

17. One of the major successes of the SRA process has been the impact that effective engagement with councils has had in enabling LANs to understand the broader strategic context within which councils operate. However, feedback indicates that some councils have found the process less fulfilling in recent years. To reinforce the importance of effective, positive engagement with councils, the SRA guidance for this year will place emphasis on this issue. The current guidance indicates that engagement between LAN leads and councils should take place at the following stages of the process:
  - An initial set-up discussion with the chief executive.
  - Feedback to the chief executive on emerging issues after the LAN has held its local 'round table' meeting.
  - A discussion on the draft Local Scrutiny Plan with the chief executive (or nominee).
18. Many LANs go well beyond this minimum level of engagement through, for example, regular meetings with the council CMT throughout the year to discuss:
  - How the council is planning to address the strategic challenges facing the area.
  - How the council and its partners are working together to implement key aspects of public service reform (eg community planning, health and social care integration, the Community Empowerment Act).

- The outcomes of significant pieces of external audit and inspection.
- Performance trends and areas where further improvement is required.

We will continue to reinforce the value of this broader ongoing engagement with councils as part of the guidance and training to support LAN leads and LAN members.

19. Elected members are involved in considering the local scrutiny plan at audit committees or full Council meetings. In addition, as part of the initial planning phase of this year's process, LAN leads will agree with the council chief executive arrangements for any broader engagement with local elected members. In the past this has led to LAN leads meeting with senior elected members to discuss the nature and significance of the risks that the SRA has identified in the council. This would also be an opportunity to communicate key matters that are of strategic interest to the Commission and the SSG.

### **Timing of the 2018/19 SRA process**

20. As in previous years the timetable of the SRA process has been set so that all 32 local scrutiny plans and the national scrutiny plan are published before the start of the financial year in which the proposed scrutiny activity will take place (i.e. before the end of March 2018).
21. A LAN leads meeting will be held on 15th November to discuss the overall approach to be taken, with new LAN leads receiving induction sessions later in the month. Individual LANs will meet as appropriate between December and February 2018. Engagement with council officers will also take place over this period. A Local Scrutiny Plan will be prepared for each council and provided to Audit Scotland by mid-March to allow a National Scrutiny plan to be prepared prior to the start of the new financial year.

### **Conclusion**

22. The Commission is invited to:
  - a) consider this report
  - b) endorse the approach to, and timetable for, the 2018/19 shared risk assessment process.

**Fraser McKinlay**  
**Director of Performance Audit and Best Value**  
**1 November 2017**

**MEETING: 9 NOVEMBER 2017**

**REPORT BY: SECRETARY TO THE COMMISSION**

**AUDIT OF BEST VALUE: EAST DUNBARTONSHIRE COUNCIL**

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### **Purpose**

1. The purpose of this paper is to introduce the Controller of Audit's report on the Best Value follow-up audit at East Dunbartonshire Council.

### **Background**

2. At its meeting in December 2016, the Commission considered a report by the Controller of Audit on Best Value follow-up work in East Dunbartonshire Council. Its findings were published on 15 December 2016 and are attached in Appendix 1.
3. In its findings, the Commission recognised that the Council had worked to respond to the concerns expressed in its previous findings in June 2015. There was better prioritisation of improvement projects and some stronger aspects of workforce planning. Scrutiny of performance by elected members was also improving. But the Commission remained concerned that the Council did not demonstrate adequate capability to deliver its ambitious transformation programme and thus its ability to address its significant funding gap. In particular, the Commission cited the need for more competent programme management, better workforce planning and member scrutiny. The Commission needed the Council to demonstrate effective leadership in ensuring the required change and required the Controller of Audit to provide an update by the end of 2017 through the annual audit and in our revised approach to auditing Best Value.
4. Follow-up audit work on Best Value at the Council to consider the action the Council has taken was carried out between July 2017 and September 2017. The work was integrated with the annual audit. Conclusions from this audit work are reported in the 2016/17 Annual Audit Report (AAR). The AAR forms part of the Controller of Audit's report.

### **The report**

5. The attached report to the Commission is made by the Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).
6. The legislation enables the Controller of Audit to make reports to the Commission with respect to:
  - the accounts of local authorities audited under the Act;
  - any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public;
  - the performance by a local authority of their statutory duties in relation to best value and community planning.

7. A copy of the report is being sent to the Council, which is obliged to supply a copy to each elected member of the Council and to make additional copies available for public inspection. Once the Controller of Audit's report is sent to the Council it is effectively in the public domain.

### **Procedure**

8. The legislation provides that, on receipt of a Controller of Audit report, the Commission may do, in any order, all or any of the following, or none of them:
  - direct the Controller of Audit to carry out further investigations;
  - hold a hearing;
  - state its findings.
9. Findings may include recommendations and the persons to whom those recommendations may be made include Scottish Ministers, who have powers to make an enforcement direction requiring an authority to take such action as is specified in the direction.
10. Members of the audit team will be present at the Commission's meeting and will be available to answer questions on the evidence and judgements presented in the report. This is done in the public part of the Commission meeting.

### **Conclusion**

10. The Commission is invited to:
  - a) consider the report by the Controller of Audit on the follow-up audit of Best Value of East Dunbartonshire Council; and
  - b) decide in private how it wishes to proceed.

**Paul Reilly**  
**Secretary to the Commission**  
**1 November 2017**

## **Appendix 1:**

### **Commission's findings on Best Value Report, East Dunbartonshire Council**

#### **June 2015**

1. The Commission accepts this report by the Controller of Audit on the audit of Best Value of East Dunbartonshire Council, which we asked in December 2013 the Controller of Audit to undertake.
2. The Commission acknowledges that the Council delivers a good standard of services and has made progress in addressing some of the issues raised in the previous report by the Controller of Audit to the Commission in December 2013. The Council's commitment to improvement is evident, but we have serious concerns about the pace of this improvement. There is a gap between the Council's ambitions and the delivery on the ground of the strategies and programmes by which these are to be achieved. If this gap is not addressed, then this increases risks to the long-term sustainability of the Council's services.
3. Principally, the Council urgently needs to have clearer priorities in its transformation programme, in order to ensure that critical projects are delivered and the anticipated savings and benefits are realised.
4. Sound management of resources is a key characteristic of a best value Council. However, the Council is not doing this effectively in a number of respects. It needs to: ensure regular timely financial reconciliations – a fundamental aspect of financial control; improve planning and delivery of its capital programme; ensure the workforce strategy has clear targets and timescales; and make better progress with job evaluation.
5. We note that new scrutiny arrangements are in place, but these are ineffective. Elected members in both administration and opposition need to be able to fulfil their responsibility to challenge and scrutinise performance as well as rigorously appraise options for service improvements. Elected members need to specify the information they require and hold officers to account. Officers in turn need to ensure that reports are accessible, understandable and jargon-free.
6. The Commission requires the Controller of Audit to report on the progress by the Council within 18 months.

# East Dunbartonshire Council

## Best Value Follow-up Audit 2017

ACCOUNTS COMMISSION 

Prepared for the Accounts Commission by the Controller of Audit

November 2017

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

# Contents

Controller of Audit Report	4
Background	4
The council has responded positively to the Accounts Commission's December 2016 findings	5
Progress in delivering the transformation programme has improved	5
The council is strengthening its approach to workforce planning	7
The council has improved support to members in their scrutiny roles	8
The council is leading improvement more effectively	8
Conclusions and recommendations	8



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# Controller of Audit Report

## Background

1. This report updates the Accounts Commission on the council's progress following a previous Best Value follow-up audit report in December 2016. I have prepared this report in response to the Commission's request for an update by the end of 2017. This is my fourth Best Value report on the council in four years.
2. In 2016, the Commission said the following.
  - The council has worked to respond to the concerns expressed by the Commission in our previous findings in June 2015. There is better prioritisation of improvement projects and some stronger aspects of workforce planning. Scrutiny of performance by elected members is also improving.
  - But we remain concerned that the council does not demonstrate adequate capability to deliver its ambitious transformation programme and thus its ability to address its significant funding gap. Our concern is evidenced by failure to meet targets and lack of clarity about the savings to be achieved.
  - More competent programme management is essential to ensure public confidence in the council's approach to managing change.
  - Workforce planning needs to improve further, with a workforce plan that is better integrated to the transformation programme, ensuring that the skills needed to achieve the programme will be available and the targeted savings are monitored and achieved.
  - Member scrutiny must also improve further. Members need to set the priorities of scrutiny and determine the quantity and content of information they require to fulfil their responsibilities.
  - The Commission needs the council to demonstrate effective leadership in ensuring the required change. We will continue our interest in the council and require the Controller of Audit to update us by the end of 2017 through the annual audit and in our revised approach to auditing Best Value.
3. Follow-up audit work on Best Value at the council has been integrated with the annual audit. Conclusions from this audit work are reported in the 2016/17 Annual Audit Report (AAR). A copy of the AAR is enclosed.
4. The auditor also presented the AAR to the council's Audit and Risk Committee meeting on 26 September 2017. The auditor issued the 2016/17 AAR to the council officers and to me as

Controller of Audit in mid September. The council is now progressing a number of improvement actions in response to audit recommendations made in the AAR (see page 42 of the AAR for details).

5. The conclusions reported in the AAR provide the basis for this report, which focuses on the main areas highlighted by the Commission in December 2016. I have cross-referenced the relevant paragraphs of the AAR throughout this report.
6. My report is structured in five parts:
  - the council's response to the December 2016 Best Value follow-up report
  - the council's transformation programme
  - the council's workforce planning
  - elected member scrutiny
  - leadership of change.

### **The council has responded positively to the Accounts Commission's December 2016 findings**

7. The council initially considered the December 2016 Best Value follow-up report at a special meeting in March 2017. At this meeting, the council accepted all of the recommendations made by the Accounts Commission and approved the council's Best Value Improvement Plan. This sets out at a high level how the council will address each of the Commission's findings. The council monitors progress against its plan using its performance management system, which contains more detailed improvement tasks and timescales to support the high level plan.
8. Following the local government elections in May 2017, the administration of the council changed from a Labour/Conservative coalition minority administration to a minority Scottish National Party administration. In addition, the size of the council reduced from 24 to 22 elected members and it experienced a large turn-over in its councillors, with 13 councillors being newly elected. This has influenced the council's activities and priorities over the past year.
9. The council is demonstrating progress in improving its Best Value arrangements. It has responded positively to the key findings in the 2016 report, as outlined in paragraphs 143 to 148 of the AAR. It has made satisfactory progress against a plan of improvement, in line with expectations given the short time period since December 2016. Where it is too soon to evaluate the effectiveness of these actions, auditors will include an assessment of their impact in the 2017/18 AAR.

### **Progress in delivering the transformation programme has improved**

10. In December 2016, the Commission said that the council needed to demonstrate more competent management of its transformation programme, to address its significant funding gap and to ensure public confidence in the council's approach to managing change. It has been

effective in leading improvements in the delivery of the transformation programme. The council's transformation programme is covered in paragraphs 46-51 and 80-86 of the AAR. Parts 2 and 3 of the AAR cover its financial position.

11. The council has completed the majority of the projects in its 2016/17 transformation programme. However, progress reports to members on the transformation programme did not show what benefits were achieved. Its priority projects with the largest potential savings were not achieved. These projects were procurement and a review of terms and conditions with anticipated in year savings of £2.1 million and £1.273 million respectively.
12. The council took a decision during its budget setting meeting in February 2017 to defer implementation of changes to some staff terms and conditions until 2017/18.
13. The council recognised that it was not going to achieve £2.1 million savings from procurement in 2016/17. It decided not to focus on procurement as a standalone project and is now integrating procurement savings into other projects. To improve accountability, revised savings levels on the above two projects are now reflected in 2017/18 service budgets. This is a positive change, showing a clearer picture of progress in achieving savings.
14. The council has recently reported good progress on projects in its 2017/18 transformation programme and these projects should lead to financial and other benefits in 2017/18 and beyond.
15. I have previously recommended that the benefits achieved on projects should be reported more clearly. This recommendation is restated in the 2016/17 AAR. The council has subsequently updated the format of transformation progress reports and will continue to improve the information it provides to members on the projected benefits of transformation projects and those actually achieved. This was the focus of an elected member seminar on 31 October 2017. The auditor will report an update in the 2017/18 AAR.
16. The council's transformation programme is part of its strategic planning and performance framework for meeting future funding gaps. The auditor has reported a positive picture on the council's financial management and its financial position at March 2017.
17. Financial management is effective with a budget setting process focused on the council's priorities. Internal controls over the main financial systems operated effectively in 2016/17 and no significant internal controls weaknesses were identified. This is an improvement from 2016/17 where some weaknesses were reported.
18. The council has delivered services in line with the total budget. In 2016/17, unrealised efficiency savings have been offset by underspends in some service areas.
19. The council acknowledges that there are a number of budget lines that need to be reviewed to ensure that future budgets reflect the underlying cost of the services. In August 2017, the Transformation Programme Board agreed that a zero based budgeting (ZBB) exercise is to be

included in the transformation programme. ZBB is being piloted in preparing 2018/19 budgets, and the auditor will report on progress next year.

20. In July 2016, the council appointed a new chief finance officer. Whilst this is a third tier post reporting to the depute chief executive, the chief finance officer is a member of the strategic management team and regularly attends corporate management team meetings. Since his appointment the council has restructured its finance team and recruitment is ongoing to strengthen the team. This is a positive move to ensure the team has the skills and capacity required to support the council's needs in times of financial pressure.
21. Following the election, the council is working on revised strategic priorities. How effectively these are reflected in the council's financial and operational plans and performance monitoring will be reviewed as part of next year's audit.
22. The 2017/18 budget was set at £246.9 million, with a funding gap of £12.5 million, £11.5 million is to be met from efficiency and income generation proposals, and £1 million from reserves. The latest monitoring report shows a projected overspend of £0.402 million.
23. The auditor concludes that the council's financial position is sustainable in the foreseeable future. The council is now developing longer-term financial plans beyond 2018/19 which should demonstrate how it will address future budget challenges. It will be important for councillors to continue to work together to make decisions on service priorities, to secure financial sustainability in the longer term.
24. The 2017/18 financial position and progress with the long term financial planning will be reported in the 2017/18 AAR.

### **The council is strengthening its approach to workforce planning**

25. In December 2016, the Commission said that the council needed to improve its workforce planning further. This included developing a workforce plan that set out the council's aims and objectives for its workforce and forecasts the size and skills of its workforce to deliver its strategic priorities.
26. In June 2017, the council approved an updated workforce strategy for 2017/18. This strategy demonstrates an improved approach to workforce planning. It includes a profile of the workforce at 31 March 2017, including numbers of staff, age profile, length of service and turnover analyses. Work on succession planning is also being carried out. Detailed workforce plans are now being developed.
27. In its workforce strategy, the council also sets out a phased approach to developing a three-year workforce and skill profile covering 2018 to 2021. It plans to report progress on this to members in December 2017. It also plans to present a longer term workforce plan to members in June 2018. The council's approach to workforce planning is covered in paragraphs 96 to 105 of the AAR. An updated position will be reported in the 2017/18 AAR.

## The council has improved support to members in their scrutiny roles

28. In December 2016, the Accounts Commission said that elected member scrutiny must improve further. Members need to set the priorities for scrutiny and determine the quantity and content of information they require to fulfil their responsibilities.
29. The council has effective governance structures in place and is open and transparent in the way that it conducts its main business. It has improved support to members in their scrutiny roles, most notably by improving the reports it provides to them. From September 2017, the format of reports to members has been improved to make them easier to follow and to make the recommendations to members much clearer. Relevant officers are also scheduled to attend report writing training that will include the use of plain language to ensure reports are presented as clearly as possible. The council's progress in improving scrutiny is covered in paragraphs 116 to 122 of the AAR.
30. Because of the significant changes to the members elected to the council in the local government elections in May 2017, it is too early to assess the effectiveness of member scrutiny in driving improvement. Effective scrutiny will be increasingly important going forward as the challenges the council faces increase.

## The council is leading improvement more effectively

31. The council regularly monitors progress on its response to each of the Accounts Commission's findings from 2016. For example, in June 2017, elected members received progress reports covering the workforce strategy and transformation programme.
32. The council agreed its Transformational Change and Budget Reduction Strategy for 2017/18 in February 2017. Through the Transformation Programme Board, chaired by the chief executive, and attended by the senior management team, senior officers have improved the management and delivery of the transformation programme in the short time period since December 2016. Leadership of the council's improvement plans is covered in paragraphs 149 to 152 of the AAR.

## Conclusions and recommendations

33. The council has demonstrated that it responded positively to the Accounts Commission's December 2016 Findings. The leadership of its change programme has improved. It has progressed a plan of improvement actions at a satisfactory pace, in line with expectations given the short time period since December 2016 and the impact of the local government elections.
34. Improvement actions cover all key findings in the previous report, although the impact of actions to date varies:
  - some actions have led to immediate improvements in the council, e.g. better progress in completing transformation projects
  - some are ongoing projects, such as the development of comprehensive workforce plans

- in other cases, the 2017 elections have meant that the impact of changes is still to be demonstrated, e.g. the scrutiny arrangements under the new council are still to bed in and it is too early to evaluate their effectiveness.

**35.** Where the impact of the improvement actions is still to be demonstrated by the council, the auditor will report a further update in the 2017/18 AAR.

**36.** The 2016/17 AAR contains a number of recommendations for the council, some of which directly address areas of interest to the Commission (pages 42 to 44 of the AAR), and which I support, as Controller of Audit. The auditor will report the council's progress on these actions in the 2017/18 AAR.

# East Dunbartonshire Council

2016/17 Annual Audit Report



 AUDIT SCOTLAND

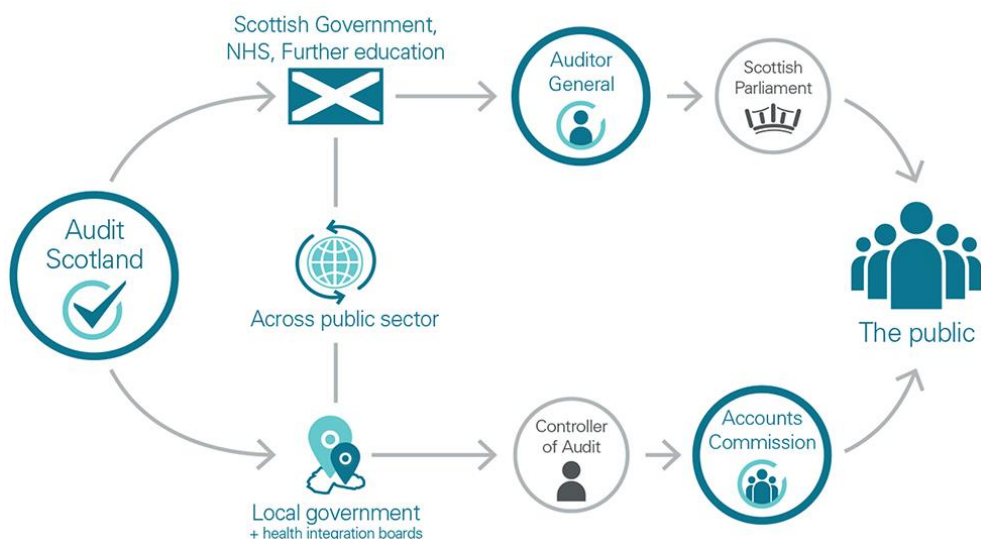
To the Members of East Dunbartonshire Council and the Controller of Audit

26 September 2017

## 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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# Contents

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Key messages	4
Introduction	6
<b>Part 1</b>	<b>8</b>
Audit of 2016/17 annual accounts	
<b>Part 2</b>	<b>13</b>
Financial management	
<b>Part 3</b>	<b>22</b>
Financial sustainability	
<b>Part 4</b>	<b>29</b>
Governance and transparency	
<b>Part 5</b>	<b>34</b>
Value for money	
<b>Appendix 1</b>	<b>42</b>
Action plan 2016/17	
<b>Appendix 2</b>	<b>45</b>
Significant audit risks identified during planning	
<b>Appendix 3</b>	<b>49</b>
Summary of national performance reports 2016/17	

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# Key messages

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## Audit of the 2016/17 annual accounts

- 1 The financial statements of East Dunbartonshire Council for 2016/17 give a true and fair view of the state of its affairs and of its net expenditure for the year.
- 2 We have issued an unqualified independent auditor's report on the Council's accounts.
- 3 We have issued unqualified opinions on the accounts of the trusts administered by the Council.

## Financial management

- 4 Financial management is effective with a budget setting process focused on the Council's priorities.
- 5 The Council has delivered services in line with the total budget. In 2016/17, unrealised efficiency savings have been offset by underspends on services.
- 6 Internal controls over the main financial systems operated effectively in 2016/17. No significant internal controls weaknesses were identified in 2016/17.
- 7 The finance team was restructured in the year and recruitment is ongoing to strengthen the team. This is a positive move to ensure the team has the skills and capacity required to support the Council's needs in times of financial pressure.
- 8 The Council has completed the majority of the projects in its 2016/17 transformation programme. However, progress reports to members on the transformation programme did not show what benefits were achieved. Its priority projects with the largest potential savings were not achieved. Consequently, to improve accountability revised savings levels on these projects are reflected in 2017/18 service budgets.

## Financial sustainability

- 9 It is early days for the new Council. The revised strategic priorities and how effectively these are reflected in the Council's plans and performance monitoring will be reviewed as part of next year's audit.
- 10 The Council's financial position is sustainable in the foreseeable future. The Council is developing longer-term financial plans beyond 2018/19 which should demonstrate how it will address future budget challenges.
- 11 The Council is reporting good progress on projects in its 2017/18 transformation programme. Its transformation projects should lead to financial and other benefits in 2017/18 and beyond. This should be more clearly reported to members.
- 12 The updated Workforce Strategy demonstrates an improved focus in the approach to workforce planning. Detailed workforce plans are being developed.

## Governance and transparency

- 13** The Council has effective governance structures in place.
- 14** Improvements have been made to support members in their scrutiny roles. It is too early to assess the effectiveness of scrutiny since the elections.
- 15** The Council is open and transparent in the way that it conducts its main business, with the public able to attend meetings of the Council and its committees.
- 16** The Council is improving reports for members and has developed a new reporting template to be introduced from September 2017.

## Value for money

- 17** In the December 2016 Best Value report on East Dunbartonshire Council the Accounts Commission said it remained concerned about the Council's approach to Best Value and in particular, its capability to deliver its transformation programme and address its significant funding gap. An update was requested by the end of 2017.
- 18** The results of follow up audit work on the December 2016 Best Value report findings have been reported throughout this report. The Council has demonstrated that it responded positively to the key findings in the report. It has progressed a plan of improvement actions at a satisfactory pace, in line with expectations given the short time period since December 2016. Where it is too soon to evaluate the effectiveness of these actions, auditors will include an assessment of their impact in the 2017/18 annual audit report.
- 19** The leadership of the Council has been effective in demonstrating improved performance in managing the delivery of the transformation programme.
- 20** The Improvement Service has reported that 44% of the Council's 2015/16 performance indicators are in the top quartile of Scottish councils, an improved position from 2014 /15. The number of indicators in the bottom quartile has also decreased from 17% to 13%.

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# Introduction

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1. This report is a summary of the findings arising from the 2016/17 audit of East Dunbartonshire Council.

2. The scope of the audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Audit & Risk Management Committee. This report comprises:

- an audit of the annual report and accounts
- consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

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3. The main elements of our audit work in 2016/17 have been:

- an interim audit of the Council's main financial systems and governance arrangements
- audit work covering the Council's arrangements for securing Best Value relating to financial management and financial sustainability. In addition, follow up audit work was undertaken in respect of the council's Best Value Audit Report, published in December 2016
- an audit of the Council's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions

4. East Dunbartonshire Council is responsible for preparing the annual report and accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It is also responsible for establishing

effective governance arrangements and ensuring financial management is effective.

- 5.** Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
- 6.** As public sector auditors we provide an independent auditor's report on the annual report and accounts. We also review and report on the arrangements within East Dunbartonshire Council to manage its performance and use of resources such as money, staff and assets. Additionally, we report on the Council's best value arrangements. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
- 8.** This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- 9.** Our annual audit report contains an action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** 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](http://www.audit-scotland.gov.uk).
- 12.** We would like to thank all management and staff who have been involved in our work for their co-operational and assistance during the audit.

# Part 1

## Audit of 2016/17 annual accounts



### Main judgements

The financial statements of East Dunbartonshire Council for 2016/17 give a true and fair view of the state of its affairs and of its net expenditure for the year.

Unqualified audit opinions issued on the Council's annual accounts.

Unqualified audit opinions issued on the trusts administered by the Council.

### Unqualified audit opinions

**13.** The annual accounts for the year ended 31 March 2017 were approved by the Audit & Risk Management Committee on 26 September 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- unqualified opinions on the management commentary, remuneration report and annual governance statement.

**14.** Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

### Audit of charitable trusts administered by East Dunbartonshire Council

**15.** Due to the interaction of the Local Government in Scotland Act 1973 with the charities legislation, a full and separate audit and auditor's report is required for each registered charity where members of East Dunbartonshire Council are sole trustees, irrespective of the size of the charity.

**16.** Due to the limited ability to spend funds held within charitable trusts where the Council is the sole trustee under the current structure, approval was sought from the Office of the Scottish Charity Regulator (OSCR) to reorganise the charitable trusts. In 2015/16 the Council managed seven charitable trusts and in 2016/17 the Council reduced the number of charitable trusts managed to five. In addition, at 31 March 2017 two of the charitable trusts (Kirkintilloch War Memorial Fund and the William Patrick Memorial Library Trust) were wound up with the funds of the William Patrick Memorial Library Trust being transferred to the East Dunbartonshire Leisure and Culture Trust to be used for the maintenance of the library. As a result, in 2017/18 the Council will manage three charitable trusts where it is the sole trustee.

**17.** Our duties as auditors of the charitable trusts administered by East Dunbartonshire Council are to:

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

- express an opinion on whether the charity(s) financial statements properly present the charitable trusts' financial position 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 OSCR.

**18.** We received the trusts' accounts in line with the agreed timetable and after completing our audit we issued unqualified audit opinions in respect of the 2016/17 financial statements of East Dunbartonshire Council Charitable Trusts, Kirkintilloch War Memorial Fund, Robert Lillie Trust, Talbot Crosbie Bequest and the William Patrick Memorial Library Trust.

### Submission of the Council's annual accounts for audit

**19.** We received the unaudited annual accounts on 22 June 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan. In 2016/17, for the second time, the Council's group accounts included the financial results of East Dunbartonshire Integration Joint Board (IJB) within its area. We provided assurances to the external auditor of East Dunbartonshire IJB under International Standard on Auditing 402 (audit considerations relating to an entity using a service organization) in relation to the income received and expenditure incurred by the Council on behalf of the IJB.

**20.** The working papers provided with the unaudited annual accounts were of a good and improved standard and finance staff provided good support to the audit team during the audit. This helped ensure that the final accounts process ran smoothly.

### Risk of material misstatement

**21.** [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. Also, included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

### Materiality

**22.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**23.** Our initial assessment of materiality for the annual accounts was undertaken during the planning phase of the audit and is summarised in [Exhibit 2 \(page 10\)](#). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

**24.** On receipt of the unaudited annual accounts and following completion of audit testing we reviewed our original materiality calculations and concluded that they remained appropriate.

## Exhibit 2

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2016 based on the latest audited accounts.	£3.529 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 25% of overall materiality.	£0.882 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of overall materiality.	£0.035 million

Source: Audit Scotland Annual Audit Plan 2016/17

### How we evaluate misstatements

**25.** There were no material adjustments to the unaudited financial statements arising from our audit although we identified two significant misstatements in the unaudited financial statements that have been amended in the audited financial statements. Further details are provided in [Exhibit 3](#). There were no unadjusted errors in the financial statements which exceeded our clearly trivial reporting threshold.

### Significant findings

**26.** International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. 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).

## Exhibit 3

### Significant findings from the audit of East Dunbartonshire Council

Issue	Resolution
<p><b>1. Pension Fund Liability</b></p> <p>The net pension fund liability on the Council's balance sheet has increased from £145.9 million in 2015/16 to £215.6 million in 2016/17, an increase of £69.7 million. This is also reflected in the balance sheet for the group accounts. The appointed actuaries advised that this is as a result of a significant decrease in the net discount rate (much lower discount rate, net of slightly higher inflation) over this period.</p> <p>The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. The valuation of the fund as at 31</p>	<p>For information only. This is a national issue reported due to the size of the change.</p>



Issue	Resolution
<p>March 2017 stated that the assets held were sufficient to cover only 73% of the accrued liabilities. The appointed actuaries express the view that future pension liabilities will still be met by a combination of the pension scheme's asset holdings, future contributions by employers and employees and planned increases in employer's contributions.</p>	
<p><b>2. Capital expenditure</b></p> <p>Audit testing and Council finance officers identified a number of items of capital expenditure totalling £0.662 million that had been incorrectly posted to the 2017/18 financial year when this expenditure should have been accrued into the 2016/17 financial year.</p>	<p>The audited annual accounts have been updated to include additional capital expenditure of £0.662 million and associated capital grant income of £0.376 million (£0.286 million net capital expenditure). There is no material impact on the Council's financial position.</p> <p><a href="#">Action plan (Appendix 1, point 1)</a></p>
<p><b>3 .Provisions</b></p> <p>During 2016/17 the Council created a provision for the strategic operating model (SOM) back pay costs which relate to the implementation of the job evaluation outcomes as well as commitments as part of the revised pay and grading model. During our audit of the annual accounts, officers identified a number of amendments relating to 2016/17 that required this provision to be increased by £0.272 million.</p>	<p>The audited annual accounts have been updated to reflect this with no material impact on the Council's financial position.</p>

## Going concern

**27.** The financial statements of the Council, its group and the associated charitable trusts have been prepared on the going concern basis.

## Management commentary, annual governance statement and remuneration report

**28.** The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary and a remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.

**29.** Based on our knowledge and work performed, we concluded that the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

## Other findings

**30.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were changed and reflected in the audited annual accounts.

## **Objections and Whole of Government Accounts**

**31.** 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 annual accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations.

**32.** The Council submitted a consolidation pack for the whole of government accounts audit on 21 July 2017.

# Part 2

## Financial management



### Main judgements

Financial management is effective with a budget setting process focused on the Council's priorities.

The Council has delivered services in line with the total budget. In 2016/17, unrealised efficiency savings have been offset by underspends on services.

The Council has completed the majority of the projects in its 2016/17 transformation programme. However, progress reports to members on the transformation programme did not show what benefits were achieved. Its priority projects with the largest potential savings were not achieved. Consequently, to improve accountability revised savings levels on these projects are reflected in 2017/18 service budgets.

Internal controls over the main financial systems operated effectively in 2016/17. No significant internal controls weaknesses were identified in 2016/17.

The format of financial monitoring reports for members has been improved for 2017/18.

The finance team was restructured in the year and recruitment is ongoing to strengthen the team. This is a positive move to ensure the team has the skills and capacity required to support the Council's needs in times of financial pressure.

### Financial performance in 2016/17

**33.** In March 2016 the Council approved a budget of £241.180 million for 2016/17. The budget was aligned to the Council's main priorities and highlighted that the Council faces an increasingly challenging financial position. At this time it was estimated that the Council needed to save around £27.6 million in the three years from 2017/18 to 2019/20, with almost £10 million of savings required in 2016/17.

**34.** The Council has delivered services in line with its total budget. A favourable variance of £0.503 million is reported against budgeted general fund services net expenditure of £239.876 million. In addition £1.085 million extra income is reported compared to a budget of £235.309 million. This results in a total underspend on the services net budget of £1.588 million.

**35.** The Council had budgeted to use £1.8 million of its general fund reserves in 2016/17. The actual amount used per the Movement in Reserves Statement was £2.143 million, an increase of £0.343 million (only 0.1% of net expenditure). A

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

shortfall in estimated procurement and efficiency savings, due to be funded from reserves, was offset by the underspends on services.

**36.** During the financial year members of the Policy & Resources Committee were presented with regular reports which provided updates on the provisional year end financial outturn including revisions to the general fund service budgets or the application of general fund balances to support efficiency savings targets.

**37.** While the Council's spending has remained in line with its overall budget, there are significant variations in how different services have performed. The more significant over and underspends are summarised in [Exhibit 4](#).

## Exhibit 4

### Summary of significant over and under spends against budget

Area	Under/over spend (£m)	Reason(s) for variance
<b>Underspends</b>		
Education	£2.274m	This underspend represents 2% of the total education budget and was mainly due to reduced payroll costs from teacher vacancies and underspends with payments to agencies and other bodies, the largest underspend relating to insurance payment savings.
Debt Charges	£0.878m	Underspend due to prudent treasury management, continuing low market rates for new borrowing and the use of internal resources to part fund the Council's capital programme.
<b>Overspends</b>		
Organisational Transformation	£1.717m	Overspend mainly due to procurement savings not achieved of £2.1 million, offset with some small savings from vacancies and the centralisation of the training budget of £0.496 million.
Miscellaneous Services	£1.214m	Overspends on insurance costs, strain on the pension fund payments from exit packages and the negotiated settlements relating to two employee tribunal cases.

Source: East Dunbartonshire Council – 2016/17 Unaudited Annual Accounts and Year End Outturn Report to Council (27 June 2017)

**38.** The outturn of the general services budget is, broadly satisfactory. However, there are a number of budget lines which require review to ensure that future budgets reflect the underlying cost of the services. In August 2017, the Transformation Programme Board agreed that a Zero Based Budgeting (ZBB) exercise is to be included in the transformation programme going forward. We will monitor progress in this area.

## Housing Revenue Account

**39.** The Council is required by legislation to maintain a separate Housing Revenue Account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. The income requirement for the HRA in 2015/16 was set at £12.448 million and was to be funded from council house rents. This resulted in a rent increase of 2%, and increased the average weekly rent based on a 48 week period from £73.07 to £74.53.

**40.** The Council's current tenant arrears in 2016/17 were £0.694 million. This is an increase of 18% from the level recorded in 2015/16 (£0.589 million). As a consequence, the HRA bad debt provision was increased to £0.862 million in 2016/17 from £0.746 million in 2015/16. This represents a deteriorating position.

**41.** Arrears are the main focus for the Council's Housing Service and the impact of Universal Credit and welfare reform continues to affect the level of arrears. Although the Council has an increased number of arrears cases being referred to the sheriff court, this is a lengthy process. The arrears team issues direct debit mandates to all new tenants and discusses rent payment methods as tenancies are agreed. In January 2017 a specialist team was set up within the Housing Service to work solely on rent arrears management and Universal Credit. The Housing Service follows the Council's rent arrears management procedure and continues to work with the Revenues and Benefits section to ensure all Discretionary Housing Payment applications have been submitted.

**42.** In 2016/17, the Council recorded a deficit on HRA services of £3.002 million. This represents a further deterioration from the prior year in which a deficit of £2.257 million was returned. However, after applying statutory accounting adjustments there was an increase of £1.163 million on the HRA balance, resulting in a closing balance of £3.217 million at the year end. These statutory adjustments are required to remove depreciation and impairment charges and to include loans fund costs, capital expenditure funded by the HRA and capital grants and contributions.

## Efficiency savings

**43.** With reduced funding from government and increased demand for financial services, efficiency savings are an important means of bridging the gap between funding received and spending commitments.

**44.** The Council is required to make an annual return to the Scottish Government in respect of recurring efficiency savings. The Policy & Resources Committee routinely receives budget monitoring reports including savings plans which have been risk assessed.

**45.** The total efficiency savings included in the Council's 2016/17 revenue budget were £9.976 million although the actual savings achieved were £5.634 million (56% of the total planned savings). This adds to the financial pressures faced by the Council in 2017/18. The under achievement of efficiency savings was mainly due to the Council's decision to defer the implementation of some staff terms and conditions review savings (£1.273 million) to 2017/18 and the £2.1 million lower than expected procurement savings referred to earlier.

## Progress on the 2016/17 transformation programme

**46.** The Council's 2016/17 transformation programme was approved by the Council in March 2016 and an updated programme was approved in June 2016. This programme included 27 prioritised projects with expected savings of £4.825 million, which are included in the total efficiency savings referred above.

**47.** The Council monitors progress on each of its transformation projects via its performance management system, Covalent. This includes a comprehensive record for each project which includes its priority score, project sponsor and manager, project milestones with completion dates and estimated benefits.

**48.** Officers reported to us in September 2017 the following:

- 20 projects have been completed
- The Council's 2 highest priority projects in the 2016/17 transformation programme were procurement and a review of terms and conditions with anticipated in year savings of £2.1 million and £1.273 million respectively. These savings were not achieved, as detailed in paragraph 45. These are no longer separate projects in the transformation programme, instead to improve accountability revised savings levels on these projects are reflected in service budgets. This is a positive change, showing a clearer picture of progress in achieving savings.
- 3 projects that were due to be completed in 2016/17 have been delayed and carried forward to 2017/18: Oracle Procure to Pay (P2P), Charging Framework & Review of Letting and Fleet Service Review. These projects had projected benefits for 2016/17 totalling £0.536 million.
- 2 projects are now monitored as part of the capital programme (see paragraph 55).

**49.** Despite not completing its highest priority projects, the Council demonstrated a good completion rate overall through effective management of projects in 2016/17.

**50.** A Transformation Update report to the Council in June 2017 includes an overview of the completed projects in 2016/17. It reports in summary that 43% of projects had been completed, with 5% carried forward to 2017/18. It is unclear how the completed projects relate to the 43% completion rate. Officers have now demonstrated that this completion rate includes 29 projects from the 2017/18 transformation programme, but this is not clear in the report presented to members.

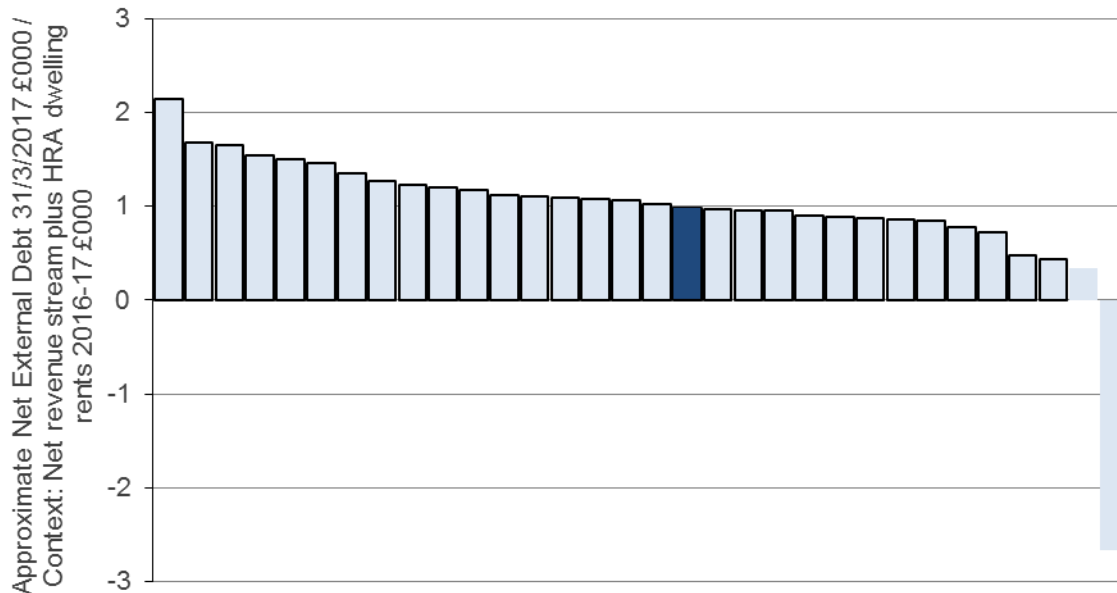
**51.** We would expect to see a comparison between the estimated savings included in the programme for each project and the actual savings achieved. The update on the 2016/17 transformation programme only lists £0.1 million of efficiencies achieved by one project, with no details of the savings achieved by any of the other projects. Nor does it show how much of the overall £4.825 million savings included in the programme were achieved.

## **Borrowing in 2016/17**

**52.** The Council's outstanding loans at 31 March 2017 were £168 million, an increase of £20 million on the previous year. £13.8 million of loan principal repayments were made and there were £33.6 million of new loans taken out during 2016/17. Analysing net external debt as a proportion of net revenue stream gives an indication of the relative indebtedness of the Council. [Exhibit 5](#) overleaf shows approximate net external debt as at 31 March 2017 as a percentage of net revenue stream (including HRA dwelling rents) for all mainland Scottish councils. East Dunbartonshire Council is highlighted in [Exhibit 5](#) as being in the middle of the range of debt levels, with approximate net external debt of £245.5 million at 31 March 2017 (with net external debt being total external borrowing and long-term liabilities less short-term investments).

## Exhibit 5

Approximate net external debt as a percentage of net revenue stream including HRA dwelling rents



Source: Scottish councils' unaudited annual accounts 2016/17

**53.** The capital financing requirement is a measure of the capital expenditure incurred historically by the Council that can be financed by external debt. The capital financing requirement at 31 March 2017 was £288.979 million which is £34.691 million higher than the Council's total actual external borrowing and long-term liabilities balance of £254.288 million at 31 March 2017 (external borrowing of £167.547 million and PFI liability of £86.741 million).

**54.** For a number of years, the Council has used reserves to support capital programmes, which it considers is a short term, prudent strategy in the current economic environment where investment returns are low. However the Council has recognised that this situation is not sustainable in the long term and the Council's 2017/18 Treasury Management Strategy includes a plan to increase borrowing by £5 million in 2017/18, £10 million in 2018/19 and £5 million in 2019/20. This position continues to be monitored by the Council as part of its overall treasury management strategy.

### Capital programme 2016/17

**55.** The total capital budget for 2016/17 was £70.934 million, £56.813 million for General Services and £14.121 million for the HRA. Actual capital expenditure was £66.988 million, £57.309 million for General Services and £9.679 million for the HRA). The total underspend of £3.946 million represent 6% of the total capital budget for 2016/17 (8% in 2015/16). Whilst the increased General Services programme was delivered as planned with a slight overspend of almost £0.5 million, HRA capital expenditure was £4.442 million lower than the original budget (31% below budget). This was mainly due to slippage of some of the planned new build housing projects and slippage in some of the Energy Efficiency

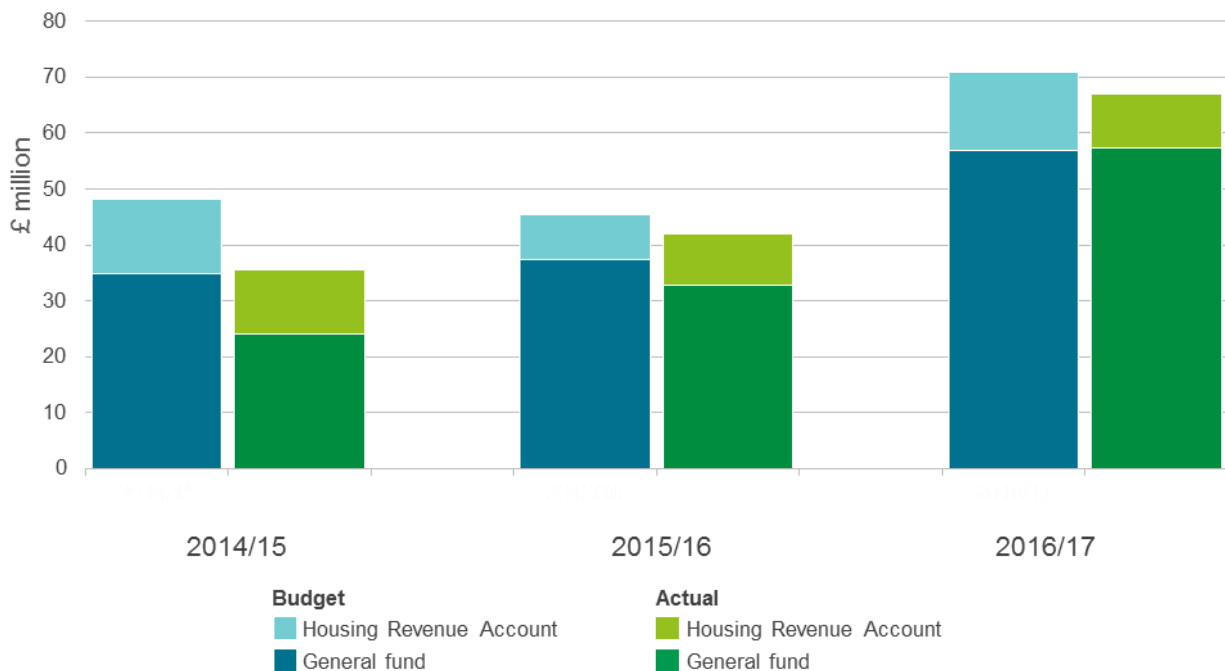
Standard for Social Housing (EESH) projects and other building projects which have been carried forward into 2017/18.

**56.** In recent years the Council has significantly reduced slippage in the delivery of its total capital programme as outlined in [Exhibit 6](#). During the course of the year the Council has completed a significant number of projects within its capital programme including:

- Holy Trinity Primary School (new build)
- Thomas Muir Primary School (new build)
- Lenzie Meadow Primary School (new build)
- Huntershill Sports Hub (new build)
- Kilmardinny House (refurbishment and extension)
- Phases 2, 3 and 4 of the accommodation strategy (remodelling)
- Bearsden Community Hub (remodelling)
- Bishopbriggs War Memorial Hall (refurbishment)

## Exhibit 6

### Capital slippage compared to budget (General Fund and HRA)



Source: East Dunbartonshire Council Annual Accounts 2014/15 to 2016/17

## Budgetary monitoring and control

**57.** In February 2017 the Council agreed the Transformational Change & Budget Reduction Strategy 2017/18 to 2018/19 which details the planned savings required in order for the Council to meet its funding gap. This strategy includes a number of proposed actions that will affect the savings and budget figures in the medium term, up to 2020/21 in some cases.



**58.** The scrutiny of financial performance is delegated to the Policy & Resources Committee which receives regular revenue and capital monitoring reports. Our Interim Audit Report issued in May 2017, highlighted financial monitoring reports for members included projected actual expenditure and variance against budget figures to the year end. However, we identified that the effectiveness of these reports could be improved by the inclusion of phased budget figures as well as actual expenditure and variance against budget to date for the period being reported. As a result, during 2017/18 finance officers have reviewed and revised the format of revenue budget monitoring reports in line with our recommendations.

## Financial capacity within the Council

**59.** At the end of July 2016 the Group Director – Finance & Corporate Assets left the Council and was replaced by a Chief Finance Officer (CFO) who is now the Section 95 Officer responsible for the proper administration of the council's financial affairs. Whilst the previous Group Director was a member of the Corporate Management Team (CMT <sup>(1)</sup>), the new CFO is a third tier officer reporting to the Depute Chief Executive – Education, People & Business and is not a member of CMT. The Accounts Commission, in a number of recent publications, has expressed the view that a council's Section 95 Officer should preferably be a member of a council's CMT, or equivalent, given the key nature of the role and the financial guidance that the postholder can offer. Whilst this is not the case the CFO is a member of the Strategic Management Team <sup>(2)</sup> and regularly attends CMT meetings.

**60.** The Council have experienced staffing changes and reductions within the finance and revenue and benefits teams over recent years, including officers key to both the delivery of the financial statements and day to day financial management. During 2016/17 departmental restructuring took place and changes were made within the finance team. The finance team now comprises three sections (Budgets & Transformation; HRA, Capital & Treasury; and Annual Accounts, Returns Income & Technical Accounting) each headed up by a Principal Accountant and reporting to the CFO. The finance team is also in the process of recruiting additional experienced finance staff and staff to train towards an accountancy qualification. We feel that this is a positive move to ensuring that the finance team is sufficiently resourced in terms of time, experience and knowledge to ensure internal financial controls are operating effectively, to support the preparation of the financial statements and to support the Council decision making process.

## Internal controls

**61.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of 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.

**62.** Our findings were included in our Interim Audit Report that was presented to the Audit & Risk Management Committee on 31 August 2017. We identified several control weaknesses, which we do not consider to be significant in terms of their impact on the Council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. We did however identify two areas where additional audit testing was required to gain the necessary assurance for the financial statements audit. We selected a sample of employees to verify that they were valid employees of the Council and we substantively tested a sample of payments to suppliers to ensure they were made to an existing supplier for a valid reason in the normal course of business for East Dunbartonshire Council. No issues were identified from this additional testing.

<sup>(1)</sup> The Council's CMT comprises the Chief Executive and 2 Depute Chief Executives.

<sup>(2)</sup> The Council's Strategic Management Team comprises the CMT and all Strategic Lead Officers.

**63.** Our review of internal controls in 2015/16 identified that existing controls relating to Carefirst system payments to private care providers needed to be improved. In 2016/17 substantive testing in relation to payments made to care providers through the Carefirst system was undertaken by us and the Council's Internal Audit section and no significant errors were identified.

**64.** The annual governance statement in the Council's 2016/17 annual accounts refers to the fact that, on the basis of work completed by Internal Audit in 2016/17, the Council's internal control procedures were generally found to operate as intended with reasonable assurance being provided on the integrity of these controls.

### Prevention and detection of fraud

**65.** We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the Council's arrangements including policies and codes of conduct for staff and elected members, whistleblowing, corporate fraud and corruption.

**66.** Based on the evidence reviewed by us, we concluded that the Council has adequate arrangements in place for the prevention and detection of fraud.

### National Fraud Initiative

**67.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated 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 error.

**68.** The latest position on NFI investigations by the Council is summarised in [Exhibit 7](#) and highlights that the Council has made steady progress in investigating those matches issued to the Council in January and May 2017 that were recommended for investigation.

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## Exhibit 7

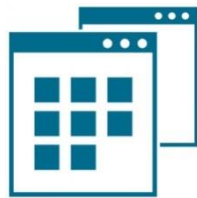
### National Fraud Initiative

**Total number of matches**



**4,172**

**Number recommended for investigation**



**787**

**Completed/closed investigations**



**414**

Source: East Dunbartonshire Council and NFI website

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**69.** NFI progress and outcomes are reported regularly to the Audit & Risk Management Committee and senior management by Internal Audit. The Fraud Team Leader oversees NFI work including the completion of the NFI self appraisal checklist which we were advised is used for planning of future NFI work, as opposed to monitoring the progress of NFI work, which is carried out using the NFI website.

**70.** We concluded that the Council is pro-active in investigating matches and reporting the outcomes of NFI activity.

# Part 3

## Financial sustainability



### Main judgements

The new Council is working on proposals for its strategic priorities. How effectively these are reflected in the Council's Local Outcome Improvement Plan and financial plans will be reviewed as part of next year's audit.

The 2017/18 budget was set at £246.9 million, with a funding gap of £12.5 million, £11.5 million is to be met from efficiency and income generation proposals, and £1 million from reserves. The latest monitoring report shows a projected overspend of £0.402 million.

The Council's financial position is sustainable in the foreseeable future.

The Council's Strategic Planning and Performance Framework 2017/18 is the key driver in identifying budget savings that need to be made to secure longer term sustainability. The Council is developing longer-term financial plans beyond 2018/19.

The Council is reporting good progress on projects in its 2017/18 transformation programme. Its transformation projects should lead to financial and other benefits in 2017/18 and beyond. This should be more clearly reported to members.

The updated Workforce Strategy demonstrates an improved focus in the approach to workforce planning. Detailed workforce plans are being developed.

### Setting strategic priorities

**71.** The Council priorities are set out in its Local Outcome Improvement Plan (LOIP) 2016-2019. The LOIP sets out the strategic direction, priorities and outcomes which have been agreed for delivery with community planning partners. The LOIP is linked to the Transformational Change & Budget Reduction Strategy 2017/18 to 2018/19 and the Business Improvement Plan (BIPs) of each Council strategic group. BIPs are three year rolling strategic plans which set out the priorities for each of the strategic groups and identify their contribution to the delivery of the Council's local outcomes. Each BIP includes an improvement action plan (which incorporates a performance scorecard) that highlights how strategic groups will continue to improve performance and how these improvements will be monitored. This is consistent with good practice.

**72.** Following the local government elections the administration of the Council changed from a Labour/Conservative coalition minority administration to a minority SNP administration. The Council is currently working with officers towards agreeing the Council's new strategic priorities, through its Strategic Planning Framework. The priorities will be reflected in new service plans and the 2018/19 budget, to be set next February. The priorities are to be aligned with the community planning partnership plans.

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

**73.** The Council is currently in the process of working alongside community partners to develop a LOIP to cover the ten year period from 2017 to 2027. This plan acts as the Council's highest level planning document to which all other plans align. The aim of the LOIP, to reduce inequality and improve outcomes for the people of East Dunbartonshire, will therefore continue to fundamentally inform and be at the forefront of the budget setting process.

**74.** The revised strategic priorities and how effectively these are reflected in the Council's plans and performance monitoring will be reviewed as part of next year's audit.

## Financial planning

**75.** All Council's face a number of challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing costs of services and reductions in central government funding. Audit Scotland and the Account Commission's report [Scotland's public finances – a follow-up audit: Progress in meeting the challenges](#) (June 2014), highlights that public bodies need to develop effective longer-term financial plans which identify potential risks and ensure spending decisions are affordable. The Accounts Commission recommended that when future Scottish Government funding is not known, councils should plan for a range of scenarios so they are prepared for different levels of funding and income. In a report to the Council in September 2017, the Depute Chief Executive describes how it is developing its longer term financial planning as part of its Strategic Planning and Performance Framework. This will include an updated medium term financial model, financial strategy and assessment of longer term financial risks as part of its budget setting process to be concluded in February 2018.

### [Action plan \(Appendix 1, point 2\)](#)

**76.** In February 2017 the Council approved its 'Strategic Planning and Performance Framework 2017/18: Transformational Change and Budget Reduction' report. This details the planned savings required to meet funding gaps. Efficiency savings of £12.5 million are required in 2017/18 and an estimated £32.8 million in the following three years to maintain financial balance. It includes financial projections which include best and worst case scenarios of the levels of grant funding from the Scottish Government, changes in cost pressures and the effect that each scenario will have on the funding gap of the Council. The strategy includes a number of risk areas that could affect the savings and budget figures in the medium-term, up to 2020/21 in some cases.

**77.** The 2017/18 budget was set at £246.9 million with a funding gap of £12.5 million. Plans to address this gap include £11.5 million of savings, with the remaining £1 million being financed from reserves. The savings plans are made up of 23 management efficiency actions totalling £2.6 million and 15 budget reduction and income generation proposals totalling £8.9 million.

**78.** The savings target for this year is ambitious given that the Council realised £5.634 million in efficiency savings in 2016/17. However, the latest 2017/18 revenue monitoring report presented to the Policy & Resources Committee in August 2017 shows that the projected outturn savings is £11.4 million, which is in line with the savings target. There is a small projected overspend reported on general services of £0.402 million.

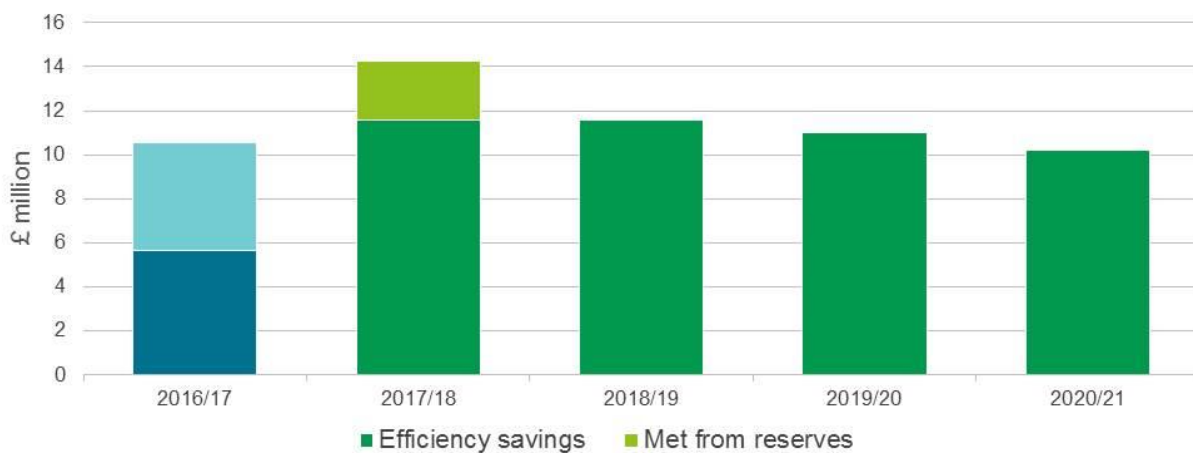
**79.** Financial projections for 2018/19 to 2020/21, forecast funding gaps of £11.6 million, £11 million and £10.2 million respectively see [Exhibit 8](#). These estimates represent baseline figures and are likely to vary until the finance settlement and the passing of the Budget (Scotland) Bill through the Scottish Parliament. The Council has also calculated separate estimated funding gaps for these years based on best and worst case scenarios. The Council has no detailed plans for how the gaps will be met in 2018/19 to 2020/21. The Council plans to use

its Strategic Planning and Performance Framework to identify management efficiencies and transformational activity to meet funding gaps. The Council anticipates a planned use of reserves in some instances although the amounts to be transferred from the general fund in 2018/19 to 2020/21 have yet to be identified. The Council recognises that the use of reserves to meet budget gaps is not sustainable in the longer term.

[Action plan \(Appendix 1, point 3\)](#)

## Exhibit 8

### Identified funding gaps 2017/18 – 2020/21



Actual

Planned

Source: East Dunbartonshire Council

## The Transformation Programme

- 80.** The Council's transformation programme is part of its strategic planning and performance framework for meeting future funding gaps. In the December 2016 Best Value audit report, the Accounts Commission concluded that the Council did not demonstrate adequate capability to deliver its ambitious transformation programme which affected its ability to address its significant funding gap. This was evidenced by failure to meet targets and lack of clarity about the savings to be achieved.
- 81.** In February 2017 the Council approved the 2017/18 transformation programme. In June 2017 an update on the transformation programme was presented to members and included a project overview which highlights the main achievements in 2016/17 and provides a summary of the main projects being taken forward in 2017/18.
- 82.** Our review of Council reports on the 2017/18 transformation programme noted the following:
- February 2017 - 21 projects included in the programme, with projected savings of £0.352 million.
  - June 2017 – 34 projects included in the reprioritised programme (none detailed as complete), with projected savings of £0.705 million.

- August 2017 – 29 projects included in the reprioritised programme, with projected savings of £0.662 million.

**83.** The high number of projects in the transformation programme makes it a challenging programme to manage and deliver. Based on the Council's 2016/17 track record in completing projects, the expectation is that the projects included on the programme will be delivered. The August 2017 update to the Council reports good progress with the 2017/18 transformation programme with all 29 projects shown as either completed, or in progress and on target. The update reports could provide a clearer trail to demonstrate which projects have been added to and removed from the transformation programme during the year.

**84.** Where projects have been identified as complete (e.g. in the August 2017 report), the update reports should also provide a comparison between the estimated savings included in the programme for each project and the actual savings achieved. Since 2016/17 the Council has made improvements to the format and content of update reports (e.g. including a narrative update for each project) but recognises that further improvements are required.

**85.** The estimated savings from the 2017/18 transformation programme are included within the management efficiency actions and budget reduction and income generation proposals. These proposals are the key drivers of the budget savings required for the Council to ensure sustainability in the future. Progress against them is reported in revenue budget monitoring reports presented to the Policy & Resources Committee. The transformation programme update reports and the revenue budget monitoring reports should be clearly linked.

**86.** Savings from transformation projects in 2017/18 are a relatively small part of overall planned savings. The transformation programme had previously made a greater financial contribution to the Council's planned annual savings. However, it is acknowledged that on top of the financial estimates, a number of the transformation projects will lead to financial benefits beyond 2017/18, not yet estimated, or will lead to service improvement with no financial benefits.

[Action plan \(Appendix 1, point 4\)](#)

## Reserves

**87.** One of the key measures of the financial health of a local authority is the level of reserves held. The level of usable reserves held by the Council increased from £28.5 million in 2015/16 to £28.8 million in 2016/17. This includes the Council's general fund, HRA and capital and repair fund balances.

**88.** The general fund reserve is the largest reserve and has no restrictions on its use. Its main purpose is to provide a contingency fund to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows. The Council's general fund balance at 31 March 2017 was £17.664 million, as illustrated in [Exhibit 9](#) overleaf.

**89.** The Council reviews the level of its uncommitted (unearmarked) reserves when setting the budget each year. The level of uncommitted general fund reserves as at 31 March 2017 was £11.654 million which represents 4% of the 2016/17 net cost of services (£266.241 million). Planned commitments from the general fund balance amounted to £6.010 million and include modernisation, efficiency and reform initiatives, service commitments to ongoing projects and miscellaneous budget pressures for 2017/18. Committed (earmarked) balances represent 34% (2015/16: 50%) of the total general fund balance.

**90.** [Exhibit 9](#) provides an analysis of the general fund reserve over the last five years split between committed and uncommitted reserves. This shows that the general fund reserve reached a peak of £19.7 million in 2015/16 but has reduced in



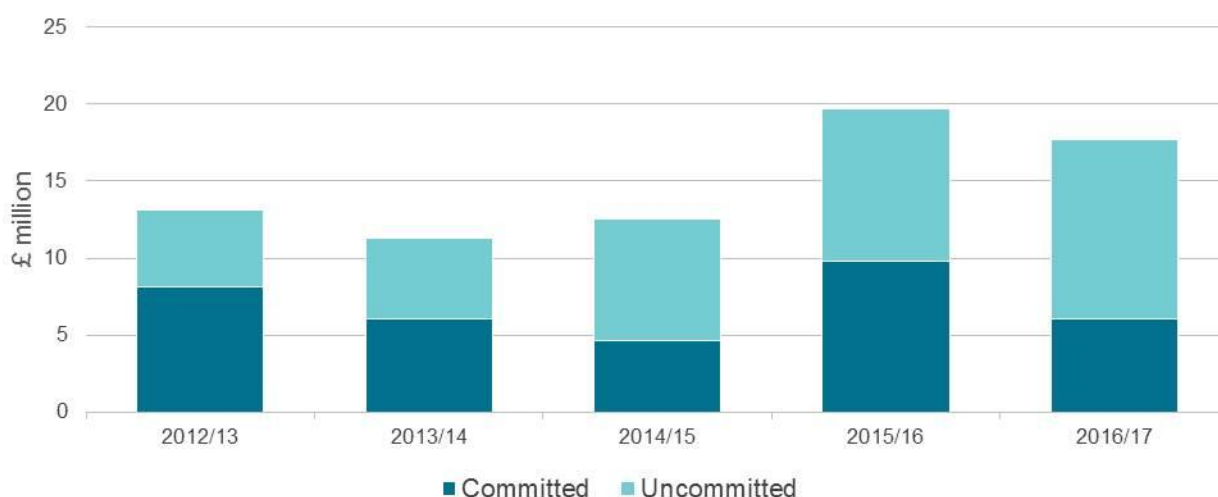
2016/17. At 31 March 2017 the Council has the following uncommitted general fund reserve balances:

- Contingency Reserve (£4.570 million) – maintained to provide improved financial resilience in future years.
- Prudential Reserve (£3.750 million) – maintained to underpin operational and borrowing activity.
- Treasury Management Reserve (£2.984 million) – maintained to provide stability during the delivery of the capital programme.

**91.** The maintenance of these reserves demonstrates a prudent approach by the Council and the level of reserves appears adequate. It is acknowledged by the Council that reserves can only be spent once and it is not a sustainable approach to use them to fund budget gaps over the longer term.

## Exhibit 9

### Analysis of general fund over last five years



Source: East Dunbartonshire Council Annual Accounts 2012/13 to 2016/17

## Treasury management

**92.** In line with the Council's Treasury Management Strategy for 2016/17, borrowing undertaken during the year was a combination of short-term and long-term debt. At 31 March 2017, long term borrowing stood at £144.9 million, an increase of £12.7 million on the 2016 level of £132.2 million. During the same period, short term borrowing increased from £15.7 million to £22.6 million. As a result interest payable on loans increased by £0.3 million to £7.9 million in 2016/17.

**93.** The Council's total external debt of £254.288 million was within the authorised limit of £300 million and operational boundary of £290 million as set out in the Council's Treasury Management Strategy. The current borrowing position is prudent and the Council will continue to consider the affordability of future borrowing. As noted at earlier, the Council's capital borrowing requirement has not reached its limit and the Council's treasury management strategy includes a plan to increase its level of debt over the medium to long term, if required.

## Lender Option Borrower Option

**94.** During the year we received correspondence on a number of council's using Lender Option Borrower Option (LOBO) loans. A LOBO loan is typically a long term



loan where the interest rate is initially fixed but the lender has the option to propose or impose on pre-determined future dates, a new fixed interest rate.

**95.** At the start of 2016/17 East Dunbartonshire Council had three of these standard LOBO loans with Barclay's Bank totalling £14.4 million. However, in June 2016 Barclay's Bank wrote to the Council advising that they were waiving their right to change the applicable interest rate on the outstanding loans. This was a business decision taken by Barclay's Bank. In effect, the LOBO loans became fixed rate loans at their current interest rates and the maturity date remains the same. Therefore, at 31 March 2017 the Council had no LOBO loans in place.

## Workforce planning

**96.** Audit Scotland's [Local government in Scotland – performance and challenges 2017](#) report highlighted the need to plan and manage reductions to Council workforces. Failing to do this can affect the skills mix and ability of the organisation to deliver, manage and scrutinise services effectively.

**97.** The report advises councils to have effective systems in place for managing their workforce and monitoring staffing levels, and that information should be aligned to other long-term plans such as financial plans.

**98.** The Council's workforce (FTE) over the period has fallen from 3,693 to 3,592 (a reduction of 3%) comprising 1,219 teachers and other staff totalling 2,373. The Council has no plans for any further reduction in staff numbers in the near future as the focus of the 2017/18 transformation programme is the prioritisation of financial efficiency through more cost effective procurement, contract management and management efficiency actions relating to cost containment and cost avoidance.

**99.** In June 2015, the Council approved a Workforce Strategy covering 2015 to 2018. The strategy outlined the Council's high level principles relating to workforce planning, leadership, employee wellbeing and career development. The Workforce Strategy was accompanied by a Workforce Improvement Plan, which set out programmes and activity, both ongoing and emerging, associated with the strategy.

**100.** The December 2016 Best Value audit report said that workforce planning needed to improve further, with a workforce plan that is better integrated to the transformation programme, ensuring that the skills needed to achieve the programme will be available and the targeted savings are monitored and achieved.

**101.** In June 2017, the Council approved an updated Workforce Strategy for 2017/18. This includes a profile of the workforce at 31 March 2017, including numbers of staff, age profile, length of service and turnover analysis.

**102.** The 2017/18 Workforce Improvement Plan is contained within the updated Workforce Strategy. The strategy includes four phased approach to help the Council develop a three year Workforce and Skill Profile for 2018 to 2021 relating to succession planning, cluster analysis, scenario planning and planning and implementation. This approach reflects guidance in the Accounts Commission's and Auditor General for Scotland's Public Sector Workforce Report (2013).

**103.** In compiling the plan, the Council has also used benchmarking and engagement with other Scottish local authorities and the Improvement Service to identify best practice.

**104.** The Council is to be provided with an update against the Workforce Improvement Plan in December 2017. We recommend this update includes specific tasks and timescales to deliver on each phase of the plan.

[Action plan \(Appendix 1, point 5\)](#)

**105.** The Council's updated Workforce Strategy demonstrates an improved focus in the approach to workforce planning. However, detailed workforce plans demonstrating how the Council will structure its workforce to deliver its strategic priorities are still to be put in place. The Council's progress in this area will be reported by us in 2017/18.

## Equal pay

**106.** In September 2017, the Accounts Commission published its findings from an audit of equal pay across local government. The audit found that councils underestimated the challenges involved in implementing the Single Status Agreement (SSA) and some of the approaches taken by councils did not always prioritise pay equality and were later found to be discriminatory. East Dunbartonshire Council implemented single status in March 2008 and reports that between 2004/05 and 2015/16 it has spent £6 million compensating workers who had been unfairly paid and settling equal pay claims.

**107.** Almost 27,000 equal pay claims across Scotland remain live and at the end of September 2016 East Dunbartonshire Council still had 442 live claims (which related to 370 individual claimants). Since December 2016 the Council has completed a further wholesale job evaluation exercise (following on from that undertaken in 2008) along with a terms and conditions review and is working towards settling all outstanding equal pay claims. The job evaluation exercise (implemented in July 2017) was undertaken to provide assurance that the current pay and grading model is gender neutral.

**108.** As at September 2017, the Council has settled two thirds of its outstanding claims, leaving one third outstanding. The settlement agreements issued to date, include compensation for both historic inequality and also compensation for "second wave claims" in respect of the period of pay protection immediately following the implementation of job evaluation in 2008, thereby circumventing the need for both the Council and claimants to go through a second claims process. Workers could potentially still make new claims against councils. This means that councils needs to be confident that they have fair and transparent pay arrangements and take necessary action, such as regular equal pay audits, to deliver pay equality in line with their public sector equality duty.

# Part 4

## Governance and transparency



### Main Judgements

**The Council has effective governance structures in place.**

**Improvements have been made to support members in their scrutiny roles. It is too early to assess the effectiveness of scrutiny since the elections.**

**The Council is open and transparent in the way that it conducts its main business, with the public able to attend meetings of the Council and its committees.**

**The Council is improving reports for members and has developed a new reporting template to be introduced from September 2017.**

### Changes in the council

**109.** The Council saw significant changes in its elected members following the local government elections in May 2017, with thirteen of its twenty two members being elected for the first time. The Council recognise this brings opportunities with new ideas and approaches from the members but it also provides challenges for the Council in ensuring members have the skills they need to be effective in their roles.

#### Members induction and development

**110.** Following the local government elections in May 2017 there has been a sustained period of elected member training, recognising the number of newly elected members. A series of events have also been held between strategic lead officers and elected members to raise awareness of respective roles and responsibilities.

**111.** A members training plan has been implemented and includes a range of activities including coverage on ethical standards, Councillors Code of Conduct and training for scrutiny panel members. The Council has confirmed good attendance at training sessions amongst new members in particular. Individual development plans are being prepared for all members.

**112.** At the August 2017 meeting of the Audit & Risk Management Committee, members received a presentation from the Chief Finance Officer on the role of the Council's Internal Audit function. External Audit will give a similar presentation to a future meeting of the committee.

**113.** We reviewed the induction training plan provided to members and concluded that its coverage looks comprehensive. It is too early to assess the effectiveness of the training provided and we will be considering this in the context of scrutiny in the Council reported below.

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.

## Governance arrangements

**114.** We reviewed the Council's governance and accountability arrangements which included:

- confirming that the governance framework and governance arrangements, including decision-making and scrutiny, are regularly reviewed and updated to ensure they remain effective
- assessing the effectiveness of decision-making to ensure it is balanced by effective scrutiny and challenge by those independent of the body
- confirming that there is effective scrutiny and challenge in place over policy decisions, service performance, and programme management
- confirming that decision makers have the information they need to scrutinise, challenge and make transparent decisions
- ensuring that it is clear what decisions have been made, who made them and the rationale supporting those decisions.

**115.** We concluded that the Council's overall arrangements are effective in that they support good governance and accountability.

## Scrutiny arrangements

**116.** The Audit and Risk Committee became a separate committee in September 2016. Since the elections, a new Chair has been appointed and it has met on one occasion. With the change in members, it is too early for us to comment on the effectiveness of this committee. We will comment further in next year's report. In the meantime we would encourage the committee Chair to build a self assessment of the committee's effectiveness into its agenda cycle, using for example, Chartered Institute of Public and Accountancy (CIPFA) guidance.

**117.** The Council also operates two scrutiny panels (Transformation, Economy and Employment, and Transformation and Community Wellbeing) to help elected members scrutinise the Council's transformation programme and its impact on the services, as well as the Council's priorities and significant financial challenges. However, the Best Value Report highlighted the following:

- The focus of scrutiny panel meetings continues to be more on members receiving a wide range of information through presentations rather than on scrutinising specific issues of importance.
- In some cases, it is clearer why issues are being examined by scrutiny panels, but this remains variable. This is likely to be helped by Audit and Risk Management becoming a full committee from September 2016. It now operates independently of the Policy and Resources Committee, setting its own agenda and directing the scrutiny panels' work.
- Officers have recently started providing scrutiny panel members with information to allow them to track changes resulting from their scrutiny. Officers recognise that they can improve on how well and how quickly they provide this information.

**118.** The Accounts Commission concluded in December 2016 that member scrutiny must improve further with members needing to set the priorities of scrutiny and determine the quantity and content of information they require to fulfil their responsibilities.

**119.** In response to this, the Council has revised the format of committee reports including recommendations, items to 'note', summary information, etc. being reviewed. A new template for committee reports has been developed to make recommendations and the risks associated with decisions clearer. The new

template is being introduced from September 2017. To facilitate better decision making and scrutiny, officers should complement the new template by striving to overcome some of the current complexity and presenting reports in plain English. After a period of time, the Council should request feedback from members on the effectiveness of the new report format, level of detail and use of plain English.

#### [Action plan \(Appendix 1, point 6\)](#)

**120.** The work of the scrutiny panels continues with action logs supplementing the agendas. This ensures that members are advised of the progress of required actions with the motivation that these actions are closed within a committee cycle. Opportunities have been taken to reduce the volume of complex information presented to members with, for example, budget reports providing high level detail supplemented with useful guidance for members similar to that provided in Accounts Commission and Audit Scotland national performance reports.

**121.** Following the local government elections in May 2017 the Council gained thirteen new councillors. Two of these councillors who come from the opposition parties, have been appointed chairs of the scrutiny panels. The first meetings of the scrutiny panels took place in September 2017. The Council acknowledges that there is still room for further improvement in the work of the scrutiny panels, particularly around clarifying the reasons why Audit & Risk Committee has selected specific areas for scrutiny and the focus of panels' scrutiny.

**122.** Improvements have been made to support members in their scrutiny role, however it is too early to assess the effectiveness of scrutiny since the elections. We will report on the effectiveness of the scrutiny panels and the Audit & Risk Committee in 2017/18.

### Internal audit

**123.** Internal audit provides senior management and elected members with independent assurance on the Council's overall risk management, internal control and corporate governance processes.

**124.** We carried out a review of the adequacy of the Council's internal audit function and concluded that it operates accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**125.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on internal audit's work in relation to social care payments. Also, as part of our wider dimension work, we considered the work of internal audit in relation to the National Fraud Initiative.

### Transparency

**126.** Transparency means that the public, in particular local residents, 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.

**127.** There is evidence from a number of sources which demonstrate the Council's commitment to transparency. Members of the public can attend meetings of the full Council and other committees. Minutes of these committee meetings and supporting papers are readily available on the Council's website.

**128.** The Council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys, and how to make a complaint.

**129.** 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.

**130.** Overall, we concluded that the Council conducts its business in an open and transparent manner.

### **Standards of conduct and arrangements for the prevention and detection of bribery and corruption**

**131.** The Council has a range of activities in place designed to maintain standards of conduct including Codes of Conduct for members and officers. Also there are established procedures for preventing and detecting bribery and corruption including a Corporate Fraud & Corruption Policy and an Anti-Bribery Policy.

**132.** During 2016/17 we reviewed the registers of interest completed by members and found that they met basic requirements in most areas. However, senior officers do not complete full registers of interest like those completed by members, declaring interests in other bodies.

[Action plan \(Appendix 1, point 7\)](#)

### **Integration of health and social care**

**133.** Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on 1 April 2016. This brings together NHS and local council social care services under one partnership arrangement for each council area. These health and social care partnerships are formally known as Integration Joint Boards (IJBs).

**134.** Integration will mean a greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value.

**135.** The East Dunbartonshire Integration Joint Board (commonly known as East Dunbartonshire Health & Social Care Partnership) is provided in partnership with NHS Greater Glasgow & Clyde and became fully operational on 3 September 2015, in advance of the formal start date of 1 April 2016 set out in the Act. The financial transactions of the East Dunbartonshire IJB have been consolidated into the Council's group accounts.

**136.** East Dunbartonshire IJB has its own performance management framework to ensure that progress against key plans, strategies and budgets are monitored routinely in order that timely action can be taken to address any performance issues. Progress is monitored by senior management, appropriate scrutiny committees, the IJB and all partners. The IJB faces financial challenges in the future as well as service delivery challenges from the new landscape.

**137.** Audit Scotland's publication [Health and Social Care Integration](#) (December 2015) highlighted that there are significant risks which need to be addressed if health and social care integration is to fundamentally change the delivery of health and care services. The report highlighted that health boards and their IJB partners needed to have realistic plans in place to make health and social care integration work effectively. In addition, Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. This report is not due until Spring 2018 and auditors will be in a better position to assess the effectiveness of the partnership arrangements after the work on this report has been completed.

### **Local scrutiny plan**

**138.** The 2017/18 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the Council was submitted to East Dunbartonshire Council in April 2017. It was also presented to the Audit & Risk Management Committee on 11 April 2017. The LAN did not identify any new scrutiny risks in the

year which would require specific scrutiny work during 2017/18. The Council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

## Equalities

**139.** The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

**140.** We reviewed the Council's Equality Outcomes and Mainstreaming Progress Report (April 2017) and concluded the Council has met its statutory duty to:

- publish information on progress made in mainstreaming equality within the Council
- report on progress made towards achieving equality outcomes published in 2013
- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay gap information.

**141.** We concluded, on the basis of evidence reviewed, that the Council is proactive in ensuring that equality is mainstreamed.



# Part 5

## Value for money



### Main judgements

The results of follow up audit work on the December 2016 Best Value report findings have been reported throughout this report. The Council has demonstrated that it responded positively to the key findings in the report. It has progressed a plan of improvement actions at a satisfactory pace, in line with expectations given the short time period since December 2016. Where it is too soon to evaluate the effectiveness of these actions, auditors will include an assessment of their impact in the 2017/18 annual audit report.

The leadership of the Council has been effective in demonstrating improved performance in managing the delivery of the transformation programme.

The Council's performance management framework includes a number of strands such as service self-evaluations, service reviews and benchmarking against Local Government Benchmarking Framework (LGBF).

The Improvement Service has reported that 44% of the Council's 2015/16 performance indicators are in the top quartile of Scottish councils, an improved position from 2014 /15. The number of indicators in the bottom quartile has also decreased from 17% to 13%.

We will continue to monitor the Council's progress with its improvement plans as part of the annual audit. An update will be reported next year.

### Best Value – Follow Up of the Previous Audit Report

**142.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value arrangements in the Council will be assessed over the five year audit appointment, as part of the annual audit work. This year's Best Value audit work focused on following up progress made by the Council in response to the Best Value audit report published in December 2016.

**143.** In March 2017, the Council considered and accepted all of the recommendations made by the Accounts Commission in the Best Value audit report. In addition, the Council approved the management response to each of the Accounts Commission's findings.

**144.** The report contained five recommendations, two of which related to the Council's transformation programme. The Accounts Commission concluded that the Council did not demonstrate adequate capability to deliver its ambitious transformation programme which affected its ability to address its significant funding gap. This was evidenced by failure to meet targets and lack of clarity about the savings to be achieved.

**145.** The Accounts Commission's findings in December 2016 said that:

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



- The Council has worked to respond to the concerns expressed by the Commission in our previous findings in June 2015. There is better prioritisation of improvement projects and some stronger aspects of workforce planning. Scrutiny of performance by elected members is also improving.
- But we remain concerned that the council does not demonstrate adequate capability to deliver its ambitious transformation programme and thus its ability to address its significant funding gap. Our concern is evidenced by failure to meet targets and lack of clarity about the savings to be achieved.
- More competent programme management is essential to ensure public confidence in the council's approach to managing change.
- Workforce planning needs to improve further, with a workforce plan that is better integrated to the transformation programme, ensuring that the skills needed to achieve the programme will be available and the targeted savings are monitored and achieved.
- Member scrutiny must also improve further. Members need to set the priorities of scrutiny and determine the quantity and content of information they require to fulfil their responsibilities.
- The Commission needs the council to demonstrate effective leadership in ensuring the required change. We will continue our interest in the council and require the Controller of Audit to update us by the end of 2017 through the annual audit and in our revised approach to auditing Best Value.

**146.** As part of the audit we have reported on the Council's response as follows:

Delivery of the Transformation Programme	Paragraphs 46-51 and 80-86 on the delivery of the Transformation Programme Parts 2 & 3 covering the impact on financial management and financial sustainability
Workforce planning	Paragraphs 96-105 on the 2017/18 update to the Workforce Strategy
Member scrutiny	Paragraphs 116-122 on the scrutiny arrangements in place in the new Council Paragraphs 110-113 on the induction and development of elected members
Leadership of the Council's improvement plans	Paragraphs 149-152

**147.** As part of the follow up work auditors met with a number of senior officers and some elected members to hear their views on the areas of coverage above. These discussions contributed to the audit judgements which are reported throughout this report and included in the key messages at pages 4 and 5. The Controller of Audit will consider the results of this follow up work, and report to the Accounts Commission on the extent of improvements made.

**148.** The Council has demonstrated that it responded positively to the key findings in the report. It has progressed a plan of improvement actions at a satisfactory pace, in line with expectations given the short time period since December 2016. We will continue to monitor the council's progress with its improvement plans as part of the annual audit. An update will be reported next year.

### Leadership of the Council's improvement plans

**149.** In March 2017 the Council considered and accepted all of the recommendations made by the Accounts Commission in the Best Value audit report. In addition, the Council approved the management response to each of the Accounts Commission's findings. Progress in addressing the Accounts Commission's recommendations is monitored using the Council's performance monitoring system (Covalent) and on 27 June 2017 the Council received progress reports covering the workforce strategy and transformation programme.

**150.** The Transformational Change and Budget Reduction Strategy for 2017/18 was agreed by Council in February 2017. Officer leadership is provided by the Transformation Programme Board, chaired by the Chief Executive, and attended by the SMT. We identified improvements in the way the Council was managing its transformation projects with the establishment of the Programme Management Office which is now part of the Finance Section. This leadership structure has demonstrated improved performance in managing the delivery of the transformation programme. Areas for further improvement are highlighted throughout this report and should be considered by the SMT and members.

**151.** The Council has demonstrated that it has taken improvement actions to respond to all key findings of the December 2016 Best Value Report. Evidence of this is included throughout this report. The impact of actions to date varies:

- some actions have led to immediate improvements in the Council, e.g. improved management of the transformation programme leading to good progress being reported on completion of projects
- some are longer term projects such as the development of comprehensive workforce plans
- in other cases the 2017 elections have meant that the impact of changes is still to be demonstrated, e.g. the scrutiny arrangements under the new council are still to be bed in and their effectiveness cannot be evaluated.

Where the impact of the improvement actions is still to be demonstrated by the Council, they will be kept under review by audit and an assessment of impact reported in the 2017/18 annual audit report. Improvement recommendations identified by audit relevant to specific Best Value arrangements have been included in the action plan at [Appendix 1](#).

**152.** The Council operates in a challenging political and financial environment. Following the elections in May 2017, the council is run by an SNP minority administration. It will be important for councillors to continue to work together to make decisions on service priorities, to secure financial sustainability in the longer term

### Shared services

**153.** The Accounts Commission and Auditor General have highlighted the benefits to the people who use council services, communities and public sector organisations of working well together. Our recent report, Local government in Scotland: Performances and Challenges 2017, however, identified limited evidence of councils collaborating or sharing services.

**154.** In June 2016 the Council approved the establishment of the East Dunbartonshire, Inverclyde and West Dunbartonshire Councils' Shared Service Joint Committee (SSJC). The committee became effective from 1 November 2016,

and established a governance framework for the potential sharing of services. The SSJC has met twice in 2016/17, with a strategic business case for the sharing of roads and transportation services approved by the SSJC in March 2017.

**155.** In December 2016 we reported that the councils had an ambitious aim of sharing services from April 2017 onwards. The councils estimated indicative savings of 15% over three years from sharing the proposed frontline services, which initially includes roads and transportation and fleet management. The savings that East Dunbartonshire Council could achieve will be clearer once the councils had developed detailed business plans.

**156.** Following the approval of the strategic business case by the SSJC in March 2017, a consultant has been appointed and a project programme has been issued. For roads and transportation services a detailed business plan is being developed. Opportunities for further sharing of services are currently being scoped.

**157.** Progress was delayed during 2016/17, however since the year end there has been increased activity as noted earlier. The Council should ensure they continue to build on the progress made to realise efficiencies and the benefits of sharing resources.

## Following the public pound

**158.** Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

**159.** The Council's financial regulations contain a specific section on relationships with arms-length external organisations (ALEOs). This emphasises that the Chief Executive and Depute Chief Executives will be responsible for ensuring that any funding relationships with external bodies, other than those which are operated on a contractual basis, are operated in accordance with the Code of Guidance on Funding External Bodies and Following the Public Pound issued by the Accounts Commission, the associated COSLA Operational Guidance, and the Council's own local arrangements for allocating funds to ALEOs.

**160.** The Council allocates funding to only one ALEO, East Dunbartonshire Leisure and Culture Trust Limited, and reporting and monitoring arrangements are in place for the funding provided to this ALEO.

**161.** During 2015/16 we identified that the Council does not have formal arrangements in place to ensure compliance with European Commission State Aid Regulations. We confirmed that the Council is aware of its obligations to ensure compliance with these regulations and is currently working on the development of policy and procedures to support this.

**162.** We concluded that the Council has appropriate arrangements for ensuring compliance with the Code of Guidance on funding external bodies and following the public pound.

**163.** During 2017 Audit Scotland, on behalf of the Accounts Commission for Scotland, has been undertaking a review of ALEOs. This includes consideration of whether councils have sound governance and controls in place, taking into account the Following the Public Pound (FPP) code, and the skills, knowledge and experience of board members. The audit is planned to be reported in Spring 2018.

## Performance management

**164.** We identified that the Council has an established performance management framework that managers and elected members clearly understand, and that this provides a sound base for improvement. The Council's performance information is reported through quarterly How Good Is Our Service (HGIOS) evaluation reviews

and annual Business Improvement Plans (BIPs). These are supported by a Directorate Performance Guide which sets out good practice in performance reporting. HGIOS evaluation reviews are produced for each strategic group within both Council directorates and incorporate progress updates on BIPs. BIPs are three year rolling plans which set out the priorities for each strategic group and identify their contribution to the delivery of the Council's local outcomes. Each BIP includes an improvement action plan (which incorporates a performance scorecard) that highlights how strategic groups will continue to improve performance and how these improvements will be monitored.

**165.** In accordance with the governance and scrutiny arrangements relevant to the Council's Strategic Planning and Performance Framework, scrutiny of directorate performance is undertaken by the relevant strategic committee.

**166.** The council continues to participate in the Local Government Benchmarking Framework (LGBF) which brings together performance indicators for a range of services as well as service costs and customer satisfaction.

## Overview of performance targets

**167.** The Council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

**168.** The most recent [National Benchmarking Overview Report 2015/16](#) by the Improvement Service was published in February 2017 and covered the 2015/16 reporting period. Council officers carried out an analysis of the report immediately after its publication which was issued as a brief technical note to all elected members accompanied by high level statistics. A more detailed analysis of the Improvement Service report was also completed by officers but held over as the Council was in the pre-election phase before the local government elections in May 2017. The detailed analysis and the accompanying Improvement Service report have been considered by the CMT and both were presented to the Policy & Resources Committee in August 2017.

**169.** The overall conclusion from the Council's analysis of the Improvement Service report was that the Council has continued to sustain and improve performance with the majority of all indicators for which data is currently available either remaining static or reporting improvement when compared with the previous year. The Council's rank performance when compared across Scottish councils now reports 44% of the Council's indicators in the top quartile, an improved position from the 2014 /15 reporting period. The number of indicators in the bottom quartile has also decreased from 17% to 13%.

**170.** HGIOS evaluation reviews are presented to the relevant strategic committees and provide a concise and comprehensive review of each strategic group's performance and activity covering the following areas:

- Local delivery story – includes overview of performance
- Prioritised performance indicators (PI) – for each PI highlights the status (On target, 2-5% off target and Off target), quarterly and annual outcomes, annual target and update notes
- Absence management – provides quarterly and annual absence statistics for the strategic service and Council wide
- Progress on BIPs – for each area for improvement highlights the status (On target, 2-5% off target and Off target), progress against target and update notes

- Financial targets – for each main service division provides annual budget, projected annual outturn, variance against budget and narrative where significant variances shown
- Consultation / engagement activity with stakeholders
- Policy and strategy documents published in the period
- Improvement priorities – lists areas requiring improvement, improvement activity and implementation timescales
- Current delivery focus – lists ongoing service priority areas.

171. [Exhibit 10](#) shows a breakdown of annual and quarterly performance reported and the overall status of these indicators for each strategic group within both Council directorates as reported in the HGIOS evaluation reviews for 2016/17.

## Exhibit 10

### Performance information for 2016/17

Directorates	On target	2-5% off target	Off target
Place, Neighbourhood and Corporate Assets			
Comprises the following strategic groups:			
• Assets and Facilities	5	2	2
• Housing	4		7
• Land, Planning and Development	2		3
• Neighbourhood Services	3	1	2
• Place and Community Planning	25		5
• Roads and Transportation	6		
Education, People and Business			
Comprises the following strategic groups:			
• Education	24	2	
• Finance, Audit and Performance	11	4	8
• Legal and Democratic Services	1		5
• Organisational Transformation	7		5
• Customer and Digital Services	17		12
• Integrated Health and Social Care	11	4	4
<b>Total</b>	<b>116</b>	<b>13</b>	<b>53</b>

Source: How Good Is Our Service Reports 2016/17

172. Areas of good or improving performance include:

- 9.62 days were lost to sickness absence on average per employee for all employees (teaching and non-teaching staff) against a target of 10 days
- The average number of days taken to fully process new Housing Benefit claims was 27.2 days against a target of 30 days.

**173.** Areas identified for improvement include:

- Reducing current tenant arrears which were £0.7 million at 31 March 2017 against a target of £0.51 million
- Reviewing the performance of re-letting properties in relation to number of days and standard along with reduction in void target timescales. Average length of time taken to re-let properties in 2016/17 was more than 71 days against a target of 50 days.

**174.** Overall the Council has achieved 64% of performance targets, with a further 7% being within 5% of the target. This is similar to the 2015/16 results.

**175.** The Council is able to demonstrate that it is addressing its strategic priorities as set out in its Local Outcome Improvement Plan (LOIP) 2016-2019 which is linked to the (BIPs) of each Council strategic group which are monitored regularly throughout the year. See paragraph 164 for more detail on BIPs. The Council's performance management arrangements are consistent with good practice.

### Statutory performance indicators (SPIs)

**176.** 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.

**177.** For 2016/17 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.

**178.** Overall we concluded that the Council's arrangements for publication are satisfactory.

### Local performance audit work

**179.** During 2016/17 we carried out a housing benefit (HB) performance audit at the Council. During the risk assessment phase of the audit, carried out in May 2017, we reviewed the Council's benefit service's self-assessment and supporting evidence, and analysed information from a number of other sources. We also met with senior officers to discuss HB performance issues. Our work was focused on the following three key areas:

- national and local priorities
- business planning and reporting
- delivering outcomes.

**180.** Our findings from this work were contained in our risk assessment report which was issued to the Council in June 2017. Our risk assessment noted that the Council had addressed eleven of the twelve risks we had identified in our previous HB performance audit carried out in March 2015, which highlights that the Council has made a very positive contribution to the delivery of the benefit service. This includes consistently and regularly reporting benefit service performance to senior management and members, significantly improving the speed of processing performance and continuing to deliver a high level of performance in the accuracy of claims and the recovery of benefit overpayments.

**181.** Although the Council demonstrates awareness of what constitutes an effective, efficient and secure benefit service, there are three new risks and one risk outstanding from our previous risk assessment. In order to ensure continuous improvement, the Council needs to:

- ensure that there is sufficient resource within the revenues and benefits service to maintain and improve on current speed of processing performance
- report performance across all aspects of the service to senior management and members as part of its reporting framework
- take action to address the reasons for the anomalies in the reporting of accuracy performance.

**182.** The Council responded to our risk assessment report in August 2017 and acknowledged the positive contributions recognised as being made to the delivery of the benefits service as well as the issues highlighted as risks to continuous improvement. The Council has produced an action plan to address the risks identified and this will be progressed in a proportionate and risk aware manner to ensure all key areas are addressed.

### **National performance audit reports**

**183.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which are of direct interest to the Council. These are outlined in [Appendix 3](#).

**184.** The Council has processes in place to ensure that findings from national reports are reported to members alongside an assessment of current arrangements against good practices and the agreement of actions to ensure further improvements.



# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
11	<p><b>1. Capital expenditure</b></p> <p>Audit testing and Council finance officers identified a number of items of capital expenditure totalling £0.662 million that had been incorrectly posted to the 2017/18 financial year when this expenditure should have been accrued into the 2016/17 financial year.</p> <p><b>Risk</b></p> <p>The 2017/18 annual accounts do not reflect actual expenditure and may be materially misstated.</p>	<p>The Council should remind all officers of the procedures to be followed at the financial year end in relation to accruing expenditure to the financial year in which the expenditure was incurred.</p>	<p>The Chief Finance Officer has met with Departmental Management Teams to discuss year-end financial procedures including management accruals. In line with finance business partner roles Principal Accountants will continue to meet with Strategic Leads to deliver training and support. In addition, the Finance Team will provide a year-end report to assist with the identification of accruals.</p> <p>Chief Finance Officer March 2018</p>
23	<p><b>2. Long-term financial plan</b></p> <p>The Council has yet to issue a long-term financial plan which identifies potential risks and ensures spending decisions are affordable. Such a plan should include a range of scenarios to ensure the Council is prepared for different levels of funding and income.</p> <p><b>Risk</b></p> <p>The Council is not planning adequately over the medium to long term to manage or respond to significant financial risks.</p>	<p>Although the Council has a medium-term financial plan that includes scenario planning, the Council should consider expanding this approach and develop a longer-term financial strategy.</p>	<p>The Council is in the process of developing a Long Term Financial Risk Management Strategy to act as the long term plan. This has been included in the Strategic Planning and Performance Framework as a future action and is scheduled for completion to support the budget process.</p> <p>Chief Finance Officer November 2017</p>
23/24	<p><b>3. Efficiency savings</b></p> <p>Although the Council has a detailed savings plan for 2017/18, each savings proposal has not been risk assessed, i.e. assessed to estimate the risk of not</p>	<p>The Council should ensure each savings proposal for 2017/18 is risk assessed and also develop risk assessed detailed savings plans to address future years funding gaps.</p>	<p>Business cases for all proposed transformation projects include specific consideration of risk which form part of the elected member briefing packs distributed to members as</p>



Page no.	Issue/risk	Recommendation	Agreed management action/timing
	<p>achieving the saving. In addition, detailed saving proposals for future years have yet to be developed.</p> <p><b>Risk</b></p> <p>The Council does not achieve its efficiency savings target leading to increased use of contingency reserves and increases the level of efficiency savings required in future years.</p>		<p>part of the budget proposals. Such considerations will include the potential for savings not to be achieved. In addition, the finance team maintain a financial risk register which will continue to be reviewed as part of the budget setting process and includes consideration of non-delivery of savings options.</p> <p>The transformation programme includes projects that span a number of financial years with these being developed to support budget setting processes in future years.</p> <p>Strategic Lead, Organisational Transformation</p> <p>Chief Finance Officer</p> <p>February 2018</p>
25	<p><b>4. Transformation programme</b></p> <p>The programme update reports to members do not provide a comparison between the estimated savings included in the programme for each project and the actual savings achieved. Other non-financial benefits are also not reported.</p> <p><b>Risk</b></p> <p>Members are not provided with assurance that the projects realise the planned benefits.</p>	<p>The transformation programme update reports and the revenue budget monitoring reports should be explicitly linked and include details of the benefits achieved.</p>	<p>The Council will continue to work to improve the clarity of these reports having recently updated the format of its revenue monitoring and transformation reports. The Council will continue to support elected members through other means such as briefings, technical notes and training but recognise that, whilst significant improvements have been made to date, this is an iterative process. The Audit &amp; Risk Management Committee has identified this as an ongoing area of elected member focus, to ensure that developments support elected member scrutiny.</p> <p>Strategic Lead, Organisational Transformation</p> <p>Chief Finance Officer</p> <p>June 2018</p>



**Page  
no.**

**Issue/risk**

**Recommendation**

**Agreed management  
action/timing**

27	<p><b>5. Workforce improvement plan</b></p> <p>A four phase plan is being developed. Progress is to be reported to members.</p> <p><b>Risk</b></p> <p>The progress report does not include clear actions to drive achievement of the plan.</p>	<p>The December 2017 progress report to members should include milestones and target dates for each of the four phases of the plan.</p>	<p>The Council will continue to work to improve the clarity of actions to deliver the various phases within its workforce strategy. The Council will develop a longer term workforce plan which will be reflective of risks and the Council's planned response. This will be in a similar format to the Long Term Financial Risk Management Strategy.</p> <p>Strategic Lead, Organisational Transformation</p> <p>Chief Finance Officer</p> <p>June 2018</p>
30/31	<p><b>6. Reports to members</b></p> <p>A new template for reports to members is being implemented.</p> <p><b>Risk</b></p> <p>The format and content of reports to members does not support them in fulfilling their responsibilities on taking decisions and scrutiny of performance.</p>	<p>After a period of time, the Council should request feedback from members on the effectiveness of the new report format, level of detail and use of plain English.</p>	<p>The new template will be accompanied by an information pack for officers and a technical note for members. We will review the impact/effectiveness of the new template and approach after three complete committee cycles which would enable any further refinement to be implemented by the end of the financial year. In addition, training will be delivered to officers on effective report writing.</p> <p>Chief Solicitor &amp; Monitoring Officer</p> <p>June 2018</p>
32	<p><b>7. Registers of interest</b></p> <p>There is currently no requirement for senior officers to complete a register of interest.</p> <p><b>Risk</b></p> <p>Officers' interests and those of their close family are not adequately disclosed to enable potential conflicts to be identified and managed.</p>	<p>Senior officers should complete registers of interest at least annually and consideration should be given to extending this to other staff as appropriate.</p>	<p>The Council acknowledges that this would be a useful exercise to support transparency and will progress this action.</p> <p>Chief Solicitor &amp; Monitoring Officer</p> <p>April 2018</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 opinion on the financial statements.

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. 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.</p>	<p>Detailed testing of journal entries.</p> <p>Reviewed significant management estimates and evaluated the impact of any variability in key assumptions.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluated significant transactions that were outside the normal course of business.</p>	<p>We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>We did not identify any incidents of management override of controls.</p>
<p><b>2 Risk of fraud over income</b></p> <p>The extent and complexity of the council's income streams entails an inherent risk of fraud. ISA 240 requires that audit work is planned to consider the risk of fraud over income, which is presumed to be a significant risk in any audit.</p>	<p>Performed analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions which focused on the areas of greatest risk.</p>	<p>We undertook detailed testing of income streams.</p> <p>No frauds were identified.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants. East Dunbartonshire Trust Funds also make grant payments.</p>	<p>Reviewed work on the follow up of National Fraud Initiative (NFI) matches.</p> <p>Performed walk-through testing of controls over social care payments.</p> <p>Assessed the overarching controls in grant schemes.</p> <p>Detailed testing of expenditure and housing benefit transactions.</p>	<p>We concluded that the Council is proactive in following up NFI matches.</p> <p>No significant issues were identified from our testing of the social care payments disclosed in the 2016/17 financial statements.</p> <p>No control weaknesses were identified in relation to grant schemes.</p> <p>No significant issues were identified from our testing of expenditure and housing benefit transactions disclosed in the</p>

Audit risk	Assurance procedure	Results and conclusions
2016/17 financial statements.		
<p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of pension assets and liabilities. The valuation of pension fund assets and liabilities is assessed by professional actuaries each year and is dependent on a number of external variables.</p>	<p>Reviewed of the work of the actuary.</p> <p>Reviewed the appropriateness of actuarial assumptions.</p> <p>Confirmed pension valuations in actuarial report are correctly reflected within the 2016/17 accounts.</p>	<p>We reviewed the work of the actuary and assessed the appropriateness of the actuarial assumptions.</p> <p>We confirmed that the pension valuations provided by the actuary are correctly reflected in the 2016/17 financial statements.</p> <p>No material misstatements were identified.</p>
<p><b>5 Payments to social care providers</b></p> <p>Existing controls relating to Carefirst system payments to private care providers need to be further enhanced to ensure payments are made only for care provided. There is a risk that payments may be made to care providers which do not reflect the level of care provided to individuals.</p>	<p>Placed reliance and reviewed the work of Internal Audit sampling Carefirst system payments at the year end.</p> <p>Reviewed Internal Audit reports providing an update on the work of the Social Work Payments Review team.</p>	<p>No significant issues were identified by Internal Audit in relation to social care payments.</p>
<p><b>6 Audit &amp; Risk Manager Vacancy</b></p> <p>There has been no Audit &amp; Risk Manager in post since August 2016. Given that the Audit &amp; Risk Manager provides the Council with an annual opinion on the effectiveness of the council's governance framework, there is a risk that the S95 officer will be unable to obtain the required assurances on the effectiveness of the governance framework in place during 2016/17.</p>	<p>Reviewed the annual governance statement as part of the audit of the 2016/17 financial statements and the assurances obtained by the council to inform the completion of the annual governance statement.</p> <p>Monitored progress of internal audit work completed against the 2016/17 plan.</p>	<p>No significant issues were identified from our review of the annual governance statement contained within the 2016/17 financial statements.</p> <p>The 2016/17 Annual Internal Audit Report highlights that 70% of planned outputs were achieved in the year and was due to the delay in appointing an Audit &amp; Risk Manager. An interim appointment was made in June 2017 and a permanent Audit &amp; Risk Manager took up post in August 2017.</p>
<p><b>7 Financial capacity</b></p> <p>As a result of staff turnover within the finance section, there is a risk that the Council fail to deliver unaudited financial statements and a comprehensive working paper package within agreed timescales.</p>	<p>Meetings were held with finance staff throughout the preparation of the financial statements preparation and thereafter throughout the course of the audit.</p> <p>Issued a working paper checklist to finance staff to outline requirements and agreed timescales for the receipt of unaudited accounts and working papers.</p>	<p>Regular meetings with finance officers took place throughout the year. Weekly meetings were held during the financial statements audit.</p> <p>A working paper checklist was issued to finance officers early in 2017 outlining financial statements working paper requirements.</p> <p>The unaudited financial statements were provided to external audit on 22 June 2017. Working papers were also delivered within agreed timescales.</p>

Audit risk	Assurance procedure	Results and conclusions
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>8 Financial sustainability</b></p> <p>The Council is facing a significant challenge in bridging a funding gap of £11.3 million in 2017/18 and almost £33 million in the three years to 2019/20. The Council may not be able to generate sufficient efficiencies and cost savings from its transformation programme to bridge the funding gap.</p>	<p>Monitored the Council's financial position by reviewing the revenue budget monitoring reports presented to Policy and Resources Committee and through meetings with officers.</p> <p>Reviewed the Council's progress towards delivering efficiency savings.</p>	<p>The audit team regularly attended Council committee meetings and reviewed all capital and revenue budget papers and monitoring reports.</p> <p>We noted that the Council did not achieve the target level of efficiency savings required in 2016/17 which will increase the level of efficiency savings the Council will need to make in 2017/18.</p>
<p><b>9 Financial management</b></p> <p>The previous auditor reported persistent under and overspends against budgets in 2015/16, and highlighted that improvements to budgets were required. There is a risk that the Council will be unable to meet its budgeted expenditure if sound budgets have not been set for 2016/17.</p>	<p>Monitored revenue and capital expenditure through review of financial monitoring reports presented to the Policy and Resources Committee.</p>	<p>The audit team regularly attended Council committee meetings and reviewed all capital and revenue budget papers and monitoring reports.</p> <p>We concluded that financial management arrangements are adequate. We also concluded that the Council's financial position is sustainable currently although rising demand for and costs of services will continue to place a strain on the Council's capacity to deliver services at the current levels.</p>
<p><b>10 Best Value follow-up</b></p> <p>The Controller of Audit will monitor progress against the findings and improvement areas identified in his December 2016 follow-up report through the annual audit process.</p> <p>There is a risk that the Council is unable to demonstrate that action has been taken to address the findings and improvement areas identified.</p>	<p>Followed up the Council's progress in relation to the Best Value findings and provided an update in our 2016/17 Annual Audit Report.</p>	<p>Our Best Value follow up work is included in this report. See paragraph 146.</p>
<p><b>11 Impact of May 2017 local government elections</b></p> <p>The 2017 local government elections will result in changes to Council membership. There is a risk of a loss of skills and experience amongst members. To ensure members understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny,</p>	<p>Reviewed the Council's induction and training arrangements for councillors following the elections.</p> <p>Assessed the effectiveness of decision making and scrutiny arrangements as part of ongoing Best Value audit work.</p>	<p>We concluded that the Council's induction and training arrangements for councillors are adequate.</p> <p>Our Best Value follow up work is included in this report. See paragraph 146.</p>





















<b>Audit risk</b>	<b>Assurance procedure</b>	<b>Results and conclusions</b>
development and training will be required.		

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# Appendix 3

## Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

### Local government relevant reports

[South Ayrshire Council: Best Value audit report](#) – June 2016

[The National Fraud Initiative in Scotland](#) – June 2016

[Maintaining Scotland's roads: a follow-up report](#) – August 2016

[Social work in Scotland](#) – September 2016

[Angus Council: Best Value audit report](#) – October 2016

[How councils work – Roles and working relationships in councils](#) – November 2016

[Local Government in Scotland: Financial overview 2015/16](#) – November 2016

[Falkirk Council: Best Value audit report](#) – December 2016

[East Dunbartonshire Council: Best Value audit report](#) – December 2016

[Local Government in Scotland: Performance and challenges 2017](#) – March 2017

# East Dunbartonshire Council

## 2016/17 Annual Audit Report

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**MEETING: 9 NOVEMBER 2017**

**REPORT BY: SECRETARY TO THE COMMISSION**

**BEST VALUE ASSURANCE REPORT: WEST LoTHIAN COUNCIL**

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### **Purpose**

1. The purpose of this paper is to introduce for the Commission's consideration the Controller of Audit's Best Value Assurance Report for West Lothian Council.

### **Background**

2. The attached Best Value Assurance Report is the fourth report presented to the Commission under the new approach for auditing Best Value. A key objective of the new approach is to allow the Commission to provide more regular assurance to the public about how councils are performing in relation to their Best Value statutory duties.
3. It is intended that this will be achieved by the Controller of Audit submitting a Best Value Assurance Report on each council at least once during the five-year audit appointment and also by Best Value being reported in annual audit reports.
4. The Controller of Audit's report refers to the conclusions and recommendations in the appointed auditor's 2016/17 Annual Audit Report. This is also attached.

### **The Controller of Audit report**

5. The Best Value Assurance Report is made by the Controller of Audit to the Commission under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).
6. The legislation enables the Controller of Audit to make reports to the Commission with respect to:
  - the accounts of local authorities audited under the Act;
  - any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public; and
  - the performance by a local authority of their statutory duties in relation to best value and community planning.
7. A copy of the report is being sent to the Council, which is obliged to supply a copy to each elected member of the Council and to make additional copies available for public inspection. Once the Controller of Audit's report is sent to the Council it is effectively in the public domain.
8. The report concludes with a series of recommendations proposed by the Controller of Audit which are to be part of the Commission's considerations.

### **Procedure**

9. The legislation provides that, on receipt of a Controller of Audit report, the Commission may do, in any order, all or any of the following, or none of them:

- direct the Controller of Audit to carry out further investigations
  - hold a hearing
  - state its findings.
10. Findings may include recommendations and the persons to whom those recommendations may be made include Scottish Ministers, who have powers to make an enforcement direction requiring an authority to take such action as is specified in the direction.
  11. Members of the audit team will be present at the Commission's meeting and will be available to answer questions on the evidence and judgements presented in the report. This is done in the public part of the Commission meeting.
  12. The Commission is then expected to consider in private how it wishes to proceed. Subsequently, the Commission is obliged by statute to inform the council of its decision, which the Commission does before making the decision public.

### **Conclusion**

10. The Commission is invited to:
  - a) consider the Controller of Audit's Best Value Assurance Report on West Lothian Council; and
  - b) decide in private how it wishes to proceed.

**Paul Reilly**  
**Secretary to the Commission**  
**31 October 2017**

**Best Value Assurance Report**

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# **West Lothian Council**



Prepared for the Accounts Commission by the Controller of Audit  
November 2017

# The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: [www.audit-scotland.gov.uk/about-us/accounts-commission](http://www.audit-scotland.gov.uk/about-us/accounts-commission)

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

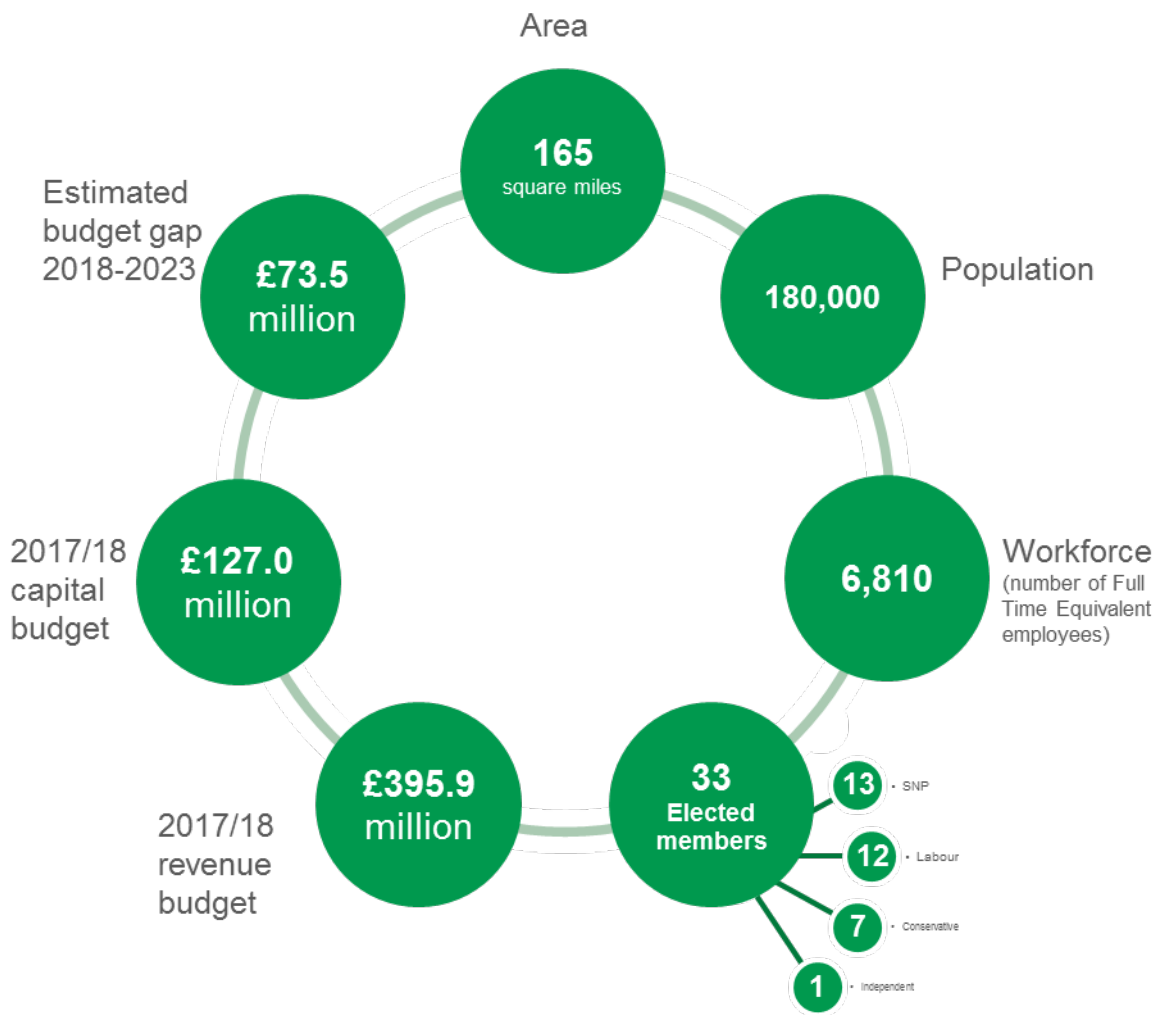
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# Contents

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Key facts	4
Audit approach	5
Key messages	8
Part 1 Does the council have clear strategic direction?	9
Part 2 How well is the council performing?	19
Part 3 Is the council using its resources effectively?	25
Part 4 Is the council working well with its partners?	33
Part 5. Is the council demonstrating continuous improvement?	39
Recommendations	45
Appendix 1 Best Value audit timeline	47

# Key facts



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# Audit approach

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1. The statutory duty of Best Value was introduced in the Local Government Scotland Act 2003. The audit of Best Value is a continuous process that forms part of the annual audit of every council. Findings are reported each year through the Annual Audit Report. In addition, the Controller of Audit will present a Best Value Assurance Report (BVAR) to the Accounts Commission at least once during the five year audit appointment for each council. This is the first BVAR on West Lothian Council under the revised arrangements. [Appendix 1](#) summarises the findings from the previous Best Value report on the council.
2. This report seeks to provide the Accounts Commission with assurance on the council's statutory duty to deliver Best Value, with a particular focus on the Commission's Strategic Audit Priorities covering:

  - the clarity of council priorities and quality of long-term planning to achieve these
  - how effectively councils are evaluating and implementing options for significant changes in delivering services
  - how effectively councils are ensuring that members and officers have the right knowledge, skills and time to lead and manage delivery of council priorities
  - how effectively councils are involving citizens in decisions about services
  - the quality of council performance reporting to help citizens gauge improvement.
3. We are looking for councils to demonstrate Best Value by showing continuous improvement in how they deliver their priorities. The pace, depth and continuity of improvement is key to how well councils meet their priorities in the future. Throughout the report we show how we have assessed the council's improvement over time and conclusions are reflected in the key messages in the report.
4. Our audit approach is proportionate and risk based: it reflects the context, risks and performance of the individual council. It also draws on the intelligence from audit and scrutiny work carried out in previous years. In keeping with this approach we carried out some initial work to define the scope of our audit. This included reviewing previous audit and inspection reports, intelligence, council documents, initial meetings with senior officers and reflecting on our wider public sector knowledge and experience. [Exhibit 1](#) shows the key areas we focussed on for our audit of West Lothian Council.

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## Exhibit 1

### Key areas of focus for our audit



The council's vision and priorities



Community and citizen engagement so that people have their voices heard in how services are planned and provided



Performance and outcomes



Financial management and financial planning



Resource management, including workforce planning



Arm's-length external organisations' (ALEOs') governance arrangements and working with partner organisations



Performance management, including the process and results of self-evaluation

Source: Audit Scotland

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5. The detailed audit work for this report was undertaken between May and August 2017. Our audit work included:
  - interviews with elected members and senior officers
  - observing a range of council and committee meetings and performance development and scrutiny panels (PDSPs)
  - document review
  - a review of relevant national and local sources and council performance data.
6. Our audit work was carried out by a joint team from Audit Scotland's Performance Audit and Best Value Business Group and the appointed auditor, in this instance Ernst & Young LLP, alongside the 2016/17 annual audit work. [The 2016/17 Annual Audit Report of West Lothian Council](#), published in September 2017, will be available on Audit Scotland's website from December 2017. Where appropriate, relevant findings are included in both the annual audit report and this Best Value Assurance Report.
7. This report reflects the work done on the key areas of focus noted above. The work covers a number of Best Value characteristics included in the statutory guidance (2004) but it does not cover them all. Audit work in future years, performed as part of the annual audit, will include a follow-up on the findings from this report as well as more detailed audit work on other Best Value



characteristics as appropriate. The results of this future work will be reported within subsequent annual audit reports by the appointed auditor.

8. We gratefully acknowledge the cooperation and assistance provided to the audit team by all elected members and officers contacted during the audit.

# Key messages

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- 1.** The council has a clear vision ‘to improve the quality of life for the people of West Lothian’. This vision is shared by its partners and informed by local people through public consultation and ongoing engagement. The council has set clear priorities to support achieving this vision. The Executive Management Team (EMT) provides strong leadership to the council and there are good working relationships between councillors and officers. The council is currently refreshing its corporate plan, and has shown an awareness of the challenges it faces.
- 2.** Since the 2005 Best Value report, the council has continued to demonstrate a number of strengths. Outcomes for local people are improving and the council continues to perform well when compared to others. It has effective processes to manage performance, a clear commitment to continuous improvement and a well developed self-evaluation process. However, some areas for improvement identified in 2005 still remain.
- 3.** There is scope to improve how the council monitors and reports what it does to improve outcomes for local people. By better articulating, monitoring and reporting how key performance indicators link to its priorities, the council will better be able to show if, and how, its actions have made a positive difference to the lives of people in West Lothian.
- 4.** The council has been managing its finances effectively. However over the next five years it needs to address a significant budget gap of £73.5 million. Officers are currently identifying savings proposals and carrying out a public consultation as the council refreshes its financial strategy to align with the next five-year corporate plan. Councillors were not involved in determining priorities until the public consultation was issued in mid-October, four months before they need to agree the budget. Earlier involvement by councillors in identifying priorities sooner would have reduced the risk to the council of failing to deliver the savings in the required timescales, particularly in 2018/19.
- 5.** The council is committed to involving local people in identifying priorities and determining how services are delivered in their area. It works well with partners to deliver services in a joined-up way. The council needs to develop new approaches to delivering services so that it can successfully deliver the savings required and it is important that it continues to work with local people while it does this. It needs to build on this to deliver the requirements of the Community Empowerment Act.
- 6.** The council has introduced new governance and scrutiny arrangements since the last Best Value report, including new committees and Policy Development and Scrutiny Panels (PDSPs). While the PDSPs provide opportunity for councillors to scrutinise policy development and its impact on services, the council’s overall arrangements are less effective, in practice, in supporting scrutiny of council-wide performance. In addition, the formal committee structure provides limited opportunity for councillors from outside the decision-making structure to scrutinise council-wide performance. Councillors need to play a more active role in committees and PDSPs to provide effective scrutiny. The council also needs to assure itself that governance arrangements for its leisure trust are appropriate.

# Part 1

## Does the council have clear strategic direction?



### The council is aware of the challenges facing West Lothian and has shown commitment, along with partners, to a clearly defined vision for the area

The council has a clear vision of improving ‘the quality of life for the people of West Lothian’ and has set clear priorities of how they hope to achieve this.

The council has shown a commitment to public consultation and involving local people in how council services are delivered, and to engaging with local people to identify priorities during the current refresh of the corporate plan.

There are good working relationships between officers and councillors. But councillors need to play a more active role in committees and scrutiny panels to ensure policies, plans and services are effectively scrutinised.

### The council set a clear, ambitious vision for the area that is shared by community planning partners

9. West Lothian Council’s Corporate Plan (2013-2017) set out a clear, ambitious strategic direction for the council, centred on “Delivering Better Outcomes” for the people, families and communities of West Lothian. There is evidence of the council responding to the specific challenges it faces, and aligning its vision for the area to local needs, through its corporate planning process.
10. The corporate plan also fed into the refresh of the West Lothian Community Planning Partnership’s Single Outcome Agreement (SOA), an agreement between the Community Planning Partnership (CPP) and the Scottish Government setting out local improvements and priorities. The CPP includes the council and partners such as the police, NHS and fire service as well as third sector organisations. In the 2014 audit of West Lothian CPP, the Accounts Commission found that the partners worked well together. It also found that councillors are actively engaged with the CPP and that the CPP had agreed an ambitious vision for the area.
11. The CPP SOA has been carried forward as the new Local Outcomes Improvement Plan that CPPs must now produce. This runs until 2023. The involvement of all the CPP partners in setting the priorities ensures that the CPP’s vision compliments that of the council.

The council’s aim is “to improve the quality of life for people in West Lothian”

Source: Delivering Better Outcomes, West Lothian Corporate Plan 2013-17

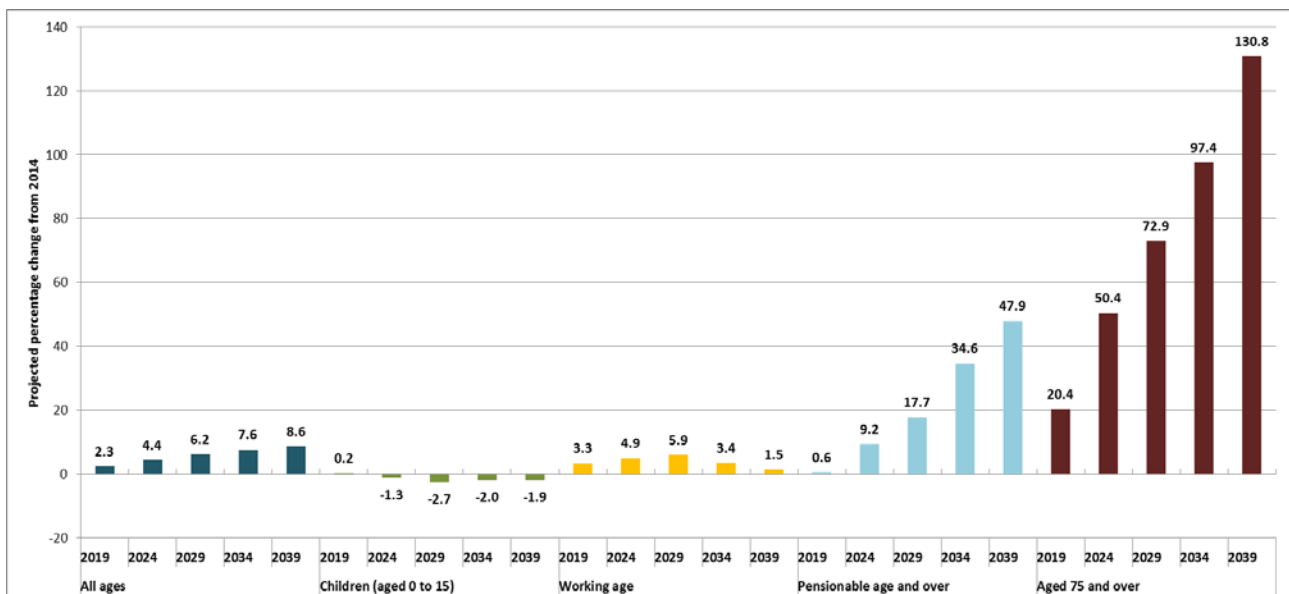
## West Lothian faces a number of challenges including an ageing population

12. West Lothian is located in the central belt of Scotland, between Glasgow and Edinburgh. Two-thirds of the area is mainly agricultural land with the population centred on towns such as Livingston, Bathgate and Linlithgow. There are good transport links between these population centres and major rail and road links to the nearby cities.
13. The economy of West Lothian has changed significantly in the last two decades. The public sector remains a significant employer but there has been movement from more traditional manufacturing to high technology industries and research and development, as well as growth in the retail and service sectors. Average earnings are below the national average despite these changes, but employment rates are higher and deprivation levels are lower in West Lothian than for Scotland as a whole.
14. West Lothian has one of the youngest and fastest growing populations in the country, with a high proportion of children living in the area. Between 2006 and 2016, the population increased by 7.8 per cent compared to the national increase of 5.3 per cent and, in 2016, almost 20 per cent of the population were aged 0 to 15 (compared to around 17 per cent of the Scottish population).
15. West Lothian also currently has a smaller proportion of older residents than Scotland as a whole. However, the most marked demographic increase over the next few years relates to the number of older people living in West Lothian. Between 2014 and 2039 it is projected that the population of West Lothian as a whole will increase by around 8.6 per cent, compared to growth of 6.6 per cent for Scotland. Growth in West Lothian will be focused on older sections of the population, and the area has the highest projected rates of increase in people over pensionable age and those over 75. It is projected that the number of people aged over 75 will increase by 130.8 per cent compared to an overall increase of 85.4 per cent across Scotland ([Exhibit 2](#)).

### Exhibit 2

#### Projected population changes in West Lothian by age group until 2039

Reductions in the number of children, combined with fluctuations in the working age population, mean that the projected growth in West Lothian's population will come from increases in the number of older residents.



## **The corporate plan is supported by a range of strategies and plans but it is not always clear how these contribute to the council delivering its vision**

16. The corporate plan has eight priorities, supported by three themes, for achieving the outcomes that it has set out ([Exhibit 3](#)). It sets out nine workstreams designed to enable the council to deliver services in ways that will achieve the outcomes. The council's planning framework focuses on the link between the priorities, themes and workstreams at a high level. The council has a range of supporting strategies, annual service management plans and area strategies to implement the corporate plan. These set out a range of outcomes to be achieved and what actions will be taken to achieve them. Despite clear links to outcomes and attempts to reduce the number of supporting strategies and plans, this is still a complex planning framework and it is difficult to clearly identify the role of each one in achieving the council's overall vision.
17. The council and its partners have a clear understanding of the local needs and have successfully aligned their vision to priorities. Actions and performance indicators are linked to national data sources, including the Improvement Service's Local Government Benchmarking Framework (LGBF) and the national performance framework, or to data from local sources and responses to consultations. However the council could more explicitly set out the way that the performance indicators within the service management plans link with the strategies.
18. Through the CPP, the council and its partners are working toward a single vision for West Lothian. The CPP has been developing its approach to planning at a more local level. The council has access to this planning information to begin identifying specific issues at a more local level and highlighting how its vision and priorities address these issues.

## **The vision is clearly communicated to staff and staff opinion is regularly sought through annual surveys**

19. There are clear links between the corporate plan and management and service plans. This has helped the council to clearly explain its corporate priorities to staff. Throughout our audit work we saw evidence of this vision being communicated to staff at all levels. The Executive Management Team (EMT) meets regularly and engages effectively with the heads of services and with elected members.
20. Staff at all levels are briefed as plans and strategies are produced. A series of annual events, led by the Chief Executive and the EMT, are held to ensure that staff understand the council vision and that it is central to the culture in the council. If the council has significant proposals that impact on individual services, it organises specific events to inform and consult with employees.
21. The council undertakes an annual staff survey, with 19 questions covering seven categories linked to specific performance indicators. In 2017 it sent the survey to all council staff, over 8,000 individuals, and 57 per cent responded. Previously it was sent to a sample of 40 per cent of staff. Each year since 2013 around half of the recipients have responded. Overall results are reported to all staff and detailed feedback is provided to each head of service and followed up where results raise concerns. When asked about leadership and management in 2017, around 70 per cent of respondents replied positively. This is similar to previous surveys.

## Exhibit 3

### West Lothian Council's vision and priorities

The documentation supporting the council's vision is complex and this makes it difficult to identify the role of each in achieving the council's overall vision.

#### Council Plan 2013-2017 vision: to improve the quality of life for people in West Lothian

##### West Lothian Council's eight corporate priorities:



- Delivering positive outcomes and early interventions for early years
- Improving the employment position in West Lothian
- Improving attainment and positive destinations for school children
- Improving the quality of life for older people
- Minimising poverty, the cycle of deprivation and promoting equality
- Reducing crime and improving community safety
- Delivering positive outcomes on health
- Protecting the built and natural environment

##### Three themes were identified to support effective delivery of these priorities:



- Financial planning
- Corporate governance and risk
- Modernisation and improvement

##### Delivery is supported by 21 strategies (developed by the council and partners to achieve a particular outcome, or outcomes)



##### Council strategies

- Asset Management Strategy
- Corporate Procurement Strategy
- Attainment Strategy
- Information Strategy
- People Strategy
- Customer Service Strategy
- Improvement Strategy
- Revenue Budget Strategy
- Audit, Risk and Counter Fraud Strategy
- ICT strategy
- Capital Strategy



##### Area strategies

- Anti-Poverty Strategy
- Climate Change Strategy
- Community Safety Strategy
- Economic Strategy
- Health Improvement Health Inequalities Alliance Action Plan
- Joint Commissioning Strategy
- Local Transport Strategy
- Open Space Strategy
- Reshaping Care for Older People Strategy
- West Lothian Local Development Plan

##### Seven annual management plans

(developed by each council service to set out the key activities and outcomes that services will work to achieve in the year and the required resources)



- Education Services
- Planning, Economic Development and Regeneration Services
- Corporate Services
- Housing, Customer and Building Services
- Operational Services
- Social Policy Services
- Finance and Property Services

Source: Audit Scotland and West Lothian Council

## Public consultations form an important part of the council's corporate planning process

22. The corporate plan makes clear reference to the public consultations the council has undertaken to identify what matters to the people of West Lothian and how it works with its partners.

- 23.** The council has carried out two large-scale public consultations in the current corporate planning period. The first in 2012, Delivering Better Outcomes, asked local people their views on the relative importance of the council's proposed priorities, with opportunities for people to make their own proposals. Local people were asked to consider different ways of delivering services so the council could achieve its priorities and balance its budget. The council got around 3,000 responses and 17,000 comments. It carried out a second consultation, primarily focused on budget choices, in 2014. This received around 3,500 responses and 40,000 comments.
- 24.** Summaries of the responses to both consultations were reported to elected members prior to them approving the corporate plan and annual budgets. The responses and how they would be taken forward were also made publicly available, so respondents could see how the council had addressed their comments. The ranking of priorities in the corporate plan is in line with the ranking identified through the 2012 consultation. Communities were generally supportive of the council's proposals on priorities, delivery options and budget measures. In developing the council's Corporate Plan and supporting financial strategy for the period 2018/19 to 2022/23, the council undertook a further large scale four-week consultation in October and November 2017.
- 25.** The council also carries out ongoing engagement and consultation. Consultations on specific themes, including health and social care, licensing, and housing are carried out via online surveys, public meetings, postal surveys and focus groups. Actions that the council has taken subsequently are published in the 'You Said/We Did' section of the council website to demonstrate the impact local people can have on council services.
- 26.** The CPP asked the West Lothian Citizens' Panel to complete a Quality of Life Survey approximately every three years up until 2013. The results, and the CPP's actions in response, were detailed in the Community Panel Newsletter. The panel is made up of over 3,000 residents and is broadly representative of the West Lothian population. In 2013, 57 per cent of panel members responded to the survey and 88 per cent of them were satisfied or very satisfied with West Lothian as a place to live. The CPP is currently carrying out an online quality of life survey that is open to all residents of West Lothian. The council uses this survey data in its planning.
- 27.** The council has nine Local Area Committees (LACs), one for each electoral ward, and all councillors from that area are members. Each committee discusses local issues and scrutinises the local impact of council policies. They regularly engage with local community groups who are invited to attend the LAC. The committees also award small community grants, and receive ward specific reports from council services and partner organisations who attend the committee.

**There are good examples of how the council has involved local people in planning and improving its services but it will need to do more to empower communities**

- 28.** Since 2011 the council has operated a Citizen Led Inspection programme (CLI) where members of the community are invited to directly observe and inspect council services and assess whether they meet local needs. Inspectors assess services against seven key criteria and each is graded on a five point range, from unsatisfactory to excellent. This led to suggested improvements in how services could:
- better meet customer needs and preferences
  - streamline internal systems and processes
  - publish information customers will find useful.



- 29.** Between 2011 and 2015, eight CLIs were carried out before the council paused the programme to learn lessons and design a new programme that will cover up to 2018. The assessment of the initial programme found that while it led to useful recommendations, the level of commitment required from both the inspectors and council services could be prohibitive. This, in turn, may exclude sections of the community from becoming involved.
- 30.** This led to the council designing a refreshed programme that acknowledges CLIs can be used in different ways depending on the conditions and complexity of the service area being inspected. As well as the original 'full' CLI, now branded 'Customer Inspection', it introduced two new, more targeted, options ([Exhibit 4](#)).
- 31.** The last full CLI was undertaken in November 2014 and a pilot of the lighter 'Customer Look-See' inspection was carried out in September 2015. In 2017 two of the new CLI 'Customer Experience: Look-See' have been undertaken. These looked at the council's Customer Information Services, which deals with customer enquiries, and the council's cemetery services. A full CLI of Business Gateway, which provides economic development services within West Lothian, is currently underway.

## Exhibit 4

### Citizen Led Inspections

West Lothian Council has designed three options for Citizen Led Inspections.

Type of Inspection	Focus:	Carried out:
Customer Experience: Look-See	Customers visit council services and assess offerings	When service areas have been changed or there is a performance issue
Customer Inspection	Customers independently assess and evaluate services	On a planned programme of activity, agreed through consultation with inspectors, and focussed on services with high levels of customer interaction
Customer Re-design: Customer Journey	Customer will work with services undergoing service redesign to ensure customer views are considered	On a programme, but also where intervention is identified (due to service redesign or performance issues)

Source: West Lothian Council

- 32.** The council has made efforts to empower local communities by involving them in decisions about how services are best delivered, through consultations, the Citizen's Panel and CLIs. Local communities have also taken on responsibility for the activity schedules at local community centres ([Case Study 1](#)).
- 33.** The Community Empowerment Act places significant expectations on public bodies, and the council must build on its experience in consulting with its residents and communities as it takes forward the task of redesigning its services for the future. The council is currently investigating the transfer of assets such as buildings or land, to local community groups, with one proposal being taken forward so far. This has resulted in Craigsfarm in Livingston being transferred to community ownership. The farm is currently being redeveloped for community use, having secured £1.25 million of third party funding, and work is expected to be completed in Spring 2018. The council has received a further five applications for assets to be transferred to community ownership. Two are currently live and being progressed, one was withdrawn by the group



making the application and one was not considered to be a valid application. The group that have made the other application are currently considering whether to provide additional information or to withdraw the application.

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## Case Study 1: The council is involving local communities in deciding how they use community centres.

Within West Lothian, council community centres are run in partnership with management committees formed of local people. Thirty seven local management committees are responsible for developing the programme of activities delivered at community centres within their areas to meet local needs.

The management committees rent the centres from the council and decide upon the letting fees and policies for each centre. They can use income they generate and can redecorate and furnish the centres to meet their needs. The council retains ownership of the centre and pays for utilities and centre staff, an arrangement that has been cost neutral for the council in that it has not cost more than if the council ran the centres in a more traditional manner.

The council is currently progressing partnership agreements with each management committee to ensure that, although priorities and programmes are set by the committee to meet local needs, activities are aligned to council priorities.

Source: Audit Scotland and West Lothian Council

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## The council has appropriate governance arrangements to conduct its business but there is scope to strengthen some of them

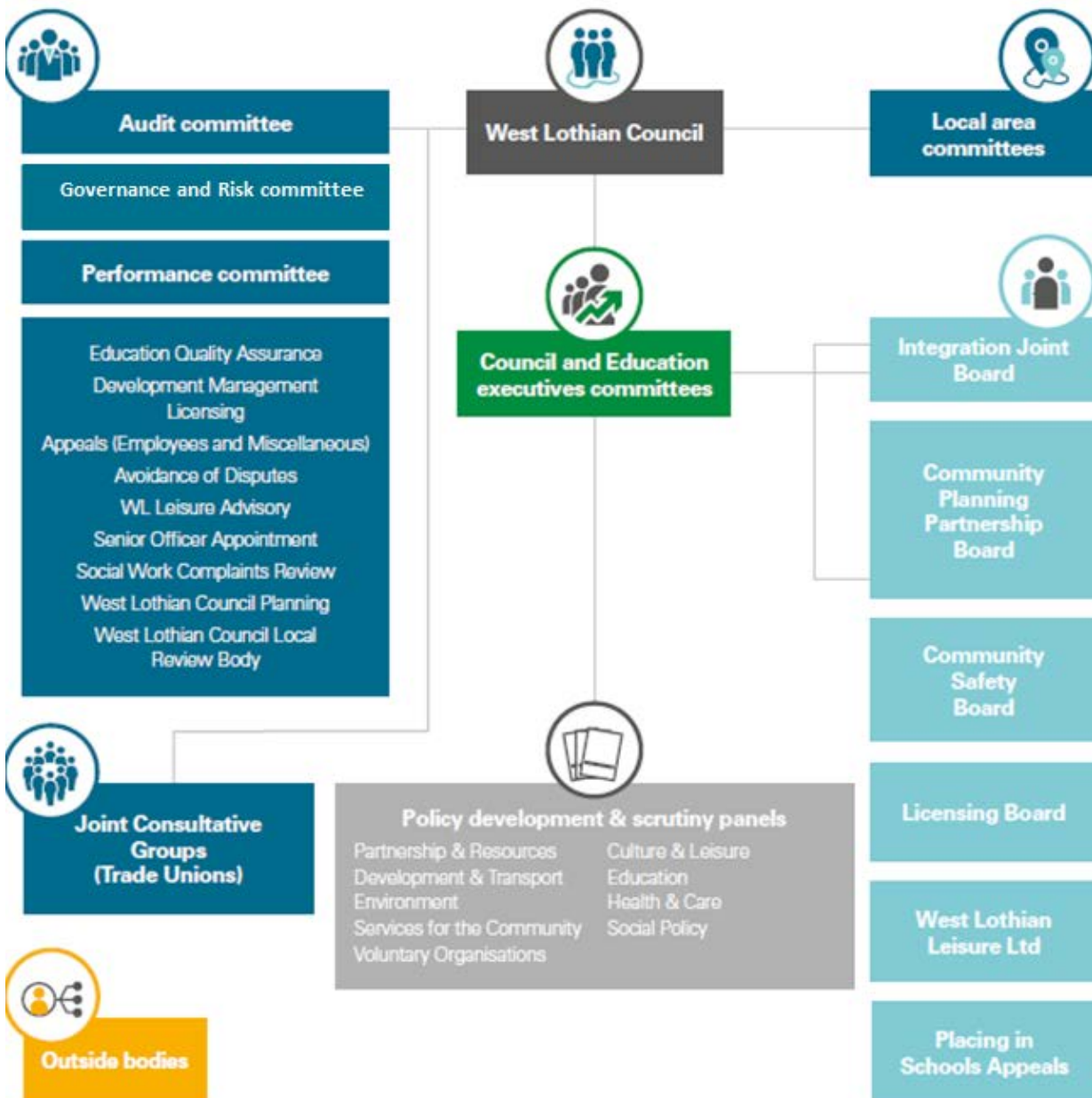
34. For the last decade West Lothian has been run by minority administrations. Following the May 2017 local government elections, a Labour minority formed the current administration ([Appendix 1](#)).
35. The Standing Orders regulate the way the council goes about its business. The Scheme of Administration sets out the membership, powers and responsibilities for full council, the Council Executive (12 elected members) and the Education Executive (18 elected members) and its other governance bodies. This includes its other main committees and subcommittees, policy development and scrutiny panels (PDSPs) and local area committees ([Exhibit 5](#)). All committees, including the Executive, have members from the different political parties, although membership does not reflect the overall make-up of the council.
36. The present decision-making structure was introduced in 2007. The main structural changes since the last Best Value report in 2005 were a reduction in the number of policy-making committees and subcommittees and the introduction of PDSPs. The PDSPs do not have voting rights. They can and do include representatives from community bodies and the trade unions alongside the seven councillors on each one. The PDSPs support development of new policies for the council and scrutinise how existing policies are working to consider where changes are needed. They also consider service performance reports during the year, which allows them to scrutinise officers in their implementation of policy decisions. PDSPs are not decision-making bodies like council committees and they make recommendations to the Council Executive or Education Executive to inform their decisions.
37. There are risks to effective scrutiny however, as the current membership of the PDSPs is such that most have a majority of councillors from the administration, and most of those councillors are also members of either the Council Executive or the Education Executive. This means that the scrutiny functions of the PDSPs are being carried out by members of these policy making bodies. This risk is mitigated in part as the PDSPs can include members who are not

councillors and Standing Orders require that the views expressed by all members of PDSPs are reported to the Executive Committee(s).

## Exhibit 5

### Governance arrangements in West Lothian Council

West Lothian Council has a number of scrutiny panels aligned to service areas but these panels lack the formal powers of council committees.



Source: West Lothian Council

38. Up until the 2017 elections, the chair of the Audit and Governance Committee was a member of the administration. Again, this effectively resulted in the administration leading on scrutiny of the council and, effectively, the administration itself, in audit and governance matters. Subsequent to the elections, the remit of the Committee was split into two, the Audit Committee and the Governance and Risk Committee. The chairs of both of the new committees are not currently members of the administration. It is too early to tell how the two new committees will operate. There is scope for significant

overlap in their remit, and currently three of the five elected members of each committee are the same.

39. The Performance Committee is the main committee that considers corporate performance, including central education services. The Education (Quality Assurance) Committee (EQAC) considers the quality of performance at schools and other education establishments, primarily reviewing the results of internal and external inspection reports. Both these committees are chaired by councillors who are not members of the administration. Of the 13 elected member representatives on the EQAC, 11 are also on the Education Executive responsible for approving recommendations made by the EQAC. Only one of the five elected members of the Performance Committee is also on the Executive.
40. The appointed auditor made a number of recommendations relating to governance arrangements in the 2016/17 Annual Audit Report. These included formalising some arrangements and ensuring that elected members from outside the decision-making committees have enough involvement in scrutinising council decisions. In response, the council has asked officers to review the Scheme of Administration and to bring advice and suggested changes to a subsequent council meeting.

### **The council has appropriate risk management procedures but it could better report and manage strategic risks**

41. The appointed auditor has reported in the Annual Audit Report that the Audit, Risk and Counter Fraud Manager fulfils a role both as head of internal audit and also risk manager. This has the potential to create a conflict of interest. This risk is mitigated by management who ensured that the internal audit of the council's risk management process during 2016/17 was undertaken by another local authority's internal audit team, as part of a partnership arrangement.
42. This audit of risk management resulted in a positive report on how the council manages risks within services, and concluded that its risk management framework outlined appropriate processes for managing risks. However the appointed auditor has reported that members did not have oversight over risks or how they are being managed. Risks were not reported to, or monitored by, the council or a council committee, for example the Audit and Governance Committee. Good practice (as defined within Best Value Guidance) recommends that councillors should have visibility of risks to allow robust scrutiny and challenge to management on the appropriateness of these risks and how they are being managed.
43. The revised audit, governance and risk committee structures are designed to allow greater focus on risk management within the council. The council has said that the corporate risk register for high and strategic risks will be a standing item on the committee's agenda. If the risk register is appropriately considered by the Committee going forward, this will strengthen scrutiny of how the council is managing strategic risks.

### **Effective challenge and scrutiny is dependent upon all councillors**

44. Between the May 2017 election and late September 2017, the SNP delayed nominating councillors to join several PDSPs and committees, including three of the key scrutiny committees (the Performance Committee, the Audit Committee and the Governance and Risk Committee). The SNP has now nominated a member of the Audit Committee but has yet to announce councillors to sit on the other two key scrutiny committees. There are risks to the effectiveness of committees if all positions are not taken up. It is incumbent on the council as a whole, including all councillors, to ensure that the statutory duty of Best Value, including effective scrutiny, is fulfilled.

45. The council offers training to elected members through the year. It held 19 events during 2016/17. The content of training was broad and covered a range of subject matters corresponding to the breadth of responsibilities held by elected members. Special interest events, specific to councillors sitting on PDSPs or of a personal interest, were generally attended by less than a third of councillors, but around two thirds of councillors attended some of the more general training events.
46. Following the May 2017 elections, the council provided induction training for new and returning members. During the course of our audit work we met with elected members from the three major political groupings, including returning and newly elected councillors, and all were positive about the nature and extent of the training provided. Senior officers in the council respond to, and provide informal briefings to, members when they have queries. This includes the Head of Finance and Property Services, or the finance member of staff assigned to each political grouping, responding to queries or briefing requests. The council's human resources team are in the process of developing and progressing individual training plans and records of training undertaken for members.

### **Councillors need to play a more active role at committees and PDSPs to provide effective scrutiny**

47. At committee and PDSP meetings, we observed limited challenge and enquiry from members to performance information reported. We recognise that these meetings were mostly shortly after the election, and a number of members were new. A review of minutes showed a lack of evidence recorded of any challenge and scrutiny which may have occurred at other meetings. Robust challenge and involvement from elected members in driving improvement of council performance at a corporate level, linked to the council's priorities, is a key element of a commitment to delivering Best Value.
48. The main committees for consideration of performance are the Performance Committee, and for schools, the Education (Quality Assurance) Committee. According to its remit, the focus of the Performance Committee is considering the council's corporate performance, including ensuring that performance management arrangements cover Best Value considerations. In practice, we observed that there has tended to be more focus on service performance reports than overall corporate performance reporting. At the time of this report, council officers were planning to review how to improve reporting and scrutiny of corporate performance. Following a recommendation in the Annual Audit Report, the council plans to record more detailed minutes of questions and discussions at the Performance Committee.

# Part 2

## How well is the council performing?



### Overall, outcomes for the community are improving, and performance relative to other councils is strong

West Lothian Council is performing well compared to other councils, showing an improvement in relative performance in recent years and maintaining high performance in particular service areas.

The council engages in a lot of good improvement activity, and has effective systems for managing performance. It regularly reports progress against planned actions and targets.

The council recognises there are areas where services need to improve further. It could set out more clearly the levels of performance and specific outcomes it hopes to achieve to help meet its priorities. This would help the council better monitor and consistently report progress in these areas.

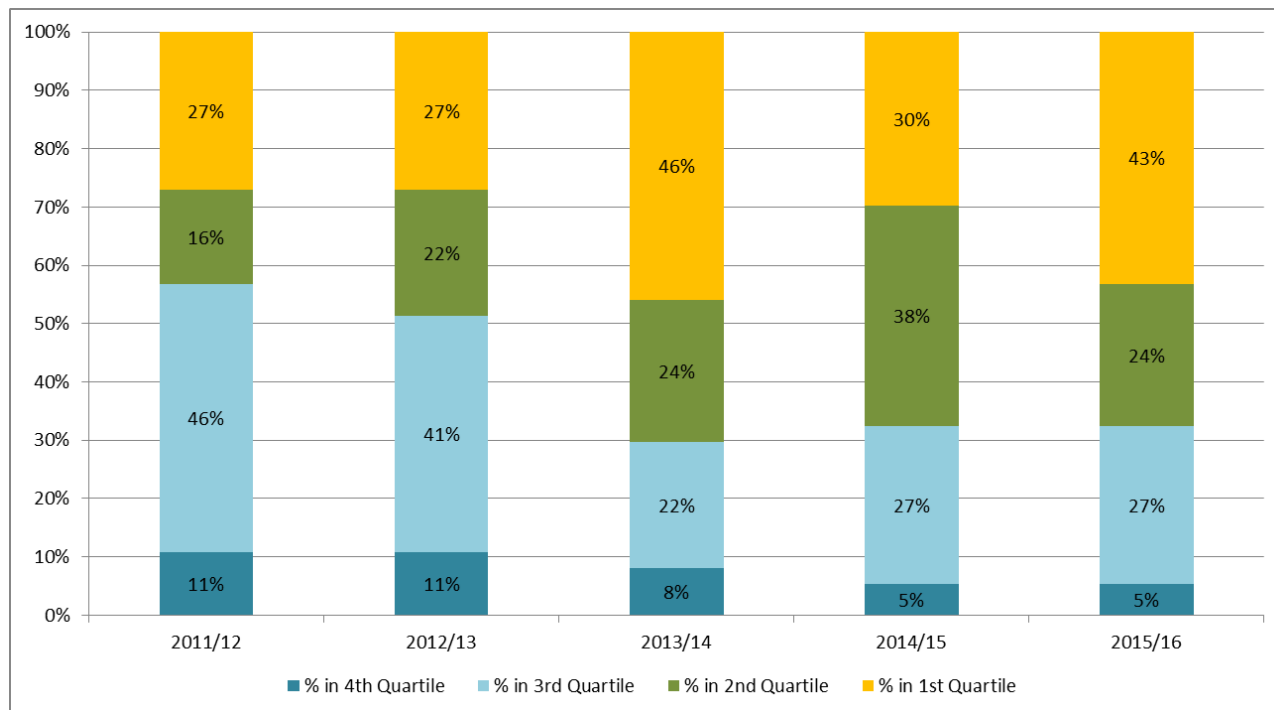
### West Lothian Council has continued to perform well compared to other councils

49. West Lothian Council is performing well as measured by the council's results across a range of national data. The corporate plan and supporting strategies run for a five-year period and provide insight into performance over the longer term. Annual service plans show progress against the previous year's plans.
50. National indicators show the council's performance has improved in the last five years compared to other councils. The outcomes-focused indicators from the Improvement Service's Local Government Benchmarking Framework, that is, those measuring performance rather than cost, show the following:
- In 2015/16 around 67 per cent of the council's performance indicators were in the top two quartiles, a significant increase from 2011/12 (43 per cent).
  - Forty-three per cent of indicators are now in the top quartile.
  - In the same period the council has also reduced the number of indicators in the bottom quartile, where they were amongst the poorest performing councils, from 11 per cent to only five per cent ([Exhibit 6](#)).

## Exhibit 6

### Comparing West Lothian's performance over time

The percentage of West Lothian's recurring outcome focused performance indicators in the top two quartiles has increased from 43 per cent of indicators in 2011/12 to 67 per cent in 2015/16.



Note: This analysis is based on 37 single-year outcomes based indicators that were reported as part of the Local Government Benchmarking Framework every year within the five-year period. Comparing council performance involves considering how all councils are performing, from lowest to highest, for each indicator. Relative performance against other councils is divided into four equal bands, or quartiles. The first quartile contains the best performing councils for that indicator and the fourth quartile contains the poorest performing councils.

Source: Audit Scotland; and Local Government Benchmarking Framework, Improvement Service, 2015/16

**51.** While performing well as a council, there is some mixed performance across individual services. There has been an increase in most education indicators, with improving educational attainment meaning West Lothian now outperforms the Scottish average. The overall percentage of pupils entering a positive destination, such as further education, training or employment, also increased between 2011/12 and 2015/16, although this decreased between 2014/15 and 2015/16 and is now below the Scottish average. In recent years, there has been a marked increase in educational attainment and the councils' results compare favourably to both Scotland as a whole and similar councils. Compared to the seven other councils in its benchmarking family group, West Lothian Council is within the top two councils for most education indicators.<sup>1</sup>

**52.** Within social work services there was an increase in the proportion of eligible adults receiving access to Self Directed Support funding and in the number of adults rating the care they receive at home as good or excellent. Both of these

<sup>1</sup> For benchmarking purposes the Improvement Service's LGBF splits councils into family groups of eight councils to allow useful comparisons to be made between groups of councils based on size, geography or other characteristics. For environmental, culture and leisure, corporate and economic development services these groups are mainly based on population density. For children's services (including education), social care and housing services, levels of deprivation are the main characteristic used to group councils. For education services, West Lothian is grouped with the following councils for benchmarking: Clackmannanshire; Dumfries and Galloway; Falkirk; Fife; Renfrewshire; South Ayrshire; and South Lanarkshire.

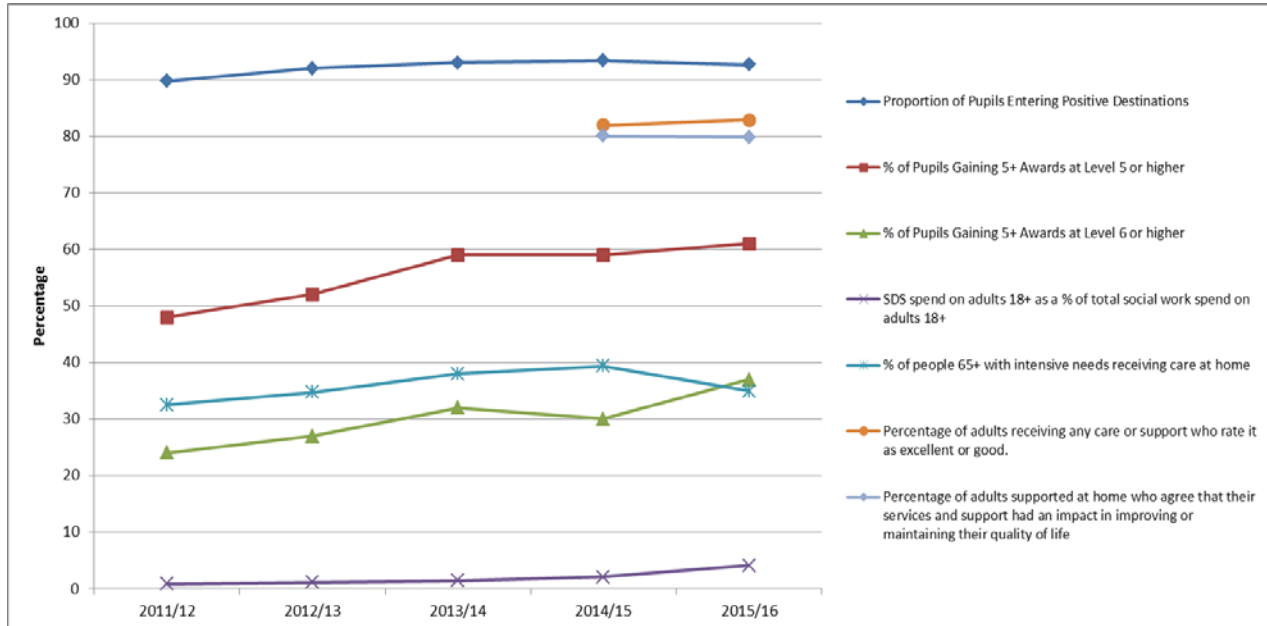


measures, however, remain below the Scottish average. Conversely, the proportion of elderly residents with intensive needs receiving care at home has reduced but remains above the Scottish average (Exhibit 7). The council is working to support more people to receive care at home and to remain at home for longer. In recent months, however, the number of people experiencing delays to being discharged from hospital has been increasing. The most recent data shows that West Lothian had more people delayed than over two-thirds of other councils, and more people are experiencing delays of over three days.<sup>2</sup>

## Exhibit 7

### Trends in selected education and social work indicators, 2011/12-2015/16

The majority of education indicators have been increasing within West Lothian but performance has been mixed within social work.



Notes:

1. Data is not available for all indicators for 2011/12 to 2015/16
2. **Proportion of Pupils Entering Positive Destinations:** This is a valuable outcome measure for schools in their function of preparing young people for life beyond school. It is an aggregate measure of a wide range of post school destinations for young people.
3. **% of Pupils Gaining 5+ Awards at Level 5/6 or higher:** These indicators provide a measure of achievement for pupils at higher levels of attainment.
4. **SDS spend on adults 18+ as a % of total social work spend on adults 18+:** Self Directed Support allows people needing support to choose how their support needs will be met. This indicator calculates the cost of Direct Payment and Managed Personalised Budget spend on adults as a proportion (%) of the total social work spend on adults (aged 18+).
5. **% of people aged 65+ with intensive needs receiving care at home:** This indicator measures the extent to which the council is maintaining people with intensive needs in the community. Home care is one of the most important services available to local authorities to support people with community care needs to remain at home.
6. **% of adults receiving any care or support who rate it as excellent or good:** This indicator measures the proportion (%) of all adults surveyed who rated the care or support received as excellent or good.
7. **% of adults supported at home who agree that their services and support had an impact in improving or maintaining their quality of life:** This indicator measures the proportion (%) of adults supported at home who agree that their services and support had an impact in improving or maintaining their quality of life.

Source: Audit Scotland; and Local Government Benchmarking Framework, Improvement Service, 2015/16

<sup>2</sup> Delayed discharge census, August 2017, Information Services Division Scotland. Data extracted October 2017.

- 53.** The Care Inspectorate has recently led a joint inspection of services for children and young people in West Lothian. This aimed to assess the range of services available to children across West Lothian from a range of organisations, and the difference these services are making to the lives of children, young people and families. The review identified a number of strengths in services delivered by West Lothian Council and its partner organisations ([Section 4 - paragraph 107](#)).

### **The council has effective systems for managing performance**

- 54.** National comparisons show generally high levels of performance across services in West Lothian. This suggests that the council's performance management framework is operating effectively, and it has effective systems for managing performance. The council uses the Pentana performance management software (previously called Covalent) as its central performance management system. As well as reporting performance, Pentana allows the council to set and review targets and highlights if performance is below target.
- 55.** The council has reviewed progress against the corporate plan and strategies during the last five years and developed scorecards to show whether it is meeting selected targets. It uses these scorecards to monitor progress, and the results are reported to relevant PDSPs. A review of the corporate plan was reported to the Partnership and Resources PDSP on 1 April 2016. This included an overview of progress against what the council said it would deliver in the corporate plan. A scorecard showing the status of corporate performance indicators broken down by the eight corporate priorities was also reported.
- 56.** The review indicated that the council was making good progress and had met most of its agreed performance measures. Across the 90 commitments and 141 performance indicators in the corporate plan scorecard, 14 were assessed as amber (failing to meet their target) and nine as red (significantly below target). The council published a review of its performance to the end of the current corporate planning period (2012 to 2017) which was delivered to all local homes and businesses.

### **The way the council monitors and reports its performance does not always clearly demonstrate the impact of services on local people**

- 57.** The council has developed a wide range of performance indicators and scorecards for each service area and for the corporate plan. The corporate plan scorecard links performance indicators to individual services, whilst service management plans link performance indicators to specific corporate priorities. This provides a high-level link between performance at corporate level and service level. However the performance indicators at the different levels are not always the same measures, and there is a lack of clarity around how service level performance indicators tie in with corporate plan performance indicators. This makes it difficult to see how service level performance impacts on the council's priorities and vision. The council could also set out more clearly the levels of performance and specific outcomes that it aims to achieve to help meet its priorities.
- 58.** Performance is monitored by management and reported to members through a number of routes. The EMT reviews the annual service management plans which detail key achievements and actions from the previous year, as well as progress against performance indicators. This gives senior officers an opportunity to assess overall council performance in the previous year and identify where services have not met performance targets. Each PDSP also has the opportunity to scrutinise management plans and performance against prior years and annual targets. This depends on the effectiveness of elected member scrutiny, as we discuss in [Part 1](#).



## The council publishes a range of performance information in accessible formats but could further improve the content by providing information on trends and targets

59. An annual performance report is publicly available for each council service, detailing progress against performance indicators and council targets. These include trend charts, normally covering a five-year period, and comment on factors that have influenced the trend in performance. The reports contain indicators under four broad categories: customer results; service standard; efficiency; and effectiveness. Presenting indicators across all four categories is an effective way of providing a comprehensive overview of service performance. Where available, the council includes information on comparator authorities to provide additional context on the council's performance.
60. The council's flagship public performance reporting document is Factfile. Published annually, this presents selected performance aligned to the eight corporate priorities. As we found in our 2005 report, the council's public performance reporting tends to focus on positive aspects of performance, only highlighting positive changes, or high profile investment, rather than also including areas for improvement. The document has been refined each year and is easily understood, using design features such as infographics to explain how the council is performing.
61. In addition to this annual report, prior to the 2017 election the council provided an end of term report on performance within their quarterly newsletter Bulletin ([Exhibit 8](#)). This is printed and delivered to every household and also available online. The council website can translate documents into a range of languages, audio output and can resize content, helping to ensure that performance information is available to people with specific needs. The subset of performance published in Factfile (and the 2017 end of term report) does not refer to targets or how specific council actions have contributed to improved performance. This can make it difficult to assess how the council is contributing to improving outcomes.
62. As well as Factfile, the council makes a range of performance information available on its website relating to service performance and linked to themes identified within the corporate plan. Although the council publishes comprehensive performance information, the main public performance publications report mainly on key achievements and investments under each corporate priority. Little information on trends and targets is provided to inform the public and to support scrutiny of annual changes in performance.

## Exhibit 8

The council provides summary performance information to the public

The information is provided in accessible format but would benefit from the inclusion of targets and trend information to illustrate how the council is performing.



Source: an extract from Priority 4: Improving the quality of life for older people, Bulletin Spring 2017, West Lothian Council, 2017

# Part 3

## Is the council using its resources effectively?



### The council has managed its finances well but must address significant challenges as it refreshes its financial strategy

The council has robust financial management arrangements. However it faces a significant funding gap of £73.5 million over the next five years. Savings are currently being identified but some significant changes to service delivery are required and these may be difficult to deliver within the timeframe required.

The council has significant useable reserves, notably in its capital fund. But low levels of uncommitted reserves could reduce its ability to react to unexpected changes in circumstances. Although debt is increasing, the cost of making interest and capital repayments remains relatively low compared to other councils.

The involvement of councillors will be key to ensuring the council can identify savings and drive improvement to address the funding gap. Councillors need to take the lead in determining priorities and scrutinising budget saving proposals to ensure these can be delivered in the required timescale, particularly in 2018/19.

There is a longstanding issue within the council around high levels of sickness absence and the council should look at how it can address this as soon as possible.

### The council has established robust financial management arrangements

63. Existing financial management arrangements within the council are robust. The council has processes to ensure that financial performance is scrutinised at both operational (service) level and through to the EMT. Financial performance is reported to the Council Executive throughout the year. Council officers lead a Modernisation Board and Programme Change Board to oversee the delivery of savings programmes.
64. The council set a balanced budget of £435.7 million in 2016/17 and reported an underspend against budget of £1.8 million (0.4 per cent). This was primarily due to additional funding of £1.7 million received near to the end of the financial year, which has been earmarked for use in 2017/18.
65. During 2016/17, officers provided in-year budget monitoring reports that included forecast outturn to the Council Executive on a regular basis. There were no major fluctuations in the outturn projections provided to members during the year. This demonstrates tight financial control, an understanding of the budget and good in-year management of financial pressures. Actions to

address service pressures were included in monitoring reports, enabling members to have appropriate oversight of how these were being managed.

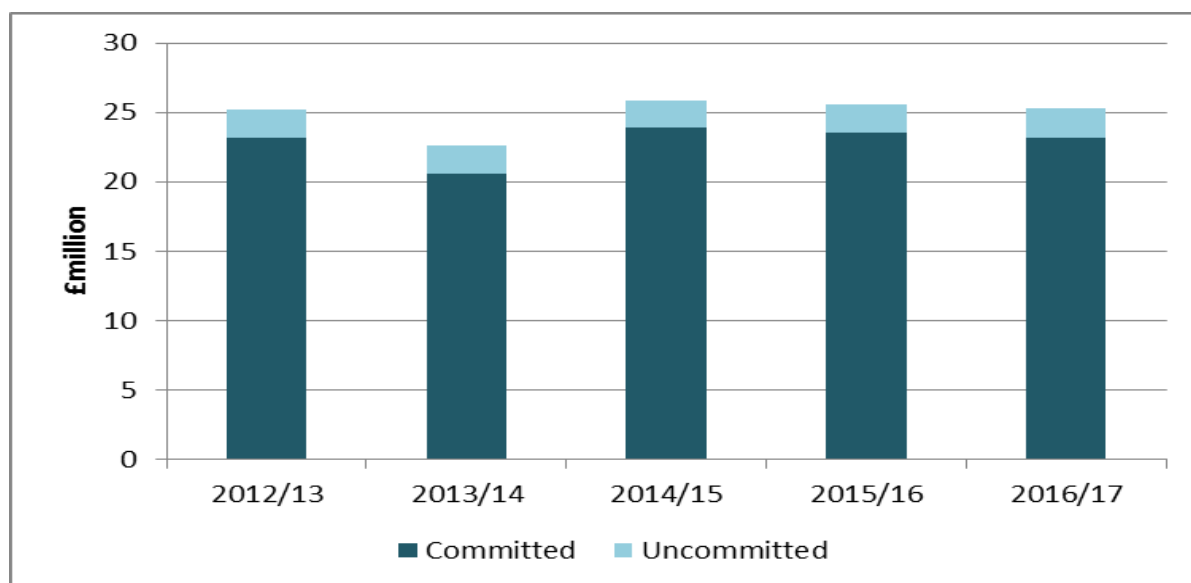
### The council maintains a low level of uncommitted reserves although overall its usable reserves are high

66. The council's level of usable revenue reserves as a percentage of net expenditure on cost of services has been maintained over the last five years. In addition, the council operates a separate insurance fund as well as its requirement to maintain the housing revenue account. Total usable revenue reserves represent about eight per cent of expenditure on net cost of services.
67. In line with its reserve policy, the council has uncommitted general fund reserves of around £2 million (representing approximately 0.5 per cent of net expenditure) ([Exhibit 9](#)). This is one of the lowest uncommitted General Fund balances in Scotland and could impact on the council's ability to react to sudden or unexpected changes in circumstances. In response to a recommendation from the appointed auditor to consider whether its target level of uncommitted reserves remains appropriate, the council stated that it still believes this is the case. It also stated that it will continue to review this as part of the budget setting process.

## Exhibit 9

### The council's General Fund

The council has maintained the level of General Fund reserves that it holds although only around £2 million of this has not been committed to specific projects.



Source: West Lothian Council's audited accounts 2012/13-2016/17

68. The council has established a significant capital fund in recent years. This amounted to £88 million at 31 March 2016 and £65 million at 31 March 2017 as the fund was used to support the council's significant capital investment activity. This has reduced the amount of additional borrowing required at this time. Total useable reserves, including both capital and revenue funds, totalled around £104 million at the end of 2016/17.

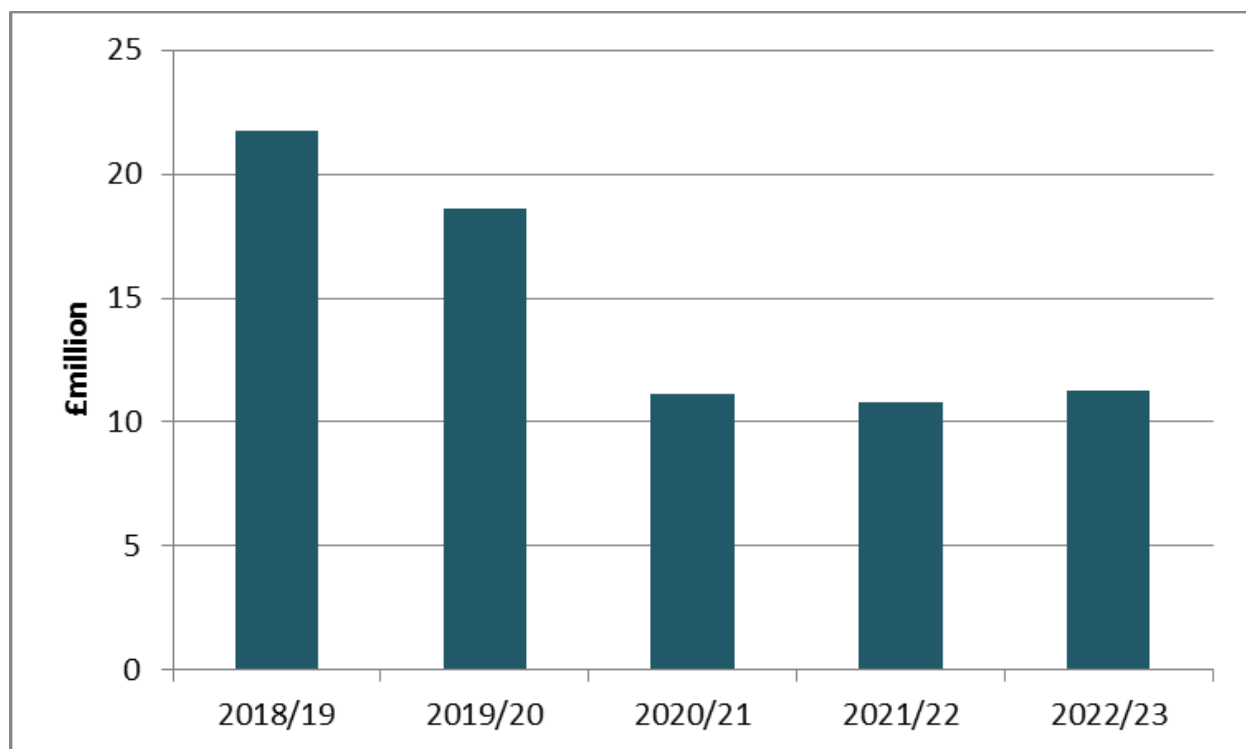
## The council faces a significant funding gap of £73.5 million over the next five years

69. As requested by councillors in February 2017, management submitted a paper to the newly elected council Executive in June 2017 outlining the forecast budget gaps for the forthcoming five years. This reported that the forecast funding gaps total £65.7 million over the period. In September 2017 this forecast was updated to £73.5 million due to changes in the assumptions on pay rises. Fifty five per cent of the savings are required in the first two years. ([Exhibit 10](#)).

### Exhibit 10

#### West Lothian's forecast budget gap

Over the next five years the council is facing a projected budget gap of £73.5 million



Source: West Lothian Council

70. The forecast budget gap is based on a model with the following key assumptions:

- a three per cent annual council tax increase which, coupled with the house building programme in the area, results in the majority of the increase in forecast income
- further reductions in the expected single year Local Government finance settlements in 2018/19 and 2019/20, followed by increases in the next three years
- a 2.0 per cent pay rise assumption in the first two years and 1.5 per cent thereafter resulting in staff costs increasing by £27.3 million. This assumption was revisited following announcements by the Scottish Government in September 2017 about public sector pay and the potential impact of this on the council. This changed the forecast figure, increasing it by around £7 million from the £66 million that the council had reported previously.

71. Demographic pressures and increasing demands for services account for £28.4 million (38.6 per cent) of the estimated budget gap to be addressed. This is heavily weighted to social care costs, driven by a rise in older residents.
72. The council has successfully delivered over £35 million of savings over the last three years, demonstrating that it can meet financial challenges. However, management recognise that delivering further savings will be increasingly challenging.
73. Due to statutory requirements and central government targets, there is historically less flexibility to make savings in education and social work than in other service areas. Most interest costs are also relatively fixed for councils. Compared to other councils, West Lothian Council spent a high proportion of its total spending on these three areas in 2015/16. This means the council needs to generate savings across areas that impact on customer facing and statutory services. Council officers have identified around half of savings proposals as being difficult to deliver, either operationally or strategically.

### **The council has been reducing the length of its budget forecasts in recent years but is now refreshing its financial strategy for the next five year period**

74. The Accounts Commission has stressed the need for long-term financial strategies, supported by medium-term financial planning, so that councils can respond to the acknowledged demographic and fiscal pressures. West Lothian Council prepares its financial strategy to cover the same period as the corporate plan, which currently covers 2012-17, in line with the timing of local elections. There is strong evidence of the council delivering this financial strategy over the last five years, and of it using the results from public consultations when setting its budget.
75. The council set multi-year indicative budgets over the period covered by the current financial strategy. For example, in January 2015 it set a budget for the three-year period 2015/16 to 2017/18, ie including the current financial year. This represented good practice.
76. In setting the 2017/18 budget, however, only a one year budget was approved. Alongside the budget, members agreed to officers developing a corporate and financial plan for the period 2018/19 to 2022/23, to be considered after the May elections. During the 2017/18 budget setting process, officers presented members with an overall outlook for local government finance. But while the council's EMT had initially considered a financial context report in June 2016, the budget papers did not report on the early estimates of the likely budget gaps for the council over the next five years. The council was in a minority of local authorities that did not provide this information to members at this time.
77. Members committed £2.2 million of reserves to support one-off spending in 2017/18 as part of balancing the budget, without full knowledge, through the budget papers, of the scale of the estimated future funding gap facing the council. There is a duty on council officers to provide all members with an understanding of the financial position in which they operate and the future challenges faced in order to reduce the risk of short-term decision making.
78. Councillors, however, have indicated that they had been briefed on the size of potential budget gaps and have no concerns around the information provided to them on this. They feel there is good engagement and open communication between officers and members around the financial position of the council.

## Councillors from all political groupings need to be more involved as the council plans how it will make savings to close the budget gap

- 79.** Councillors on the Council Executive approved a process in June 2017 such that the EMT would develop savings proposals and report back in early autumn 2017, outlining their plans for public consultation. In September 2017, the Council Executive considered an update from officers. This set out the revised estimated budget gap of £73.0 million (since further revised to £73.5 million). It also set out plans for the public consultation which ran from 16 October to 12 November 2017.
- 80.** Results from the public consultation will be reported to the relevant PDSPs for consideration in December 2017. This will be members' first formal involvement in the process for agreeing council priorities and considering savings proposals, although members will have been working with officers in their individual party budget groups since the consultation went public. The council's new five year corporate plan and supporting corporate strategies, including the financial strategy, are due to be approved in February 2018.
- 81.** The process of public consultation prior to the formal involvement of members in the savings and efficiencies process is similar to the approach taken by the council in 2012. Savings were subsequently delivered over the course of the 2012-17 corporate plan. However with further significant savings now required, and potentially difficult decisions to be made, earlier involvement by councillors in identifying priorities would have reduced the significant risk to the council of failing to deliver savings in the required timescales, particularly in 2018/19.
- 82.** The council has no history of a cross-party group bringing together councillors from all political parties to consider the budget proposals. Officers work closely with councillors to discuss the impact of savings plans in detail outwith committees, but this does not allow formal scrutiny of the plans. While each PDSP has a slightly different remit, they would appear to be the appropriate panel to scrutinise proposed savings plans for their relevant service areas, prior to them being passed to the Council Executive for approval. This would demonstrate good practice that there has been robust scrutiny of savings plans.
- 83.** To prepare the new Corporate Plan, the council is analysing the administration manifesto alongside the proposed corporate priorities to demonstrate links between the two. There is an inherent risk in not consulting with councillors from all political groupings at this stage, especially with a minority administration, as there may not be a consensus that the correct priorities have been identified.
- 84.** The budget setting and financial planning process clearly considers the impact of budget proposals and savings plans on how the council operates. The council needs to do more to ensure that, when councillors scrutinise the budget savings that the council is delivering, they also consider how these are affecting service performance. Once savings plans are approved, financial performance is scrutinised by the Council Executive and the Audit Committee independently of performance information which is reported through PDSPs. More joined-up reporting would aid effective scrutiny.

## The council is investing in assets in line with its strategic priorities

- 85.** The council has invested significantly in capital infrastructure such as schools and partnership centres which aligned to its priorities. By the end of 2017/18, the council will have invested around £257 million over the lifetime of the five year general services capital programme. The council approved its asset management strategy in 2013, for the period 2013/14 - 2017/18. The strategy was aligned with the period of all the council's strategies and set a high-level framework for managing the council's assets in line with its priorities.



**86.** Key elements of investment during 2016/17 and 2017/18 include the following:

- Schools estate programme major projects and annual improvements expenditure of £37 million, including a new primary school in South Armadale and development works for the new West Calder High School.
- £43 million investment in operational buildings, including £20 million in the Whitehill Service Centre.

**87.** The council has a good record of delivering on its capital programme and responding flexibly to accelerate spend where possible. To align with the next cycle of corporate planning, the council is in the process of developing a 10-year general services capital plan which will be phased for years 1-5 individually (2018-2023) and then years 6-10 as one phase (2024-2027).

**88.** In response to the needs of the community, the council has embarked on an ambitious 1,000 new build council housing programme at a total cost of £115 million between 2012/13 and 2017/18. The council invested £27 million in this flagship initiative in 2016/17, although this was £17 million less than originally budgeted due to slippage or delays related to obtaining statutory consents and permissions. A housing capital budget of £77.2 million was approved for 2017/18, including £60.7 million for the remaining investment in the new build housing programme. The 2017/18 budget partly reflects the under-delivery in the new build programme to date. Funding of the house building programme is predominantly through borrowing of £53.5 million, with final right to buy sales generating £5.6 million. The retention and growth in council housing will significantly increase rental income in the future and, in accordance with the business plan, is designed to support the cost of servicing the increased debt.

### **The council has an affordable level of borrowing**

**89.** At 31 March 2017, the council's total short and long term borrowing was £604 million. This consists of loans of £535 million from the Public Works Loan Board (PWLb) which provides loans to local authorities, and £69 million of market loans. In addition, the council has long term liabilities relating to two schools' public private partnership (PPP) finance leases of £63 million. The council has short term investments and cash totalling £140 million.

**90.** The council's policy is to limit variable rate borrowing to a maximum of 35 per cent of all borrowing although currently almost 100 per cent of borrowing is at fixed rate. The council holds significant short term investments totalling £125 million at 31 March 2017. This is invested in line with the investment strategy approved annually by the council in the Treasury Management Strategy.

**91.** Although the council's net external debt has been increasing in recent years, and the costs of servicing this debt has also increased, debt levels remain relatively low. General Fund debt is approximately the same as the council's annual income, placing it within the middle third of Scottish councils on this measure, and the cost of interest and debt repayments is relatively small compared to other councils. The council has accelerated elements of borrowing to fund the 2017/18 capital programme while interest rates continue to be low. The capital fund will be used in future when rates are forecast to rise.

### **The council has high levels of sickness absence but is working to improve this**

**92.** In 2011 and 2012, the council approved revisions to its Policy and Procedure on Sickness Absence Management. These revisions provided additional limited discretion to extend the scope of circumstances in which certain absences could be disregarded. Disregarding the absence means that, under certain circumstances, the absence will not result in the employee progressing along the sickness absence procedures. The absence, however, still counts towards



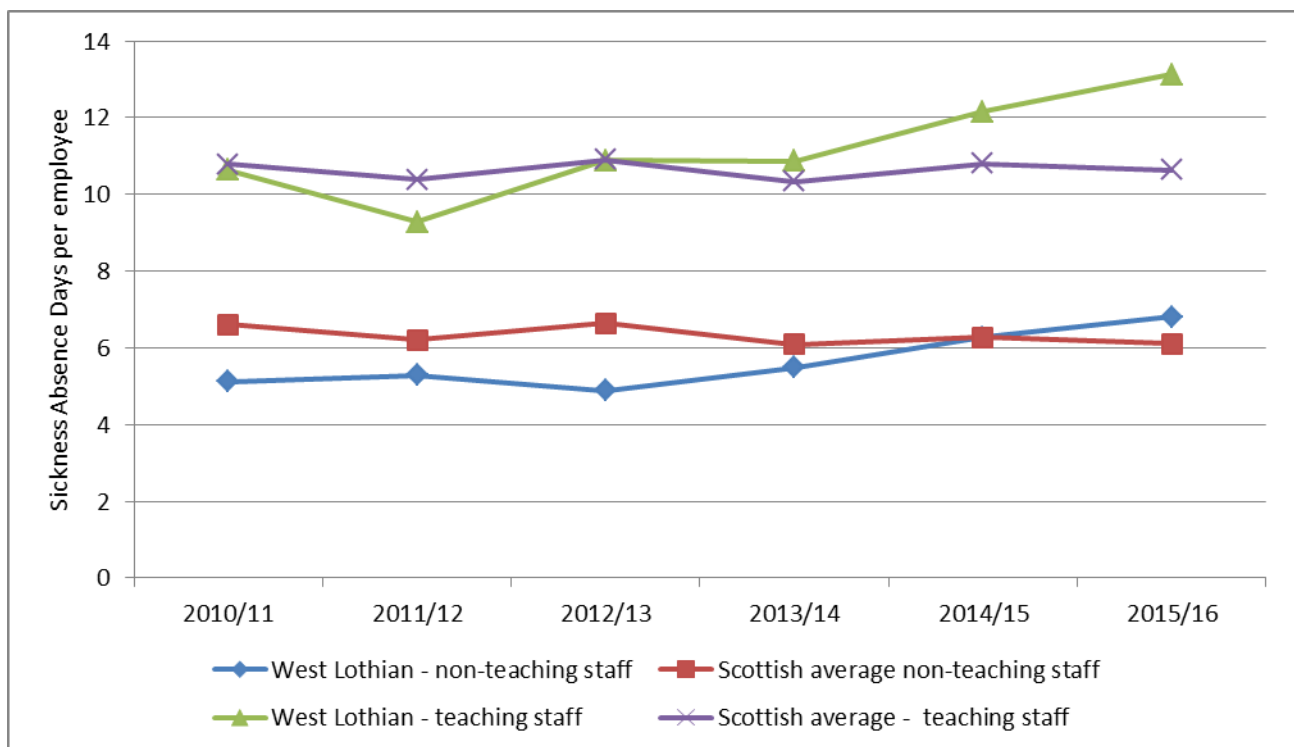
the council's overall absence rate. West Lothian is the only council in Scotland with a disregard policy in relation to sickness absences.

93. Since these changes were approved in 2012/13 the council's sickness absence rate has risen year on year. West Lothian Council is now one of the councils with the highest rates of sickness absence. An increasing proportion of the days lost to sickness absence are due to long-term absences that are covered by the disregard policy. Levels of sickness absence are higher than comparable councils and are now higher than the Scottish average for both teaching and non teaching staff ([Exhibit 11](#)).

## Exhibit 11

### Sickness absence

The average number of staff days lost due to sickness absence is higher in West Lothian than the Scottish average.



Source: Audit Scotland; and Local Government Benchmarking Framework, Improvement Service, 2015/16

94. Management are aware of this deteriorating position and have taken a number of mitigating actions to try to improve performance. These have included refresher training for line managers, a standing item on management team agendas and quarterly reports going to the Policy and Resources PDSP to ensure that there is active monitoring of performance. Human Resources also provide dashboard reports to individual services to monitor performance and raise this as an area of focus at all staff levels.
95. The council are now actively engaging with other councils to identify how they can better manage sickness absence and with trade unions to discuss the implications of introducing a new procedure. Since this represents approved council policy, officers are also discussing the issue with councillors as they recognise the need to ensure that any changes to procedures are supported by elected members.

## **The council is refreshing its people strategy and workforce plans to ensure that it has a workforce that can effectively deliver future services**

- 96.** West Lothian Council's People Strategy 2013-17 was designed to support the council's aim of improving services by acknowledging the important role that a skilled and motivated workforce plays in achieving improvements. To ensure that the council delivers the aims of the strategy, the Human Resources Programme Board was tasked with progressing and monitoring the strategy outcomes and regularly reviewing them. The strategy identified nine key activities which were completed within specified timescales and integrated into service management plans where appropriate. The refreshed People Strategy 2018-2022 for the next planning cycle aims to build on the progress of the current plan by, for example, making explicit links between business, financial and workforce planning.
- 97.** The council has progressed its workforce planning arrangements in recent years, publishing detailed workforce plans for individual services and creating a dedicated workforce group to scrutinise recruitment. If service managers identify vacancies they want to fill they must complete a form to detail the impact on performance indicators and services if the vacancy is not filled. The EMT has the final decision over whether the vacancy is to be filled. This centralised process allows the council to manage its workforce effectively. Following councillors approving the new corporate plan and savings proposals, the council must ensure that workforce plans are aligned to them and refreshed regularly.
- 98.** In the last five years the council has maintained staffing levels at around 8,000 people (over 6,500 full time equivalent staff). There have been no compulsory redundancies but staffing levels have partly been managed through a voluntary severance scheme for staff. In 2016/17, 42 staff left under the scheme, at a cost of £0.95 million, bringing the total leaving over the five-year period to 170 staff at a cost of around £4.5 million.

# Part 4

## Is the council working well with its partners?



### There is good evidence that the council is working well with its main partners to support local communities

Partnership working between the council and other agencies is well developed and available indicators suggest that it is having a positive impact in the area.

Services for children and young people which are delivered by the council and its partners have recently received a positive inspection.

A number of partnership centres enable citizens to access a range of services delivered by the council and its partners in a single location which is designed to meet local needs.

An arm's length external organisation (ALEO) provides leisure and cultural services in West Lothian. The council must assure itself that the governance arrangements for the ALEO are appropriate and allow sufficient oversight and scrutiny of finances and performance, and with information reported publicly where possible.

### There is a history of effective partnership working within the West Lothian area

- 99.** The council is part of West Lothian's CPP. In the 2014 audit of West Lothian Community Planning Partnership (CPP) the Accounts Commission identified a long standing and strong tradition of partnership working within West Lothian. Representatives from Police Scotland and Scottish Fire and Rescue Services regularly report to councillors on performance across a range of indicators at council level (to the Services for the Community PDSP) and provide more detailed local information to the council's nine Local Area Committees.
- 100.** There are clear links between the council's corporate plan and the CPP's Local Outcomes Improvement Plan; they share a common purpose and there are links between their identified priorities. The current corporate plan includes a specific workstream identifying partnership working as a focus for the council:

















































*"Working with partners to deliver outcomes: The council will explore opportunities to integrate certain services in order to provide services that are effective, flexible and affordable. A key consideration will be providing services in a more efficient way which would reduce the amount of duplication in support services and management."*

- 101.** West Lothian's performance across a range of indicators over the decade from 2004/05 to 2014/15 suggests the council and CPP are having a positive impact, with improvement across 10 of the 16 Community Planning Outcomes Profile indicators. Nine of the indicators also compare favourably to Scotland ([Exhibit 12](#)). Significant improvements were achieved in increasing local wage levels and reducing crime statistics. However there has been a downwards trend in performance indicators relating to the health of local citizens.

## Exhibit 12

### Community Planning Outcomes Profile indicators, 2004/05 and 2014/15

West Lothian has generally improved across the majority of indicators and, in 9 of the 16, the performance improvements in West Lothian over the period were better than the trend for Scotland as a whole.

Indicator	West Lothian Trend	Compared to Scotland
 The percentage of babies with a healthy birth weight in West Lothian increased by 1.2 percentage points to 91.3%, compared to a national increase of 0.9 percentage points to 90% across Scotland.		
 The rate of Primary 1 children with a healthy body mass index in West Lothian decreased by 1.5 percentage points, compared to a national increase of 1.6 percentage points across Scotland		
 Emergency admissions for age 65 and over per 100,000 of the population increased by 13.8% in West Lothian		
 West Lothian experienced a higher proportion of unplanned hospital attendances compared to the national average. For instance, unplanned hospital attendance rates per 100,000 people increased by 13.5% in West Lothian, compared to a national decrease of 3.3%.		
 Early mortality rates in West Lothian decreased by 7.6%, compared to a national decrease of over 14%.		
 Fragility (a weighted combination of three indicators: de-population, rural de-population & old age dependency ratio) increased by almost 4% in West Lothian, compared to a 1% increase across Scotland.		
 S4 tariff score in West Lothian increased by 20%, compared to a national increase of 15.1% across Scotland. S4 tariff scores in West Lothian was above the national average in 2014/15.		
 The percentage of school leavers entering positive destinations in West Lothian increased significantly by over 17 percentage points to 93.4%, compared a national increase of 8.7 percentage points across Scotland. In 2014/15 West Lothian was above the national average.		
 The employment rate in West Lothian decreased by 0.4 percentage points to 76.5%, compared to a national increase of 0.1 percentage points across Scotland but was still above the national average in 2014/15.		
 Median weekly earnings for CPP residents who are employed in West Lothian increased by 29.9% over the ten year period, compared to a national increase of 27.8%. Median weekly earnings in West Lothian was above the national average in 2014/15.		
 The rate of those claiming out of work benefits decreased in West Lothian by 3.4 percentage points to 15.9%, compared to a national decrease of 2.1%, with the Scottish average at 16.2% in 2014/15.		
 The rate of survival for newly born enterprises decreased by 3.1 percentage points to 65%, compared to a national decrease of 5.4 percentage points to 62.8% over the period 2004/05 to 2014/15.		
 The rate of carbon emissions (tonnes per capita) in West Lothian decreased by 30.7%, compared to a national decrease of 34.8% across Scotland.		
 Total crime decreased by over 46% in West Lothian to 426 crimes per 10,000 of the population, compared to a national decrease of over 44% with 479 crimes per 10,000 of the population in 2014/15.		
 The number of dwelling fires in West Lothian increased by 4.2% over the ten year period, compared to a national increase of 12.5%.		
 Child poverty in West Lothian decreased by almost 6 percentage points to 15.9% and was below the 2014/15 national average of 17% - a 4.9% decrease across the 10 year period.		

## A number of services from across partners have been located in partnership centres

**102.** One way that the council is enabling joint working is through co-locating services. As well as the shared Civic Centre campus, where amongst others the council, Police Scotland and Livingston Sheriff Court are located, eight Partnership Centres are either operational or currently being developed ([Case study 2](#)). These provide a central point for customers to access a range of services. The centres are tailored to specific local needs and requirements. They provide different services and have been delivered in different ways.

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## Case study 2: Partnership Centres in West Lothian

### West Lothian Council has three partnership centres, and plans for another five.

#### Current centres

- Bathgate Partnership Centre: A wide range of council services are located within the partnership centre, as well as the management committee led Bathgate Community Centre.
- Fauldhouse Partnership Centre: A newly constructed building housing council services, leisure facilities and other services including a GP practice, pharmacy and Jobcentre Plus.
- Strathbrock Partnership Centre (Broxburn): Hosts a range of social and health care facilities provided by the council, NHS Lothian and the voluntary sector.

#### Planned centres

- Blackburn Partnership Centre: This is due to open in late 2017, providing services by the council, NHS and other partners. NHS Lothian was the lead partner in financing and constructing the centre.
- East Calder Partnership Centre: Work is underway on a new facility which will house services such as a library, community centre and services to support access to work.
- Linlithgow Partnership Centre: The County Buildings are being redeveloped to accommodate a range of council services, including the library and Customer Information Services. Police Scotland will also relocate from the existing police station.
- Whitburn Partnership Centre: Plans have been developed to transform the Burgh Halls into the primary civic building with plans for complimentary facilities to be located in the community centre. Plans include a new library and location for Customer Information Services.
- Armadale Partnership Centre: Plans are in place to extend and adapt the community centre to accommodate Early Years, Customer Information Services and housing services at the centre, with further proposals to develop a youth space at a separate location.

Source: West Lothian Council

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## The West Lothian Integration Joint Board is operational and now needs to ensure it is leading integrated services

**103.** The Public Bodies (Joint Working) (Scotland) Act 2014 established the legal framework for integrating health and social care in Scotland. The West Lothian Integration Joint Board (IJB) was legally established on 21 September 2015 and from 1 April 2016 took on the relevant functions and resources delegated to it from both the council and NHS Lothian. One of the three council Depute Chief Executives is the Chief Officer of the IJB and is jointly responsible to both the Chief Executive and the Chief Executive of NHS Lothian.



- 104.** The IJB has developed a 10 year strategic plan covering the period 2016-2026, in conjunction with the IJB Strategic Planning Group. Key stakeholders include the council, NHS Lothian, charity and voluntary groups, health and social care professionals, staff trade unions. Representatives of service users and carers were all represented on the planning group. The strategy links to the council's current corporate plan and 'Our Health, Our Care, Our Future', NHS Lothian's Strategic Plan 2014-24. The council has delegated a number of social care services to the IJB but children's social work services remain the responsibility of the council.
- 105.** The IJB has developed its strategic plan, and now needs to ensure that it is integrating services to improve outcomes for the people of West Lothian. The council delegated an increased budget to the IJB for 2017/18 reflecting the forecast growth in demand. Similarly NHS Lothian also made available increased resources; however, financial challenges remain in achieving break-even. The IJB is committed to working with its parent organisations in developing a medium term financial strategy to help deliver its strategic plan.
- 106.** A number of the savings options that the council is proposing to address its funding gap relate to social care services that are now delegated to the IJB. The Chief Officer of the IJB (as a Depute Chief Executive of the council) and other senior council staff who work with the IJB have been involved in the design of savings options. However, the council did not have any formal discussions with the IJB about the proposals before the public consultation. Council savings in these areas will directly impact on how the council will deliver services on behalf of the IJB, and on the amount of budget delegated to the IJB in future years. Earlier engagement with the IJB around proposed savings would help to ensure that the strategic implications for the IJB can be fully considered by both the IJB and the council.

## Partners are working well together to provide children's services in West Lothian

- 107.** The recent joint inspection of children's services led by the Care Inspectorate identified a number of ways that partners across West Lothian are working well together. Outcomes for children, young people and families have improved and there is evidence of committed leadership, a shared vision and effective joint planning arrangements. Leadership and commitment from partners, including the council, was found to be a major strength within West Lothian.
- 108.** Inspectors also pointed to the presence of joint working across partner organisations, at both managerial and operational levels, as a significant strength within the area. Cross-partner systems for sharing information and for monitoring, managing and reporting performance are well developed. A number of initiatives that the council is involved in were highlighted as areas of good practice, and highlight the effective partnership working within West Lothian ([Case study 3](#)).

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## Case study 3: Partnership working to deliver services for children and young people in West Lothian

Three examples of effective joint working to deliver services within West Lothian were highlighted as good practice examples for other Community Planning Partnerships:

- **Domestic Abuse and Safe and Together:** The partnership is focussed on coordinated early intervention (rather than traditional post incident involvement). Upon launching this initiative there was strong leadership support from within the council, and councillors were actively engaged in ensuring that services delivered by different agencies were coordinated. A number of different service teams, including council staff, have been brought into a single multi-agency service to provide a range of intervention options.
- **Whole Family Support Service:** This service was developed to meet the needs of those families who had been in contact with various different services for a number of years. The council matched funding

received from Big Lottery and, in April 2016, the new service was launched. A wide range of partners, including Barnardo's, Circle, Homestart, West Lothian Youth Action Project, West Lothian Drug and Alcohol Service and Children 1<sup>st</sup> are all involved in providing support to clients. An operational management group and strategic governance group oversee activity and monitor that the service is delivering agreed outcomes.

- West Lothian Youth Justice: Youth Justice Services and Criminal Justice Services in West Lothian were integrated into a single service, the Criminal and Youth Justice Service, in 2010. This has allowed youth justice services (where possible) to be extended up to the age of 21. Although there is a focus across the partnership on early intervention, this means that if justice services become involved then they are better able to meet the needs of children and young people.

Source: Services for children and young people in West Lothian: Report of a joint inspection, Care Inspectorate, August 2017

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### **The council identified concerns about partnership arrangements with West Lothian Leisure, and has taken steps to improve these, but more can be done to improve transparency and accountability**

- 109.** West Lothian Leisure (WLL) was established in 1998 to provide a range of leisure services to the people of West Lothian on behalf of the council. During 2016, WLL became a limited company. From 1 April 2017, additional leisure and cultural services and assets were transferred from the council to WLL.
- 110.** The West Lothian Leisure Advisory Committee is the council committee responsible for oversight of the council's relationship with WLL. In 2016/17 the council's internal auditors undertook a review of financial monitoring and reporting in relation to WLL, and made a number of recommendations for improvement. Financial information about the leisure trust is commercial in nature and so is considered in private at committee meetings. Performance information in respect of WLL is now reported separately to the committee but is still considered in private. There may be scope to report some of this publicly.
- 111.** During 2016/17, three councillors who sat on the WLL Board (and are directors of the company) were also members of the Advisory Committee. This effectively meant that the councillors were being asked to scrutinise decisions for which they have been responsible. The Accounts Commission's 2011 report [\*How councils work: Arm's-length external organisations \(ALEOs\): are you getting it right?\*](#) states that 'the councillor or officer who scrutinises an ALEO on behalf of the council, or makes funding decisions affecting an ALEO, should not be a board member of the ALEO.'
- 112.** Since the May elections no members of the Advisory Committee are also directors of WLL; however the Scheme of Administration has not been changed to set out that this should not occur. In response to a recommendation from the appointed auditor, the council plans to undertake a review of governance and scrutiny of WLL by February 2018. As part of its review of governance and scrutiny of WLL, the council must ensure that it can effectively scrutinise the actions and decisions of WLL. It must assure itself that governance arrangements at WLL are appropriate and functioning as intended. This has become even more important following the transfer of responsibility for culture services to WLL.
- 113.** The council's internal auditors also reviewed the council's processes for making grants to voluntary and not-for-profit organisations, and concluded that certain aspects of these arrangements were unsound. While controls were considered effective in respect of social policy grants, there was a risk of a lack of effective oversight by members, as required information on contract performance had not been properly reported to the Social Policy PDSP. The council has since revised its processes for managing these grant awards with responsibility now transferred from Area Services staff to officers in Planning, Economic Development and Regeneration. The new processes are in their

infancy and should be the focus of further scrutiny to measure their effectiveness going forward.

### **The 'Accelerating Growth: Edinburgh and South East Scotland City Region Deal' has now been signed**

- 114.** The council is one of six local authorities within the Edinburgh and South East Scotland City Region Deal. The City Region Deal was approved in July 2017, with commitment from the Scottish and UK Governments to provide significant investment, along with additional investment from the councils as well as universities within the region. The council is currently involved in the process of identifying appropriate projects to be included in the deal.
- 115.** This provides an opportunity for the council to work with its partners to use this investment to improve economic performance in the region, deliver services more effectively and tackle inequality and deprivation.



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# Part 5.

## Is the council demonstrating continuous improvement?

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**West Lothian Council has demonstrated a commitment to continuous improvement, and officers recognise that there is a need to review how services are provided to meet future demand**

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Since the last Best Value audit, the council has continued to demonstrate a number of strengths although some previously identified areas for improvement still remain.

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Self evaluation, through the West Lothian Assessment Model, has been central to developing the council's culture of improvement.

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While the council has developed different ways to deliver services, more wide-ranging change and transformation is required. In the summer of 2017 the council established a new centralised transformation team to take this forward.

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**The council received a positive Best Value report in 2005 and continues to perform well, although some of the areas recommended for improvement still remain**

**116.** In 2005 the council was subject to an audit of Best Value and Community Planning. The Controller of Audit and the Accounts Commission noted the clear and ambitious vision for the area and a strong culture and commitment to self-assessment and improvement throughout the council. They highlighted good partnership working, and the council's strong track record in delivering services focused on the needs of its communities. West Lothian's Best Value timeline is set out in [Appendix 1](#).

**117.** In subsequent years the annual risk-based and proportionate Shared Risk Assessment carried out by Audit Scotland and other scrutiny agencies did not identify the need for a further audit of Best Value. Across this period the council has continued to perform well, and has continued to show improvement in performance ([Part 2](#)). The challenges facing local government have changed significantly since the 2005 report, and the council has done well to maintain its strong performance. However some areas for improvement identified in the previous audit remain ([Exhibit 13](#)).

## Exhibit 13

### Comparing selected Best Value judgements, 2005 and 2017

West Lothian Council has continued to perform well although, despite progress, some areas for improvement that were identified in 2005 still remain.

Controller of Audit Judgement 2005	Controller of Audit Judgement 2017
West Lothian Council is characterised by very effective leadership and a strong culture of continuous improvement that is well embedded throughout the organisation.	The council has a well developed culture of improvement. The EMT provides effective leadership and works constructively with elected members.
<p>The council is open and transparent and makes a wide range of information about services and performance available.</p> <p>The council's public performance reporting should show performance against targets, demonstrating tangible outcomes for service users. It should also provide a more balanced view of its performance, identifying areas for improvement as well as good performance.</p> <p>Although performance management information needs to be developed further, there is evidence of good performance across a range of services.</p>	<p>The council continues to publish a wide range of information. Factfile reports a range of performance information in an accessible format.</p> <p>As in 2005, the content could be improved by including performance against targets and trend analysis. Although this is reported elsewhere, including some of this within corporate publications would make it more easily accessible. The information selected continues to focus on well performing areas.</p> <p>Overall outcomes for the community are improving, and performance relative to other councils is strong.</p>
<p>The council has a streamlined committee structure, developed to support it in delivering the objectives identified in the community and corporate plans.</p> <p>The broad remits of the committees, and the overarching role of the Policy, Partnership and Resources Committee, have been successful in keeping a focus on key priorities and helping the council to combat the tendency to view services in isolation rather than from a 'joined up', user perspective.</p>	<p>Since the last audit, the council has reduced the number of decision-making committees, and it has introduced thematic PDSPs.</p> <p>The Performance Committee, the main committee for scrutiny of performance, receives an annual report on the council's performance. In general, however, the Committee has focussed on service performance reports rather than overall corporate performance reporting and has not provided council-wide scrutiny as originally intended.</p> <p>The council is now reviewing the role and work schedule of the Performance Committee.</p>
Financial management is strong and budgets are clearly linked to priorities.	Financial management continues to be strong and the financial strategy is closely linked to the corporate plan.
<p>Elected members need to develop their scrutiny role. While some scrutiny occurs in forums outwith the formal committee structure, increased scrutiny by committees would improve transparency and public accountability.</p> <p>The production of more consistent information about performance across all services will assist effective scrutiny.</p>	Elected members' scrutiny and challenge at committees and PDSPs could still be more effective. The council could be more transparent in minuting the scrutiny and challenge that takes place.
The council is at an advanced stage in developing a comprehensive system for ensuring continuous improvement – the West Lothian Assessment Model (WLAM).	The WLAM is well embedded and understood within the council and, alongside the council's improvement strategy, shows the council has a commitment to self-assessment and continuous improvement.

## The council has a well developed culture of improvement

- 118.** The council has an improvement strategy which guides how it pursues continuous improvement throughout the council. The current strategy covers 2014-2017 with previous ones covering 2008-2010 and 2011-2013. Each strategy has varied in approach and scope, but formalising its improvement activity over this sustained period of time demonstrates the council's commitment to continuous improvement. The council consulted with internal and external partners on its current strategy, including the Improvement Service and Quality Scotland. This gave the council assurance that the strategy was well designed, complied with relevant legislation (including Best Value), and was informed by inspection frameworks.
- 119.** The strategy states the core purpose of all improvement activity within the council is to help 'deliver high-performing services that meet customer needs'. It also identifies five common activities to drive improvement within the council: planning; external assessment; consultation and engagement; self-assessment; and performance management.
- 120.** To support the delivery of the council's eight corporate priorities, three intended outcomes were identified within the improvement strategy:
- West Lothian Council is high performing and achieving
  - Services are self aware and improving
  - Services are designed and improved to meet the needs and preferences of customers.

Performance indicators are identified within the strategy to measure if each of these outcomes is being achieved. Examples of the activities that services should carry out to help them continuously improve are also aligned to one of the three outcomes.

- 121.** The strategy applies to all parts of the council. The central Performance and Improvement Service coordinates and progresses improvement activity across the council, with Education Services leading on performance and quality assurance within schools.

## The council's main self-assessment tool, the West Lothian Assessment Model (WLAM), is well embedded

- 122.** Self-assessment is a key component of the council's Improvement Strategy. The council's self-assessment framework, WLAM, has been in place since 2003/04 and is well used and understood throughout the council. The WLAM is primarily based upon the European Foundation for Quality Management (EFQM) but also draws upon other standards and models. The WLAM was created by the council and partner agencies Quality Scotland and Investors in People Scotland. Outside the council it is known as the Public Service Improvement Framework (PSIF) and is widely used across local government and other public and third sector organisations in Scotland.
- 123.** The WLAM cycle runs for three years, most recently from 2014-2017. For the purposes of assessment, the council has been split into 37 service units and each unit carries out an assessment at least once in the three year cycle. Each service unit reviews their own performance and improvement in line with a set process, assisted by the Performance and Improvement Service to ensure consistency across the reviews. The outcomes of assessments are reported to a three person review panel chaired by the Chief Executive. The other two members of the panel are drawn from tier 1 or 2 of the management

structure (Deputy Chief Executive or Head of Service) and from tier 3 (service unit manager).

- 124.** The WLAM provides a strong process through which the council attempts to achieve continuous improvement and tackle underperformance through self-assessment. Whilst risk based, the WLAM ensures all service units carry out a self assessment in each three year cycle, meaning there is a focus on improvement for all services and not just those that are underperforming. Where there is underperformance or where risks have been identified, services will be subject to more frequent scrutiny by their review panel. This is with the aim of improving performance and accelerating the pace of improvement.
- 125.** Service units are placed on one of three reporting cycles based on the review panel's findings. Service units report back to the review panel more regularly where there have been performance issues or where there are perceived risks to their performance. The WLAM has two elements. It looks at what service units have done (enablers) and what they have achieved (results). Service units are then given an overall score based on the findings from both elements of the assessment ([Exhibit 14](#)).

## Exhibit 14

### Elements of the West Lothian Assessment Model (WLAM)

Through the WLAM, council services assess their performance by looking at what they have done (Enablers) and what they have achieved (Results)

Enablers	Results
<b>Leadership</b> <b>Service Planning</b> <b>People Resources</b> <b>Partnerships and resources</b> <b>Services and processes</b>	<b>Customer Results</b> <b>People Results</b> <b>Community Results</b> <b>Key Results</b>

Source: West Lothian Assessment Model Framework, West Lothian Council

- 126.** There are tools and templates to help service units feed the outcomes of the WLAM assessment, and other improvement processes, into their management plans. Every service unit improved their WLAM score between their last two assessments, but the pace of improvement varied between service units. To assess the impact and effectiveness of the WLAM framework we looked at two assessments of major service units in the 2014-17 cycle ([Case Study 4](#)).
- 127.** Review panels set out recommendations for services and ask them to report back on actions and progress. This gives services a clear picture of what the review panel expects them to take forward in order for the service to improve. These recommendations are often focused on process, for example looking at reviewing targets and improving benchmarking. More recommendations about outcomes and strategic priorities, to accompany those about performance management, could help to demonstrate how the WLAM process contributes to improvements in these areas.

### Case study 4: *The council actively pursues continuous improvement through a well embedded self-assessment process, although this could produce more strategic recommendations*

To assess the impact and effectiveness of the WLAM framework, we looked at the reports and outcomes from WLAM assessments of two major service units.

Analysis showed a consistency of approach between years and across the services, both in terms of how the services reported and how the review panel carried out their role. Both services referenced actions and activities from their annual management plans in their assessment materials which demonstrates a link between the planned day-to-day activity of the services and the WLAM process.

The review panels made recommendations for how the service units could improve performance. When the service unit next reported to the panel, it reported on the actions it had taken and progress against these recommendations. The recommendations across the services focused on process and how performance management can be improved, and only had limited reference to strategic aims.

**Social Policy – Community Care:** In August 2014, the review panel received a WLAM report on the service which stated that the next WLAM review was scheduled for March 2016. After it carried out its review, the panel asked the service to prepare another full WLAM assessment report within 12 months.

The panel considered a full review in August 2015, with management outlining what actions had been taken to address the 2014 review. The panel then made several recommendations centred on reviewing the service's performance indicators, increasing staff involvement in day-to-day performance management and, as it is a customer focused service, reviewing the complaints process. The recommendations also referred to using performance information to support the strategic aim of improving waiting times. The panel asked for the council's Performance and Improvement Service to provide an update report on the service within 12 months so it could review progress against the recommendations again.

In August 2016 the panel received an updated WLAM review. Several of the 2015 recommendations on performance indicators had not been addressed and were carried forward. The recommendations on complaints and waiting times were expanded to become more stretching and to build on improvements already made. The service was asked to prepare a full report so the panel could review their progress again and it reported back to the panel in August 2017. Progress was seen against recommendations and the panel will receive an update report from the Performance and Improvement Service within 12 months.

**Education Services – Educational Psychology and Additional Support Needs (ASN):** In September 2014, the review panel received a WLAM report on the large WLAM unit 'Education: Quality Assurance, Active Schools and Instrumental Music'. The panel made several recommendations about performance indicators and performance management, and asked for a full assessment report from the service within 12 months.

Between 2014 and 2015 the council created a separate WLAM unit made up of Educational Psychology and ASN to allow it to monitor performance within these services more closely. In October 2015, the review panel received a full WLAM report from these services which gave a breakdown of past performance. The panel made several recommendations, again all focussed on performance information. The service was asked to provide another full WLAM assessment report to the panel within 12 months. The panel in 2016 was suspended to give the service time to develop the improvement recommendations. During this time the corporate team worked with the service to monitor progress and support the improvements.

In June 2017, the panel received the second WLAM report from the new service unit. Again the recommendations focused on the nature of performance indicators, targets and performance management. It was noted, however, that Educational Psychology was performing well against its targets, but there were more serious performance issues within ASN. The panel decided that Educational Psychology will not require a full review for three years. However it asked ASN to prepare a full WLAM report in 2018 so that it could monitor improvement more closely.

Performance trends for Community Care and Educational Psychology and ASN varied over the 2014-17 WLAM cycle, with improvement against some, but not all, performance indicators. This was in line with many individual services within West Lothian Council.

Source: Audit Scotland review of West Lothian Council WLAM guidance and reviews

**128.** The council's new WLAM programme, covering 2017-2020 has now been drafted and service self-assessments are due to begin shortly. The council has also been considering a new approach to overall performance management and has decided to revert to using the EFQM Excellence Model for self-assessment. This is the model that the PSIF was originally based on and will allow the council to benchmark performance against a range of different

organisations. The council is working with Quality Scotland to prepare for the transition to the EFQM.

### **The council needs to develop new approaches to delivering services to successfully deliver the required savings**

- 129.** Prior to the public consultation exercise, council officers began developing savings proposals as the basis of the upcoming five year financial strategy. Indications of the scale of the challenge and the forecast financial gaps have been considered by the EMT since June 2016, in advance of the requirement to develop the next Corporate Plan. Key considerations for the council include what services to deliver; and how services can be made more efficient while continuing to meet, and respond to, existing and new customer needs and expectations. Central to this is how the council can better use technology to improve the customer experience.
- 130.** In recent years the council has introduced a new service delivery model as an attempt to modernise the services offered to customers. Customer and Community Services was formed to bring together staff from several different services into a single business group. The council has now created a generic customer service role. This means customers can now access a variety of council services, specifically offered to meet local needs, through a single member of staff who is trained on, and can access, various council systems. Making more services available through this route, or accessible online, depends on the council having the appropriate technology and knowledge.
- 131.** The council's Customer Service Strategy, which currently includes the council's approach to digitalising services, is being refreshed. This presents an opportunity for the council to examine how it can best use technology to deliver services. The council has been considering a number of options about how to develop their approach to digital service delivery. These include retaining digitalisation of services within the customer service strategy, embedding this as a theme in all council strategies and service plans, or having a stand-alone digital strategy. It is also considering how to better coordinate investment in computer hardware, software licences and renewals, and reliance on legacy systems to remove barriers to digitalising services
- 132.** The council has acknowledged that it needs to continue to examine how it delivers services as the scale of the challenge increases. It is considering a range of options to build on the progress already made through partnership working, service redesign and use of technology. Council officers began establishing a central 'transformation team' to provide corporate support for transforming service delivery over the next five-year cycle in the summer of 2017. The team of around 15 full time equivalent staff on secondment includes senior and specialist staff. The team's remit includes developing the council's approach to a digital strategy to increase the efficiency and effectiveness of services.



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# Recommendations

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The council has a strong track record of consulting local people on its savings plans. But it needs to continue to increase its programme for community involvement in reviewing and improving services through the Customer Led Inspection programme following a pause in activity. This will provide a positive base to fully implement the Community Empowerment (Scotland) Act 2015. (paragraph 31)

The council should review and enhance the Scheme of Administration to provide clarity that chairs of the key scrutiny committees should not be members of the administration, and to ensure that it allows for sufficient involvement in scrutiny arrangements from elected members who are not members of the council's decision-making committees. (paragraph 40)

The council should work with elected members to help ensure they are fully involved through the committee and PDSP structure in monitoring, scrutinising and driving the council's performance (paragraphs 47 to 48).

The council should be clear on the key performance indicators that support its vision and priorities so that it is able to effectively monitor whether it is achieving its vision. (paragraphs 57)

All members now need to take the lead in setting the priorities for the council, and ensure that savings proposals are in line with those priorities. Councillors should be involved at an early stage in identifying priorities in future years, to reduce the risk of delays when they need to make difficult decisions. (paragraphs 76, 77, 80 and 81)

With changes to the structure and responsibilities of West Lothian Leisure, the council must ensure that governance arrangements are robust and fit for purpose. (paragraph 110 and 112)

Service transformation will be central to the council being able to meet customer needs whilst responding to upcoming challenges. The council must ensure this is considered alongside proposed savings options and that it continues to make progress on developing and embedding its approach to digital service delivery. (paragraph 131 and 132)

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## Next steps

### Future audit work

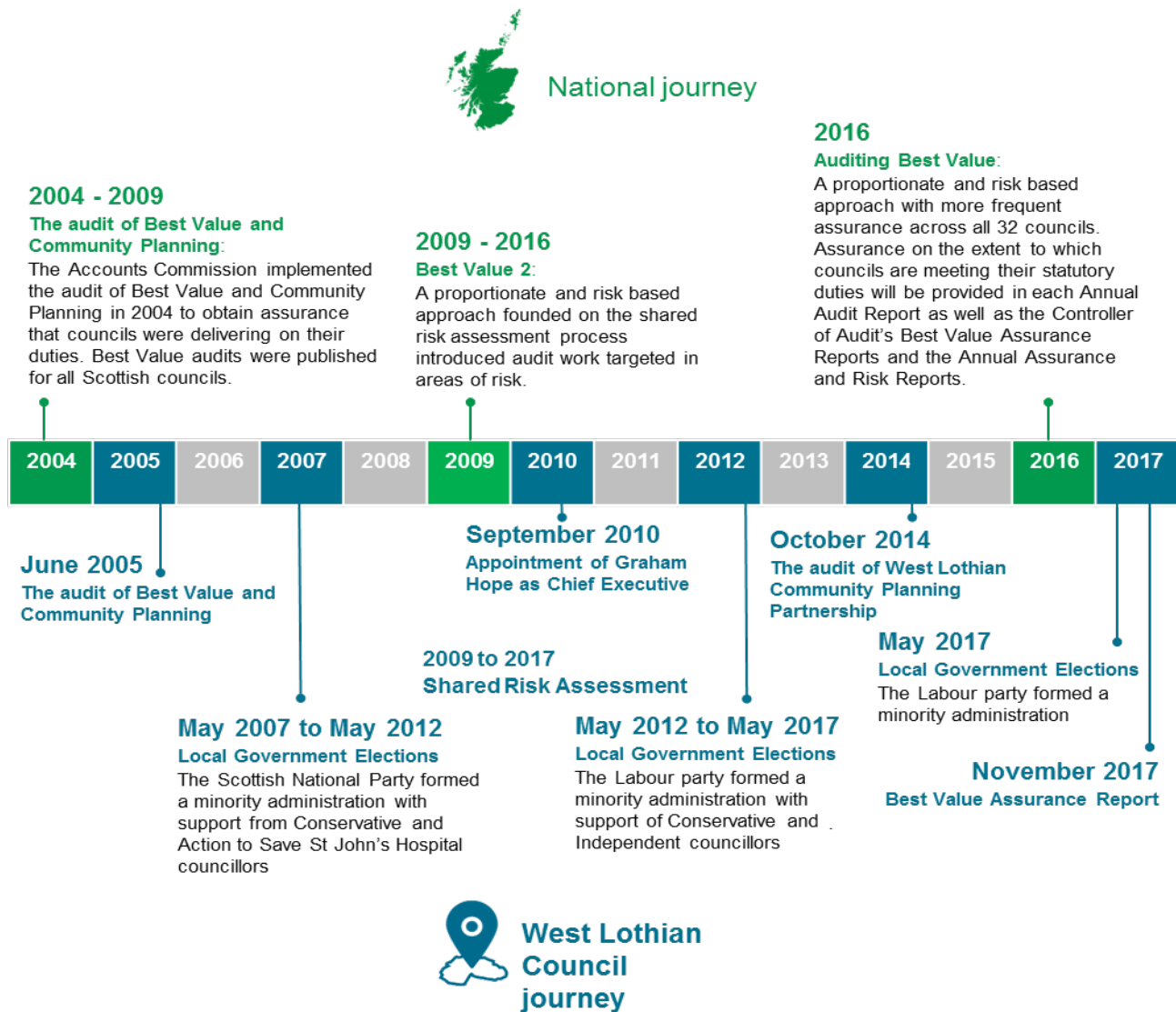
**133.** The audit of Best Value is a continuous process that forms part of the annual audit of every council. Audit conclusions will be reported each year through the Annual Audit Report. As part of our work in 2017/18 we will follow up the progress the council is making to implement the recommendations outlined above.

- 134.** Our audit work will continue to be shaped by the Shared Risk Assessment. This is a joint approach agreed by Audit Scotland, other scrutiny partners such as Education Scotland and the Care Inspectorate, and the appointed auditor using information about local government to plan scrutiny activity that is proportionate and based on risk. This approach will contribute to the audit intelligence and help us decide about the timing of audits and the focus of audit work at individual councils.



# Appendix 1

## Best Value audit timeline



### June 2005 – The audit of Best Value and Community Planning:

The Accounts Commission's 2005 findings highlighted evidence of a strong commitment to improvement within the council, specifically a clear and ambitious strategic vision supported by a positive organisational culture, and learning from internal and external good practice. Improvements around developing the role of elected members and performance reporting were also identified.

### November 2017 – Best Value Assurance Report:

The Controller of Audit will present a Best Value Assurance Report to the Accounts Commission at least once during the five year audit appointment for each council. This is the fourth of its kind. The report seeks to provide the Commission with assurance on the council's statutory duty to deliver Best Value, with a particular focus on the Commission's Strategic Audit Priorities.

# West Lothian Council

Year ended 31 March 2017

Annual Audit Report

29 September 2017



Building a better  
working world

Section	Appointed auditor responsibility	Pages
<b>Executive summary</b>		<b>1-3</b>
<b>Financial statements accounting and audit matters</b>	Provide an opinion on audited bodies' financial statements	<b>4-13</b>
	Notify the Controller of Audit when circumstances indicate that a statutory report may be required	<b>5</b>
	Review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports	<b>13</b>
<b>Wider scope audit</b>	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies:	
	▶ financial position and arrangements for securing financial sustainability	<b>16-22</b>
	▶ suitability and effectiveness of corporate governance arrangements	<b>23-28</b>
	▶ effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets	<b>29-30</b>
<b>Other audit deliverables</b>	Other assurance work such as grant claim certification and information returns for Audit Scotland	<b>32</b>
<b>Appendices</b>	Undertake statutory duties, and comply with professional engagement and ethical standards:	
	Appendix A: audited bodies' responsibilities	<b>34</b>
	Appendix B: required auditor communications	<b>35-36</b>
	Appendix C: auditor independence	<b>37</b>
	Appendix D: accounting and regulatory update	<b>38</b>
	Appendix E: summary of audit differences	<b>39 - 41</b>
	Appendix F: action plan	<b>42-45</b>

## About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of West Lothian Council (the Council) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) 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, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

## Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of West Lothian Council (the Council) for the five year period 2016/17 to 2020/21. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Auditing Practices Board; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise our key findings and conclusions from our audit work. It is addressed to both the members of the Council and the Controller of Audit, and presented to both Council management and those charged with governance. It will be published on Audit Scotland's website.

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the Council. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

## Scope and responsibilities

The Code sets out the responsibilities of both the Council and the auditor. We provided details of these in our Annual Audit Plan, which was presented to the audit committee on 27 February 2017. We summarise the responsibilities of the Council in Appendix A.

Our Annual Audit Plan also provided you with an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan with the exception of the following key change:

- Valuation of property, plant and equipment was changed to a significant audit risk from an inherent audit risk, reflecting the significance of change in valuation of certain property assets within the unaudited financial statements.

We planned our procedures using a materiality of £12 million and a Tolerable Error of £9 million. We reassessed this using the actual year-end figures contained within the unaudited financial statements, to confirm that the materiality remained appropriate for the audit. No adjustment was made to materiality amounts communicated in our Annual Audit Plan. The threshold for reporting audit differences is £250,000, in accordance with the Code.

## Status of the audit

We have completed our audit of West Lothian Council's financial statements for the year ended 31 March 2017. We have issued an unqualified opinion on the Council's financial statements for the year.

## Key contacts

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## Acknowledgement

We would like to thank all members of the Council's management and staff who have been involved in our work for their co-operation and assistance during our audit work.

## Accounting and audit matters – our reporting on the Council's financial statements

### Preparation of financial statements

- ▶ The unaudited financial statements were prepared to a good standard.
- ▶ There were a number of audit differences identified which were adjusted by management. Included within these were errors identified in the opening balance sheet information which resulted in management correcting the prior year comparative figures. The overall impact of audit differences was to increase net assets as at 31 March 2016 by £476.6 million in the consolidated balance sheet, and increase net assets by £17.1 million as at 31 March 2017. There was an overall increase in general fund of £6.6 million (2015/16: £6.6 million), due to the correction of treatment of developer contributions from the HRA.

### Significant risks

#### *Risk of fraud in income and / or expenditure recognition*

- ▶ We have not identified any material weaknesses in the design and implementation of controls tested as part of our audit, or evidence of fraud in income and expenditure recognition during the financial year.

#### *Management override of controls*

- ▶ We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- ▶ We consider that management made good disclosure on the accounting judgements and estimates made, with some scope for further enhancement.

#### *Valuation of property, plant and equipment*

- ▶ We identified a prior year adjustment of £470 million on the carrying value of property, plant and equipment as at 31 March 2016. This comprised an increase in value of other land and buildings by £482.3 million, offset by a decrease in value of £12.3 million to council dwellings. In addition, an adjustment of £23.3 million was also required to the 31 March 2017 carrying values of council dwellings to ensure these reflected Existing Use Value – Social Housing.
- ▶ While underlying valuations are robust, the process for accounting for changes in value can be enhanced.

### Other inherent risks

#### *Retirement benefits*

- ▶ Defined benefit pension scheme liabilities have been estimated using actuarial assumptions which we consider to be reasonable. The required disclosures are provided in the financial statements, including those providing details of the sensitivity of the valuation to changes in the assumptions.
- ▶ We have undertaken appropriate testing of underlying data to support the calculation of the liability.

### Other matters and reporting requirements

- ▶ The new Expenditure and Funding Analysis has been presented appropriately and the Movement in Reserves Statement and Comprehensive Income and Expenditure Statement restated accordingly. We consider the disclosures provided to be appropriate to the Council's internal reporting during the year.
- ▶ We have obtained reasonable and appropriate audit evidence over the Council's group financial statements. Based on our group scoping we were not required to undertake detailed testing at components of the group. We are the appointed auditor to West Lothian Integration Joint Board.
- ▶ We undertook the audit of nine of the Council's registered charitable trusts. We have provided a unqualified audit opinions on the financial statements of the trusts.
- ▶ We have concluded that the Council has complied with the requirements of the Local Authority Accounts (Scotland) Regulations 2014. In respect of our 'Opinions on other prescribed matters', which includes the management commentary, the auditable part of the remuneration report, and the annual governance statement, our opinion is unqualified.
- ▶ We include a statement noting that the Council has failed to achieve its statutory responsibilities to ensure that its significant trading operations achieves a break even position over a three year rolling period. We have not identified any other matters on which we are required to report by exception.

## Wider scope audit dimensions – our judgements and conclusions on the Council's arrangements

### Financial management

- ▶ We have concluded that the Council has generally sound financial management arrangements. This has been based on identification and overall tracking of budget savings well in advance as part of two-year indicative annual budget setting.
- ▶ The Council is going through a period of significant capital investment, both in general fund services and council housing. While there has been some delay in the new build housing programme, there is good evidence of delivery and management of projects.

We have made one recommendation in the action plan (point 4) in respect of the Council's arrangements.

### Financial sustainability – area of audit focus

- ▶ We have concluded that the Council's financial position is generally sound. While significant investment is required in response to demographic pressures, it has a good basis to undertake this investment.
- ▶ The Council has an established process for aligning its financial strategy to its corporate plan priorities. As a result only a one-year budget was approved for 2017/18, as this was the final year of the existing five year corporate plan. The Policy Development and Scrutiny Panels will consider the results of the public consultation in respect of officers' savings proposals in December 2017, prior to Council approval of a new five year corporate plan and underlying financial strategy in February 2018. In our view, since difficult decisions are expected to be required, the timeline for involvement of members could leave the delivery of savings in the required timescales at risk.

We have made three recommendations (points 5, 6 and 7) , two of which are graded one, in respect of the Council's arrangements.

### Governance and transparency – area of audit focus

- ▶ The Council has a comprehensive framework of governance arrangements and shows clear commitment to the core principles. Internal audit is well respected, however, we have raised a number of recommendations for consideration to strengthen reporting and monitoring by the audit committee.
- ▶ We consider there is scope to strengthen the arrangements for scrutiny of corporate and service performance. The relationship between the new governance & risk and audit committees should be monitored. The Council needs to improve the controls and governance arrangements around Following the Public Pound.

We have made seven recommendations (points 8 to 14), two of which are graded one, in respect of the Council's arrangements.

### Value for Money

- ▶ We have concluded that the Council has a comprehensive performance improvement framework, founded on the well established West Lothian Assessment Model. This has provided a stable and consistent framework through which services undertake self-assessment and seek to improve their performance.
- ▶ The Council monitors a suite of performance indicators through the Covalent system. Performance information shows that the Council generally performs very well compared to other councils, although the Council recognises areas where performance can be improved.

We have not identified any recommendations in respect of the Council's arrangements.

## Appendices

We set out in the appendices a number of required communications we provide in accordance with auditing and ethical standards. In particular, we have confirmed our continuing independence to act as auditor of the Council. No non-audit services have been provided to the Council during the year.

We also provide a short accounting and regulatory update highlighting forthcoming changes and their potential impact on the Council.

# **1. Financial statements and accounting**

# 1. Financial statements and accounting



The Council's Annual Accounts enables the Council to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom.

## Audit opinion

In respect of the financial statements, we have issued an unqualified opinion on the truth and fairness of the state of affairs of the Council and its group at 31 March 2017 and of the deficit on provision of services for the year then ended, in accordance with applicable law and the 2016/17 Code of Practice.

The detailed form and content of our audit report, plus the requirements underpinning the report are contained in the Audit Scotland guidance at:

[http://www.audit-scotland.gov.uk/uploads/docs/um/tgn\\_2017\\_5\\_local\\_authorities.pdf](http://www.audit-scotland.gov.uk/uploads/docs/um/tgn_2017_5_local_authorities.pdf).

We have not identified any circumstances to notify the Controller of Audit that a statutory report may be required under the Local Government (Scotland) Act 1973.

## Financial statements preparation

As part of your oversight of the Council's financial reporting process, we report on our consideration of the quality of working papers and supporting documentation prepared predominantly by the finance team to support the audit.

The overall preparation of the financial statements appears to be a smooth process and the financial statements are, in our view, easily readable and appropriately concise in the presentation of material financial information. Based on the findings expressed later in this section, overall we believe there is scope to improve the financial reporting process further in respect of supporting evidence of key judgements. This includes clearly documented consideration and review of critical assumptions around the valuation of property, plant and equipment and consideration of the scope of group financial statements. We have agreed with the finance team to work together to continuously improve both the financial reporting and audit process.

**Action plan point – 1**

## Materiality

We planned our procedures using a materiality of £12 million. We reassessed this using the actual year-end figures contained within the unaudited financial statements, to ensure that our level of materiality remained appropriate. We did not change our assessment of materiality as a result. Our Tolerable Error for the audit was £9 million and the threshold for reporting audit differences is £250,000.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits - we applied a materiality of £1,000 based on the potential sensitivity of these disclosures.
- ▶ Related party transactions - we considered the nature of these disclosures individually.

## Audit differences

We identified one unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that the audit committee and Council note this and that this will be included in the Letter of Representation. The aggregated impact of unadjusted audit difference is a £3 million decrease in net assets. We agree with management's assessment that the impact is not material.

There were a number of audit differences identified which were adjusted by management. Included within these were errors identified in the opening balance sheet information which resulted in management correcting the prior year comparative figures. We provide details of the reasons behind these adjustments within the relevant section of the report. The overall impact of audit differences was to increase net assets as at 31 March 2016 by £476.6 million in the consolidated balance sheet, and increase net assets by £17.1 million as at 31 March 2017. There was an overall increase in general fund of £6.6 million (2015/16: £6.6 million) due to the correction of treatment of developer contributions from the HRA. Full details can be found in Appendix E – Summary of Audit Differences.



Our Audit Plan identified key areas of focus for our audit of the Council's financial statements, including significant risks. This report sets out the results of our audit procedures plus relevant observations, including our views on areas which might be conservative, and where there may be potential risk and/or exposure.

## Significant risk – risk of fraud in income and expenditure recognition

### What is the risk?

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We rebutted the risk of improper recognition of revenue in respect of core grant funding from the Scottish Government, as well as in respect of council tax and non-domestic rate income. This is because there is no judgement in respect of the recognition of these income streams.

### Results of audit procedures

In relation to income, predominantly fees and charges, and other operating expenses where we had identified a significant risk of material misstatement, we:

- ▶ Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias.
- ▶ Reviewed transaction listings for individually material transactions as well as unusual items (debits to income, credits to expenditure etc.) to agree to supporting documentation and third party evidence.
- ▶ Tested a representative sample of transactions across the remaining untested income and expenditure population to ensure coverage of testing across all balances.
- ▶ Reviewed and tested revenue cut-off around the year end through reviewing manual journals posted to revenue and reviewing material credit notes raised after year end.
- ▶ Performed a search for material receipts received after year end and ensured these had been accounted for in the correct period.

Where we are performing procedures to address significant risks to the financial statements we do so to a lower level of materiality than for standard accounts. All procedures outlined above were completed with no material reported audit differences or other matters noted.

### *Other income and expenditure areas*

The most significant area of revenues was taxation and non-specific grant income of £399 million. £249 million of this related to government grant income which we substantively tested to grant confirmation letters. The remainder is made up of £87.7 million of NDR redistributions and £62.2 million of Council Tax income. These were agreed either to funding correspondence, and / or through establishing detailed expectations of income and expenditure, agreeing underlying assumptions to supporting evidence, and comparison to actual income and expenditure recorded by the Council in the year.

For expenditure, £230 million relates to payroll costs. These have been subject to detailed analytical procedures and reconciliation to underlying payroll information. We have agreed PPP transaction costs to PFI contract and finance models. Depreciation and impairment charges have been subject to detailed audit testing, including reconciliation to fixed asset register.

### Risk of fraud in income and expenditure recognition – what have we concluded?

- ▶ We have not identified any material weaknesses in the design and implementation of controls tested as part of our audit, or evidence of fraud in income and expenditure recognition during the financial year.

## Significant risk – management override

### What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

### Audit procedures performed and what did we find?

*Test the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements*

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify any unusual journal types or amounts based on our identified risk areas for the audit. We then tested a sample of these journals, understood their purpose and agreed and corroborated them to supporting documentation.

*Review accounting estimates for evidence of management bias, including management's retrospective consideration of prior year estimates.*

We identified and considered the appropriateness of key accounting estimates, including provisions, and their susceptibility to bias. Management have disclosed their consideration of the critical accounting judgements and key estimates in the financial statements. We have reviewed these and agree with the detail of the assessment performed.

*Evaluate the business rationale for any significant unusual transactions*

We did not identify any significant unusual transactions outside the normal course of business.

*Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.*

We reviewed expenditure on property, plant and equipment to ensure that expenditure items were not being inappropriately capitalised to defer costs to future years. Likewise we performed analytical procedures and transaction testing of HRA expenditure to ensure HRA funds were not being utilised to meet general fund expenditure. No issues were noted through our testing performed.

### Risk of management override – what have we concluded?

- ▶ We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- ▶ We consider that management made good disclosure on the accounting judgements and estimates made, with some scope for further enhancement.

## Significant risk – valuation of property, plant and equipment

### What is the risk?

The Council's property portfolio totalled £1.3 billion as at 31 March 2016, with the major elements of this being in respect of council dwellings, other land and buildings and infrastructure assets. Given the size of this balance and the fact that a number of assumptions are made in the valuation, we initially assigned a higher inherent risk to the valuation of property, plant and equipment.

The unaudited financial statements included significant revaluations in respect of certain operational land and buildings, totalling over £400 million. As a result, we re-scoped this aspect of our work as a significant risk.

### Audit procedures performed and what did we find

Through analysis of the source data and enquiries of management, we considered the appropriateness as to the procedures used by management's specialist to establish whether the source data was complete and concluded this was satisfactory.

We assessed the reasonableness of the assumptions and methods used in the valuation of land and buildings, including compliance with the Code of Practice on Local Authority Accounting. In doing so, we also considered the appropriateness of the timing of when management's specialist carried out the work. The Council revalue assets as part of a five year rolling programme. The Code of Practice on Local Authority Accounting requires assets to be carried at fair value. The Council considers material changes in asset valuations through consideration of significant capital additions in the year, as well as discussions with in-house valuers around potential asset impairments. This does not necessarily consider the potential impact of market movements impacting on fair value.

In line with the Council's policy, some operational land and buildings were subject to revaluation as at 1 April 2016. From assessment of market data management confirmed that the material increase in the asset valuations was due to conditions that existed as at 31 March 2016. Given the material revaluation increases, we concluded that this change should have been reflected in the prior year financial statements and that the carrying value was materially understated. We also identified that the Council had historically carried PPP school assets at cost on the balance sheet rather than at fair value. Taken together, the total value of the prior year misstatement for these elements was to understate assets by £482.3 million.

In respect of the valuation of council dwellings, we identified that these were also not appropriately valued as at 31 March 2017 or 2016. Consequently an impairment of £23.3 million (2016: £12.3 million) was required to the carrying value of these assets to ensure these were carried at Existing Use Value – Social Housing.

In performing our work, we involved EY valuation specialists to ensure management's underlying valuation approach was appropriate and consistent with guidance. We concluded that the underlying valuation process is robust. We recommend that management enhance the existing valuation process to ensure that a full consideration of the appropriateness of asset valuations, and their recognition in the financial statements, is undertaken in a more timely manner.

**Action plan point – 2**

## Significant risk, valuation of property, plant and equipment – what have we concluded?

- ▶ We identified a prior year adjustment of £470 million on the carrying value of property, plant and equipment as at 31 March 2016. This comprised an increase in value of other land and buildings by £482.3 million, offset by a decrease value of £12.3 million to council dwellings. In addition, an adjustment of £23.3 million was also required to the 31 March 2017 carrying values of council dwellings to ensure these reflected Existing Use Value – Social Housing.
- ▶ While underlying valuations are robust, the process for accounting for changes in value can be enhanced.

## Other inherent risks – retirement benefits

### What is the risk?

The Code and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS). Accounting for the pension fund assets and liabilities involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

### Results of audit procedures

In planning our audit, we identified that pension liabilities at 31 March 2016 were £176.1 million. Following the result of the EU Referendum in June 2016, we saw significant changes in certain economic assumptions used in the valuation of pension liabilities leading to significant increases in reported net pension liabilities by entities with accounting year-ends after June 2016. At 31 March 2017, the Council's net pension liability had increased to £290.3 million, primarily as a result of changes in the discount rate used to value the pension obligations. Our audit procedures included:

- ▶ Analysis of the payroll and pensions source data and made inquiries as to the procedures used by management's specialist to establish whether the source data was relevant and reliable.
- ▶ Utilisation of EY pension specialists to challenge the appropriateness of the assumptions used in deriving the liabilities at 31 March 2017. As part of this work, our specialists considered the work undertaken by PWC on behalf of the public audit agencies to provide assurance over the major actuarial firms involved in preparing IAS 19 valuation reports. Assumptions used by the actuary and adopted by the Council are considered to be within our acceptable range.
- ▶ Testing of the journal entries for the pension transactions to ensure that they have been accurately processed and agreed the required disclosures in the financial statements to relevant information provided by the actuary.

## Other inherent risks, retirement benefits – what have we concluded?

- ▶ Defined benefit pension scheme liabilities have been estimated using actuarial assumptions which we consider to be reasonable and the required disclosures have been provided in the financial statements, including those providing details of the sensitivity of the valuation to changes in the assumptions.
- ▶ We have undertaken appropriate testing of underlying data to support calculation of the liability.

Our Audit Plan identified other audit matters and aspects of our work which arise either in accordance with International Standards on Auditing (UK & Ireland) or in accordance with the Code. These are set out below.

## Other audit matters

### Expenditure and funding analysis

In 2016/17 there were amendments to the Code as a result of the 'Telling the Story' review of the presentation of local authority financial statements. The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the Council operates, reflecting internal financial reporting structures.

This change impacted the Consolidated Income and Expenditure Statement (CIES), the Movement in Reserves Statement (MiRS) and introduced the new expenditure and funding analysis (EFA), with full retrospective restatement of the CIES and MiRS. Our audit approach has focused on:

- ▶ Reviewing the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Code. Management initially presented the EFA as the first statement within the financial statements. Since it does not form one of the four primary statements, we requested that management make the narrative clear that the EFA, while displayed prominently, is a note to the financial statements.
- ▶ Reviewing the analysis of how these figures are derived, the re-mapping of the ledger system to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.
- ▶ Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

### Opening balances

International Standard on Auditing (UK and Ireland) 510: *Initial audit engagements – opening balances* requires auditors to obtain sufficient, appropriate audit evidence that opening balances do not contain misstatements that materially affect the financial statements. The standard also requires auditors to verify that appropriate accounting policies are reflected in the opening balances and that they have been consistently applied in the current period's financial statements.

In response, we:

- ▶ Held discussions with your former external auditor in respect of previous significant audit issues, corporate governance and general risk assessment.
- ▶ Reviewed prior year financial statements, annual audit reports and other reports issued by your former external auditor.
- ▶ Substantively tested opening balances to ensure that they agree both to the prior year audited financial statements and closing trial balance.
- ▶ Undertaken a range of testing on balances during 2016/17 which provide assurance on the judgements and estimates made as at 31 March 2016.

We have reported elsewhere on the requirement to undertake restatement of the prior period to correct errors in the valuation of property, plant and equipment. A separate adjustment was also required to correct £6.6 million of developer contributions which were accounted for in current liabilities, instead of being held in an earmarked reserve.

### Other audit matters – what have we concluded?

- ▶ The EFA has been presented in accordance with the Code and the MiRS and CIES restated accordingly. We consider the disclosures provided to be appropriate to the Council's internal reporting during the year.
- ▶ We concluded our work on the opening balances as part of the requirements for initial audit engagements. As reported elsewhere, a number of adjustments to prior period figures were required.

## Other audit matters (continued)

### Group financial statements

In 2015/16, the Council accounted for West Lothian Leisure Ltd and Lothian Valuation Joint Board as associates, due to an assessment of having significant influence but not outright control over these two entities. The Council also identified two joint ventures, West Lothian Recycling Ltd and West Lothian Integration Joint Board (WLIJB). A number of other entities were excluded from consolidation on the grounds of either materiality or lack of significant influence.

In scoping our audit work over the group, only WLIJB was scoped into our audit procedures on the grounds of materiality. We are the appointed auditor to the WLIJB and report separately on our audit of that entity. The accounting for the WLIJB was new in 2016/17. The relationship as a joint venture meant that in the Council CIES, a gross-up of expenditure funding made to WLIJB plus the expenditure on social care services should be shown, offset by the income receivable from WLIJB as part of its delegation of resources. The unaudited financial statements did not account for this correctly, leading to an adjustment in the financial statements.

The overall impact of preparing group financial statements was to reduce total reserves by £2.9 million (2015/16: £0.8 million).

During the year, West Lothian Leisure converted from a registered society to an incorporate company limited by guarantee with the Council as the sole member. An updated assessment of the control arrangements was not conducted by the finance team based on the change in circumstances during the year. We have concurred with management's assessment that there was no material impact on the group financial statements even had a change to the group relationship been made during the year. An unadjusted audit difference with a cumulative value of £3 million has been identified.

From 1 April 2017, the articles of association of West Lothian Leisure were changed again. In addition, the company took on additional leisure and culture assets of the Council. An updated assessment of the group relationship with West Lothian Leisure should be conducted by management in advance of preparation of the 2017/18 financial statements.

**Action plan point - 3**

### Qualitative aspects of the financial statements

With the exception of the matters discussed specifically elsewhere in this report:

- ▶ We have reviewed the significant accounting policies, which are disclosed in the annual financial statements. We consider these to be appropriate to the Council.
- ▶ There was no disagreement during the course of the audit over any accounting treatment or disclosure.
- ▶ There were no significant difficulties encountered in the audit.

## Other audit matters (continued) – what have we concluded?

- ▶ We have obtained reasonable and appropriate audit evidence over the Council's group financial statements. Based on our group scoping we were not required to undertake detailed testing at components of the group. We are the appointed auditor to West Lothian Integration Joint Board.
- ▶ Management should ensure they update their consideration of the group boundary for changes in circumstances at entities with which they have an interest.



## Other audit matters

### Charitable trusts

The Council acts as sole trustee for 40 trusts and mortifications, nine of which are registered charities. The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. The Regulations require an auditor to prepare a report to the charity trustees where an audit is required by any other enactment. The Council's charitable trust funds are covered by the requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit. We have audited the 2016/17 financial statements of the charitable trust funds. In summary:

- ▶ We have provided an unqualified audit opinion on the charitable trust funds financial statements, in accordance with applicable law and the relevant financial reporting framework.
- ▶ There were no audit adjustments impacting on the net assets or income and expenditure reported for the year.
- ▶ No numerical and presentational adjustments were required to the financial statements prepared for audit.
- ▶ We considered and confirmed our independence to act as auditors of the charitable trust funds, in line with the procedures set out in Appendix C for the Council audit, together with the objectivity of the audit partner and staff.
- ▶ Materiality for the audit was set in accordance with our audit methodology, at 2% of total income.
- ▶ We encountered no significant difficulties in undertaking our work and have no other significant matters to report to you.

### Significant trading operations

Under the Local Government in Scotland Act 2003, the Council has to maintain statutory trading accounts for any 'significant trading operations' (STOs). The 2003 Act also prescribes that STOs have to break even over a three year rolling period.

The Council reports one significant trading operation, Economic Development Properties. The cumulative three-year result is a deficit of £4.86 million, resulting in a failure to achieve the statutory financial requirement. During 2015/16 and 2016/17 impairment charges against assets within the property portfolio were £4.48 million and £0.64 million, respectively. These impairment charges represented the reason why the statutory breakeven position was not achieved.

In line with the position reported in the prior year by your former external auditor, without qualifying our audit opinion, we include an Emphasis of Matter paragraph in our audit report explaining the Council's failure to achieve a statutory objective.

## Other audit matters (continued) – what have we concluded?

- ▶ We undertook the audit of nine of the Council's registered charitable trusts. We provided an unqualified audit opinions on the financial statements of the trusts.
- ▶ Without qualifying our audit opinion, we include an Emphasis of Matter paragraph in our audit report due to the Council's failure to achieve a statutory objective in the operation of its statutory trading operation.

The Local Authority Accounts (Scotland) Regulations 2014 set out the statements which should be included in the Annual Report and Accounts in addition to the financial statements. These items are covered by our independent auditor's report as *Other prescribed matters*, in accordance with the requirements of the Code.

## Other reporting requirements

### The Local Authority Accounts (Scotland) Regulations 2014 (the Regulations)

Regulations 8 to 10 set out the statutory requirements on the Council in respect to the Annual Accounts, their availability for public inspection and the consideration and signing by the Council or a committee with an audit or governance remit. As required, we received the unaudited Annual Accounts by the 30 June. The audit committee considered the unaudited Annual Accounts on 30 June 2017, in advance of the 31 August deadline. No statutory objections were received on the unaudited financial statements.

While complying with the regulations, we consider that there is some potential inconsistency in the role and remit of the audit committee in the oversight of the financial statements which management should consider.

**Action plan point – 8**

### Management Commentary

The requirement for the Council to include a management commentary is included in Regulation 8(2)(a). Audit Scotland requires us to read the management commentary and express an opinion on whether the information given is consistent with the financial statements and whether it has been prepared in accordance with the statutory guidance.

Guidance on the content of the management commentary was issued by the Scottish Government within Local Government Finance Circular 5/2015. We considered whether the management commentary provided a fair and balanced review of the Council's business; a description of the principal risks and uncertainties; financial and non-financial key performance indicators; a description of the Council's strategy and business model and the main trends and factors likely to affect future developments; performance and position of the Council's business and explanation of the amounts in the financial statements.

We made suggestions to provide some more detailed and specific analysis within the management commentary. Management updated the commentary appropriately to reflect key elements of our review.

### Remuneration Report

Auditors are required by the Code to audit the disclosures of remuneration and pension benefit, pay bands, and exit packages and express a separate opinion within their independent auditor's report on whether they have been properly prepared in accordance with the Regulations.

No amendments were required to the draft remuneration report to ensure its consistency with underlying records and presentation in accordance with the statutory requirements. The Council has disclosed appropriately exit packages provided to 42 staff totalling £951,000 (2015/16: 46 staff totalling £1.1 million).

### Annual Governance Statement

Audit Scotland requires us to read the information in the annual governance statement and express an opinion on whether the information given in the annual governance statements is consistent with the financial statements and whether the statement has been prepared in accordance with *Delivering good governance in local government: framework 2016*. We set out the work undertaken in respect of the Council's annual governance statement as part of the Wider Scope – Governance & Transparency section of this Report.

## Other reporting requirements – what have we concluded?

- ▶ We have concluded that the Council has complied with the requirements of the Regulations.
- ▶ In respect of our 'Opinions on other prescribed matters', which includes the management commentary, the auditable part of the remuneration report, and the annual governance statement, our opinion is unqualified.
- ▶ We have not identified any other matters on which we are required to report by exception.



## **2. Wider scope audit**

## 2.1 Wider scope – Approach to Best Value



Together the Accounts Commission and the Auditor General for Scotland agreed the four dimensions set out in the Code which comprise the wider scope audit for public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money.

### Wider scope audit

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment and assurance on the achievement of Best Value. As your external auditor we also participate in the Local Area Network (LAN). The LAN brings together representatives from across different scrutiny bodies to agree a Shared Risk Assessment (SRA) for each local authority. The SRA informs the local scrutiny plan (LSP) ensuring that for any risks identified there is an appropriate scrutiny response.

The 2016/17 LSP reported that the LAN were of the view that the Council demonstrates its commitment to best value, with evidence of strong leadership, a clear vision and a focus on continuous improvement. The LAN did not identify any specific areas from the risk assessment where scrutiny was required. The 2017/18 LSP confirmed this position and taken together formed a context for our audit and risk assessment.

### Best Value auditing

Under the new approach to Best Value auditing in local government, the Controller of Audit will provide a Best Value Assurance Report (BVAR) for each council at least once in a five year period. The Council was selected as one of six councils to be subject to a BVAR report in the first year of the new arrangements. Joint work has been undertaken by ourselves and members of Audit Scotland's Performance Audit and Best Value team. The finalised BVAR will be heard by the Accounts Commission in November 2017.

The annual audit continues to focus on aspects of Best Value over our five year appointment. We have identified an indicative five year Best Value Plan in the table below. This will be subject to ongoing revision as priorities change or emerging risks arise.

The Accounts Commission has published its strategic audit priorities and these are mapped across, at a high level, to the Best Value audit work planned as shown below.

- The clarity of council priorities and quality of long-term planning to achieve these.
- How effectively councils evaluate and implement options for significant changes in delivering services.
- How effectively councils are ensuring members and officers have the right knowledge, skills and time to lead and manage delivery of the council priorities.
- How effectively councils are involving citizens in decisions about services.
- The quality of council public performance reporting to help citizens gauge improvement.

Indicative five year Best Value plan	2016/17	2017/18	2018/19	2019/20	2020/21	Mapping to Strategic Audit Priority
<b>Planned BVAR</b>	X					
<b>Follow up of BVAR</b>		X				
<b>Audit coverage:</b>						
Performance and outcomes		X				<b>B</b>
Improvement		X				-
Leadership, Governance and Scrutiny			X			<b>A</b>
Equal Opportunities			X			<b>E</b>
Partnership Working and Empowering Communities				X		<b>C, D</b>
Financial and service planning					X	<b>A, C</b>
Financial governance and resource management				X		-

## 2.2 Financial management

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

### Financial management

In undertaking our work on this audit dimension, at a high level we consider the following aspects:

- ▶ Is financial management effective?
- ▶ Are the budget setting and monitoring processes operating effectively?
- ▶ Is there sufficient financial capacity?

### 2016/17 financial outcomes

The 2016/17 Comprehensive Income and Expenditure Statement (CIES) shows that the Council incurred gross expenditure on the provision of services of £754.2 million (2015/16: £702.2 million), and incurred an accounting deficit of £95.2million (2015/16: £105.9 million) on those services.

The new Expenditure and Funding Analysis (EFA) note to the financial statements provides an explanation of how this expenditure is used and funded by the Council. This is different from the accounting position shown in the CIES in accordance with the Code and, together with the Movement in Reserves Statement, demonstrates how the Council's statutory reserves, including the General Fund, have changed in the year.

As shown in the EFA, the outturn for the financial year against the Council's general fund was a deficit of £0.35 million (2015/16: £0.26 million). In February 2016, the Council approved its 2016/17 revenue budget and provisionally approved its 2017/18 budget. Included within the budget for 2016/17 were budget reduction measures of £11.2 million to deliver a balanced budget. These were delivered.

Key financial statements movements and balances are considered below.

Focus on financial statements results	2016/17 £000	Restated 2015/16 £000	Commentary	RAG rating
(Surplus) / deficit on provision of services	95,215	105,892	The primary factor in the reduced deficit was the significant depreciation charged to the Housing Revenue Account in 2015/16 on revaluation of council dwellings.	G
(Surplus) / deficit on General Fund and HRA	347	260	No significant change. In general this result reflects on good in-year financial management and budgetary control	G
Uncommitted general fund	2,075	2,070	This equates to 0.5% of budgeted net expenditure and is one of the lowest levels held of any local authority in Scotland. This needs to be kept under close review.	R
Earmarked reserves	23,187	23,539	Earmarked reserves have broadly been maintained at the same level and provide the Council with flexibility around key initiatives.	G
Net current liabilities	(245)	(12,542)	Net current liabilities can reflect a potential inability to meet liabilities as they fall due. In practice, good cash flow management will ensure that this is not a risk.	A
Total Usable Reserves	103,550	128,464	Most of the reduction is due to utilisation of the capital fund in supporting the Council's investment in assets. However there are significant usable reserves available.	G
Total Unusable Reserves	803,687	979,422	Revaluation of operational land and buildings / Council's asset base remains strong.	G
Net (decrease) / increase in cash	(12,718)	2,561	The decrease in cash reflects the significant investment the Council is currently making in its assets and in line with plan.	G

### 2016/17 budget monitoring and outturn

A balanced budget was set for 2016/17. The projected outturn against budget was reported regularly to the Council Executive during the year. The outturn report in June 2017 which supported the preparation of the unaudited financial statements is summarised in the table.

Service area	Budget £000	Outturn £000	Over / (under) £000
Schools, Education Support	207,730	207,370	(360)
Planning, Economic Development and Regeneration	6,999	5,263	(1,736)
Operational Services	68,160	68,160	-
Housing, Customer and Building	10,796	11,456	660
Corporate Services	17,609	17,609	-
IJB – Adults and Elderly Services	60,584	60,584	-
Non-IJB – Children's Services	30,010	30,100	90
Chief Executive, Finance and Property	32,632	32,167	(465)
Joint Boards	1,214	1,214	-
<b>Service Expenditure - Total</b>	<b>435,734</b>	<b>433,923</b>	<b>(1,811)</b>

The significant variance item giving rise to the underspend was reported as due to receipt in March 2017 of additional funding of £1.74 million for investment linked to employability and economic regeneration. This has been earmarked for spend in 2017/18. The key overspend in Housing, Customer and Building Services related to homelessness.

In-year budget monitoring reports were provided to the Council Executive on a regular basis, which included forecast outturn. There were no major fluctuations in the outturn projections provided to members during the year, demonstrating good financial control and an understanding of the budget and in-year management of financial pressures. Action to address service pressures were included in monitoring reports, enabling members to have appropriate oversight.

#### *Reporting on budget reduction measures*

Monitoring reports also included in-year analysis against the budget reduction measures. For 2016/17, these totalled £11.2 million and reports included red, amber, green assessment of their achievement. By Period 6, £9.4 million (78%) had been assessed as green with the remainder as amber. This included £2.1 million of staff performance savings, to be met through management of staffing vacancies during the year.

As the budget approved in February 2016 also included indicative figures for 2017/18. At mid-year in 2016/17 management were able to report that 59% of the £8.4 million reduction measures were already green with the remainder amber. This results in a position whereby at the time of the budget approval for 2017/18, the majority of savings are all identified and understood and so can deliver full in-year savings.

#### **Action plan point - 4**

#### **Housing Revenue Account**

The HRA delivered break-even performance in the year. There were no significant movements in any of rent arrears, losses on void properties or the bad debt provision from the prior year.

### 2016/17 financial outcomes – capital expenditure

Capital expenditure	Budget £000	Outturn £000	Over / (under) £000
<b>General services capital programme</b>	<b>63,304</b>	<b>69,616</b>	<b>6,312</b>
In line with prior year, the Council delivered accelerated spend on its general services capital programme. Compared with our experience elsewhere, where slippage on capital programmes can be a regular occurrence this demonstrates appropriate management of capital projects and ability to accelerate spend where circumstances allow.			
<b>Housing capital programme</b>	<b>62,450</b>	<b>49,787</b>	<b>(12,663)</b>
The housing programme under-delivered against the plan, due primarily on slippage due to the 1,000 Houses New Build programme. This accounted for slippage of £17 million against budget, although £27 million of expenditure was still invested in this programme during the year.			

Overall financing of the capital programme was supported by £67.1 million of capital receipts, grants from government and contributions from third parties and/or existing capital funds; £9.3 million of capital expenditure funded by revenue with the remaining £42.9 million funded by borrowing.

#### Capacity of finance and standing in the organisation

The Council's section 95 officer is the head of finance and property services. We considered the role and status of the section 95 officer and are satisfied that the Council adheres to the principles laid out within CIPFA's *Statement on the role of the Chief Financial Officer in Local Government*.

We have reviewed the Council's financial regulations and are satisfied that these are comprehensive and subject to regular update. They are available through the Council's website.

#### Internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Our first year audit has been predominantly substantive in nature, and therefore we have not tested the operation of key controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any such matters to report to you.

#### Financial management – what have we concluded?

- ▶ We have concluded that the Council has generally sound financial management arrangements. This has been based on identification and overall tracking of budget savings well in advance as part of two-year indicative annual budget setting.
- ▶ The Council is going through a period of significant capital investment, both in general fund services and council housing. While there has been some delay in the new build housing programme, there is good evidence of delivery and management of projects.

## 2.3 Financial sustainability

Financial sustainability interprets auditors' requirements under ISA 570 *Going concern* and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Financial sustainability

The Accounts Commission's overview report on Local Government in Scotland: Performance and Challenges 2017 sets out the increasingly demanding environment facing local authorities. In particular an overall reduction of 9.2% in Scottish Government total revenue funding since 2010/11 and demographic changes in particular in respect of aging populations. Additionally, there are a broad range of legislative and policy changes, including for example integration of health and social care, community empowerment provision and education reform.

Scottish Government funding is distributed to councils using a formula based on factors such as population, deprivation and rurality. This means that not all councils have experienced the same level of reductions in funding. Audit Scotland figures show that the Council's reduction in funding overall has been the lowest of all councils, at less than 5%. This is in the context, however, of a demographic which also shows that the Council is expected to experience the most significant increase in population over 75 years old, by over 120% in the period 2014 to 2039.

Education and social work increasingly make up a greater majority of expenditure in local government. Within the Expenditure and Funding Analysis, in terms of the amount chargeable to the general fund and HRA, 67% of spend was in respect of these areas, within a range nationally of 60 – 80%.

### Level of reserves

As shown in the table below, the Council's level of usable revenue reserves as a percentage of net expenditure on cost of services has decreased over the last five years. While reserves are broadly at a similar level, the overall net expenditure of the Council has increased. Within earmarked reserves, the Council's modernisation fund has been assisting in funding potential termination costs for staff, as service delivery has been modernised.

Analysis of reserves	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	%age change
Earmarked general fund	23,212	20,571	23,869*	23,539*	23,187	(28)
Uncommitted general fund	2,000	2,000	2,000	2,070	2,075	4
HRA fund	926	926	926	926	926	-
Insurance fund	12,269	12,193	13,570	13,715	11,835	(4)
<b>Total Usable Revenue Reserves</b>	<b>38,407</b>	<b>35,690</b>	<b>40,365*</b>	<b>40,250*</b>	<b>38,023</b>	<b>(1)</b>
<b>As a % of net expenditure on cost of services</b>	<b>9.9%</b>	<b>9.1%</b>	<b>10.4%</b>	<b>8.5%</b>	<b>8.2%</b>	
Capital fund	74,338	79,008	84,765	88,214	65,527	(12)
<b>Total Usable Reserves</b>	<b>112,745</b>	<b>114,698</b>	<b>125,130*</b>	<b>128,464*</b>	<b>103,550</b>	<b>(14)</b>

\* Restated following prior year adjustment processed in 2016/17

The Council has maintained an uncommitted general fund balance at around £2 million, representing approximately 0.5% of net expenditure. This remains one of the lowest balances of all local authorities in Scotland and while the use of earmarked balances should also be considered when reviewing the available flexibility to the Council in making budget decisions, we believe this level of uncommitted reserves represents a risk to the Council.

### Action plan point - 5

The significant capital fund means that reserves in total for the Council are strong. A significant proportion of this fund has been allocated, and is being utilised, to support the significant capital investment currently being made by the Council in both housing and general fund services, thus reducing the amount of additional borrowing required at this time.

### Forward financial planning

The Accounts Commission has stressed the need for long-term financial strategies, supported by medium-term financial planning, to provide councils with the ability to respond to the acknowledged demographic and fiscal pressures. The Council has traditionally aligned its financial strategy with its corporate plan, which was approved for 2012-17 in line with the timing of local elections. There is strong evidence of delivery of this financial strategy over the last five years, drawing on major public consultation exercises in 2012 and 2014.

During this period, the Council set multi-year indicative budgets, for example in January 2015 for the three year period 2015/16 to 2017/18 i.e. including the current financial year. This represents good practice. In January 2016 and January 2017 this was reduced to two-year and then just a one-year budget.

In February 2017, the Council approved the process to prepare a priority based revenue financial plan for 2018/19 to 2022/23 and to set out how the Corporate Plan priorities will be delivered over this period.

In setting the 2017/18 budget, the Council received an overview of the challenging economic outlook over the next five years. However, no detailed financial information was provided to members outlining the likely profile of the medium-term financial position. To our knowledge, this puts the Council in a minority of local authorities by not providing such information to members in advance of what was known to be a highly challenging period. The 2017/18 budget committed £2.179 million of non-recurring resources to meet the budget.

As part of the 2017/18 budget process, members agreed to the development of a financial and corporate plan for the period 2018/19 to 2022/23.

#### **Action plan point - 6**

In June 2017, management submitted a Revenue Budget Strategy 2018/19 to 2022/23 to the new Council Executive outlining the forecast budget gaps for the period.

Forecast budget gaps	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Gross expenditure	17.5	16.4	16.8	15.3	15.7	81.7
Gross Income	2.5	0.4	(7.0)	(5.9)	(6.0)	(16.0)
<b>Forecast Budget Gap</b>	<b>20.0</b>	<b>16.8</b>	<b>9.8</b>	<b>9.4</b>	<b>9.7</b>	<b>65.7</b>

Expenditure pressures on staffing comprised £19.8 million of the forecasts, based on a 1.25% pay rise assumption in the first two years and 1% thereafter. This is a key assumption and the paper notes that a 0.5% increase on this assumption would add a further £6 million in cost pressures. Given recent public announcements by the Scottish Government, in our view it is likely that will be a need to revisit these assumptions.

Demographic and demand led pressures account for £28.4 million, or 35% of the expenditure budget pressures. This is heavily weighted to social care costs, and the Council's demographic of an increasing elderly population.

Income assumptions are based on a 3% annual Council tax increase which, coupled with the house building programme in the area, results in the majority of the increase in gross income. The Local Government finance settlement is assumed to show further reductions in 2018/19 and 2019/20, before increasing again thereafter. Taken together, this results in the front loading of the budget gap, with 56% of savings in the first two years.



### Closing the gap

Following consideration of the Revenue Budget Strategy 2018/19 to 2022/23 report, in line with the officer recommendations in the report, Council Executive agreed that officers should report back to them in late summer / early autumn on proposals for a public consultation, including proposed priorities, future spending plans and savings options, and proposed council tax levels.

The Corporate Management Team has been working through officer savings proposals to meet the forecast budget gaps. In September 2017, the Council Executive considered an update from officers which set out a revised estimated budget gap of £66.1 million. This report set out the public consultation details as follows:

- ▶ Priorities for the next five years, drawing on the existing eight priorities of the Corporate Plan 2012/17 to ask respondents to comment on their ongoing suitability for West Lothian and again asking respondents to rank the priorities in order of importance.
- ▶ Seek views on the outline officer proposals for reductions and / or changes to services provided by the Council in seeking to balance the Council's financial position over the next five years.
- ▶ Seek views on the annual Council Tax increase of 3% which had been assumed in the budget model.

The consultation period will run from 16 October to 12 November 2017, with officers reporting on the results of the consultation to the relevant Policy Development and Scrutiny Panels for consideration in December 2017.

The development of the Council's new five year corporate plan and supporting corporate strategies, including the financial strategy resulting from the public consultation and subsequent consideration by members, are due to be approved in February 2018.

At the current time, therefore, the budget proposals are not public although we understand that management categorises these by prioritisation savings and efficiency savings, essentially considering how savings can be made in what the Council does, and secondly by how it does it. The required savings are expected to be found by an approximate 50:50 split between these two aspects.

Overall, we have assessed that the Council fully recognises the need for medium-term financial planning, linked to delivery of the corporate plan priorities. However, members have not yet been involved in determining the proposed areas of transformation and targeted savings. These are expected to include difficult decisions and so in our view this could leave the delivery of savings in the required timescales at risk.

***Action plan point - 7***

### Long-term capital programme

2017/18 represented the final year of the current capital programmes for both general and housing services.

Capital investment of £49.8 million on general fund services was approved in the budget although £21.9 million of investment already committed in 2018/19 and beyond was highlighted. By completion of the financial year 2017/18, this will bring £257 million of investment over the previous five years.

The Council is in the process of developing a 10-year capital plan to be approved along with the next round of the Corporate Plan and underpinning strategies. This will be phased for years 1-5 individually and then years 6-10 as one phase.

The Accounts Commission's 2015/16 financial overview report provided comparison levels of borrowing across councils. While the Council has a relatively high level of borrowing, in terms of affordability, it was the 11<sup>th</sup> lowest in terms of percentage of income used to service debt. The Council has accelerated elements of borrowing to fund the 2017/18 programme as interest rates continue to be low, leaving more of the Capital Fund available to fund the longer-term programme.

A housing capital budget of £77.2 million was approved for 2017/18, comprising £60.7 million on the new build housing programme and £16.5 million on other works including planned refurbishments. This is an ambitious programme, and reflects partly the under-delivery in the new build programme to date.



Funding of the housing capital programme is predominantly through borrowing of £53.5 million, with right to buy sales generating £5.6 million through completion of final sales before the legislative change which brought an end to tenants' right to buy. The retention of council housing will significantly impact on HRA rental income in the future, supporting the increased borrowing levels.

### Other long-term liabilities

#### *Retirement benefits*

We reported earlier on the significant increase in the liability assessed at the balance sheet in respect of the Council's obligations for pensions. Individual council obligations, and their corresponding affordability, reflects on a number of factors:

- ▶ performance of the pension funds of which they are members
- ▶ assumptions made by actuaries of the various funds
- ▶ the maturity of the council's membership (average age of pension scheme members)
- ▶ decisions made by councils to award discretionary benefits to staff retiring early.

In the Accounts Commission's 2015/16 financial overview report, at approximately 40%, the Council had the sixth lowest ratio of pension liability to net revenue. While this ratio has increased substantially to closer to 79%, similar movements will have affected all councils and so this remains one of the lower percentages.

#### *PPP liabilities*

The Council has two PPP contracts for schools, both over 31-year periods, one of which expires in 2032 and the second in 2039. The outstanding principal on these contracts totals £65.5 million at 31 March 2017. In line with other long-term leasing obligations, the Council also makes annual payments in respect of interest, lifecycle capital costs and operating costs.

### Integration of Health and Social Care

The Public Bodies (Joint Working) (Scotland) Act 2014 established the legal framework for integrating health and social care in Scotland. The West Lothian Integration Joint Board (the WLIJB) was legally established on 21 September 2015 and from 1 April 2016 took on the relevant functions and resources delegated to it from both the Council and NHS Lothian. The Council committed £60.6 million of expenditure to the WLIJB in 2016/17 and received direction from the WLIJB in respect of use of these resources in the year. The Council's 2017/18 budget approved resource of £69.4 million, representing the growth in resources required in this area.

### Edinburgh and South East Scotland City Region Deal

The Council is one of six local authorities within the Edinburgh and South East Scotland City Region Deal. The City Region Deal was approved in July 2017, with commitment from the Scottish and UK Governments to provide significant investment, along with additional investment from the councils as well as universities within the region. This provides opportunity for the Council to work with its partners to use this investment to improve economic performance in the region, deliver services more effectively and tackle inequality and deprivation.

### Financial sustainability – what have we concluded?

- ▶ We have concluded that the Council's financial position is generally sound. While significant investment is required in response to demographic pressures, it has a good basis to undertake this investment.
- ▶ The Council has an established process for aligning its financial strategy to its corporate plan priorities. As a result only a one-year budget was approved for 2017/18, as this was the final year of the existing five year corporate plan. The Policy Development and Scrutiny Panels will consider the results of the public consultation in respect of officers' savings proposals in December 2017, prior to Council approval of a new five year corporate plan and underlying financial strategy in February 2018. In our view, since difficult decisions are expected to be required, the timeline for involvement of members could leave the delivery of savings in the required timescales at risk.

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.

### Governance arrangements

During our audit, and in conjunction with the BVAR work, we have reviewed the Council's overall governance arrangements. In line with responsibilities of the Council, this has considered the Council's arrangements as they relate to standards of conduct including for the prevention and detection of fraud and error.

The Council has a set of Standing Orders which regulate the way it goes about its business, supported by the Scheme of Administration which sets out the membership, powers and responsibilities for full council, all its committees, sub-committees, working groups, Policy Development and Scrutiny Panels and Local Area committees. The Financial Regulations contain the Council's arrangements for the proper administration of its financial affairs. In line with good practice, all documents are kept up to date to reflect changes.

The full Council of 33 Members meets approximately every six weeks, with most of the Council's important decisions and policies made by the Council Executive or the Education Executive. The Council Executive meets twice between meetings of full Council, and the Education Executive once.

During 2016/17, the Council was led by a minority Labour administration. Following the May 2017 elections, which returned 13 Scottish National Party, 12 Scottish Labour Party, seven Scottish Conservative and Unionist and one Independent members of Council. The remains a minority Labour administration.

### Member training

The Council offers training to elected members through the year, and make available on its website details of the 19 events hosted during 2016/17 and the number of members who attended this. The content of training was broad and covered a range of subject matters corresponding to the breadth of responsibilities held by elected members.

Following the May 2017 elections, induction training was provided for new and returning members. Discussions with members as part of the ongoing Best Value work found that members were positive about the nature and extent of training provided.

We understand that Human Resources are in the process of developing and progressing individual training plans for members and records of training undertaken. While senior officers respond to and provide informal briefings to members when they have queries, given the increasing challenges facing local government, we would encourage individual tailored plans to be developed for elected members to support them in discharging their roles in ensuring Best Value in provision of services at the Council over the coming term in office.

### Annual Governance Statement (AGS)

The AGS sets out the Council's governance framework. The Council supports its arrangements through its local code of corporate governance, and assessments are undertaken regularly of compliance against this. Other core support for the AGS is through the system of compliance statements which are obtained from key individuals in the Council's management team, relating to their areas of responsibility.

The annual report from the Audit, Risk and Counter Fraud Manager is a further source of support for the AGS. This report concluded "*that the council's framework of governance, risk management and control is generally sound.*" We observed that of the 19 reviews for which an audit conclusion was provided, two obtained an '*unsound*' conclusion and nine '*required improvement*'. With over half of the reviews receiving one of the bottom two gradings produced by internal audit; we considered whether the overall support for the AGS was appropriate. We judged that since areas requiring improvement were included within the AGS then there was appropriate transparency and disclosure of the underlying control framework. The Audit, Risk and Counter Fraud Manager has further advised that in reaching his conclusion, he considers other sources of assurance than that of the individual audit reviews.

### Focus on Audit and Governance and Risk Committee arrangements

Prior to the local elections in May 2017, the audit and governance committee had primary responsibility for matters relating to internal and external audit, and the governance arrangements of the Council. During 2016/17 this committee continued to be chaired by a member of the administration, which as also reported by the Council's former auditor, does not accord with our own, or the Accounts Commission's, views on best practice for independence of audit committee chairs.

The main change to the Council's committee structure following the elections was to split the remit of the audit and governance committee into two, replacing it with an audit committee and a governance and risk committee. Both of these committees have a membership of five (two Labour, two Conservative and 1 SNP), with in addition one lay member currently appointed to the audit committee, and a lay member due to be appointed to the governance and risk committee. At the current time, three of the five members of each committee are the same, while the SNP members are not taking up their one position on each committee.

The remits of the two new committees contain some significant overlap, for example in June 2017 both committees considered the Internal Audit Annual Report. There are a number of occasions where it is likely that the same reports from officers may need to be considered by both committees in order to fully discharge their responsibilities.

Management have explained that the reason for the split is to allow members to have a greater focus in particular on risk within the Council. We agree with this principle as there has been limited consideration or review of the corporate risk register at any committee of the Council during the year, as this was performed at the Governance & Risk Board during the year.

While the chairs of both new committees are not currently members of the minority administration, best practice would suggest formalising the arrangement within the Scheme of Administration such that the chair, or vice-chair, of these important committees should not be drawn from the administration.

Given the new arrangements, and the potential overlap in remit, we believe it will be important for officers and members to keep the operation of the committees under review during their first cycles of operation.

**Action plan point - 8**

### Focus on performance and scrutiny arrangements

The scrutiny of performance by members is carried out in different places in the decision-making structure. There are two committees, Performance committee and Education (Quality Assurance) committee (EQAC) and nine Policy Development and Scrutiny Panels (PDSPs).

The Council operates a series of PDSPs. These are small groups of councillors (four Labour administration, three opposition) and up to six invited third party representatives, who develop new policies for the Council, or scrutinise the workings of existing policies to consider where changes are needed. They do not have the power to actually make decisions, but they make recommendations to the Council Executive or Education Executive for them to make decisions which are binding on the Council.

Since they report through either the Council Executive or the Education Executive, the current membership of the PDSPs is such that most have a majority of elected members who are also members of either executive committee.

The PDSPs therefore play an important role in the development and scrutiny of policy decisions. In undertaking this role, in accordance with the Scheme of Administration their remit also includes the review of periodic service performance reports. This enables them to make recommendations to officers for improvements or actions to be taken.

This is an important part of the scrutiny of policy, although in our view we do not consider this alone would represent sufficient scrutiny of service performance by elected members.

The main committees in the structure for consideration of performance are the Performance committee, and for education services, the EQAC.

The Performance committee comprises five members. In practice, it has been and is currently chaired by a non-administration member, although the Scheme of Administration does not require this, nor does it set out whether members of the Executive(s) may or may not be on the committee. According to its remit, the purpose of the committee is consideration of the Council's corporate performance, including ensuring that performance management arrangements cover Best Value considerations.

The EQAC has since its inception been chaired by a non-administration member. Its membership includes religious and parent members and parent council representatives are invited to attend for each school under review. It considers reports from external and internal school inspections and reviews and the action plans that have been developed in response. There is evidence of member involvement in scrutiny and a willingness to follow up reports at future meetings to monitor progress. Of its 13 elected member representation, 11 of these members are also on the Education Executive.

In our view, there is scope to review and potentially enhance the arrangements in the Scheme of Administration for review of performance within the committee structure, to ensure that this provides for sufficient involvement from elected members drawn from outside the decision-making committees of the Council.

#### **Action plan point – 9**

The Performance committee sets a work-plan for the year and receives an annual report on the Council's performance within the Local Government Benchmarking Framework. From our review of committee business, there has tended to be more focus on service performance reports than overall corporate performance reporting. Further, from our review of minutes there is limited evidence of challenge and oversight of corporate performance of the Council, as the minutes often record that members noted the content of reports without recording any challenge or scrutiny which may have occurred.

Robust challenge and involvement from elected members in driving improvement of Council performance at a corporate level is a key element of a commitment to delivering Best Value.

#### **Action plan point – 10**

### Focus on Internal Audit

The Council has an in-house internal audit function which is designed to provide members and management of the Council with independent assurance on risk management, internal control and corporate governance processes. As part of our first year appointment, we considered aspects of internal audit's performance with relevance to their compliance with Public Sector Internal Audit Standards (PSIAS). Our work in this area was assisted by Internal Audit's own self-assessment against PSIAS, and an independent peer review of this self-assessment by the Chief Internal Auditor from Moray Council. Broad compliance with the PSIAS was noted.

Overall, the Council's Internal Audit team demonstrates a number of areas of good practice, including clear access and reporting to the leadership team and the audit committee. Review of internal audit reports and observation of audit committee meetings evidenced that management is subject to challenge.

The Audit, Risk and Counter-Fraud section consists of 7 FTE of skilled and experienced personnel, with access to more specialised IT technology support through its partnership relationship with Falkirk Council. The internal audit complement is 3 FTE. The relatively small size of the team, which is reflected in the cost of the function being benchmarked as the second lowest in Scotland, increases the inherent risk around the dependency and reliance on key individuals within the team. Our review of Internal Audit working papers found that while there was a structured quality review process, there were opportunities to enhance aspects of assignment working paper review and sign-off to be aligned with good practice which we have discussed with management.

The PSIAS assessment identified that planned audit reviews are not prioritised in the internal audit plan for the year. The Audit, Risk and Counter Fraud Manager provided the mitigation that this is due to the intention to complete the annual internal audit plan each year, giving every review the same high priority. We have observed that experience shows that this is not the case, with reviews being rescheduled into future years or removed from the plan as other pressures on resource arise.

#### **Action plan point - 11**

In line with the Council's performance management framework, Internal Audit reports against a series of performance indicators. Notable is the highly positive feedback which is consistently received from services which have been subject to audit. However, in our view, there is scope to improve the indicators identified and / or the targets for assessment of performance. For example, the 12-week target as the average time to issue draft reports on completion of assignments is not sufficiently challenging and provides a risk that control weaknesses can continue un-addressed while draft reports are being prepared. Management have advised that in practice, any significant risk or issue would be escalated out with formal reporting cycles.

#### **Action plan point – 12**

### Focus on Internal Audit's role in the organisation

The Audit, Risk and Counter Fraud Manager fulfils a role both as Head of Internal Audit and also Risk Manager. The risk associated with internal audit self-review is mitigated by management ensuring that audit of the Council's risk management process is conducted independently from the in-house internal audit team. Nonetheless, our view is that this combined Risk Manager and Head of Internal Audit role creates a potential conflict of interest.

The delivery of the Council's new corporate plan is likely to bring a period of significant change as the Council works to deliver and enhance services for users, while responding to changing demographics and ongoing budgetary and funding constraints. In our view, at such times, a Risk Manager should be utilising their specialist risk experience and knowledge to provide advice and support to management across the Council in identifying and managing risks, supporting effective internal control, the risk management framework and overall good governance. This allows Internal Audit to be free from any actual or perceived conflict of interest to challenge and scrutinise management on delivery of transformation of Council working practices.

#### **Action plan point - 13**



### Following the public pound

Auditors are required to consider the Council's arrangements for compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound (the FtPP Code). The audit and governance committee received and considered the Accounts Commission's report "*Roles and working relationships in councils - Are you still getting it right?*" Part of this report considered the relationship of working with Arms Length External Organisations (ALEOs). The committee agreed that the contents of the report would be progressed through the Governance and Risk Board and a further report considered if any recommendations arose from that consideration.

Internal audit undertook a review of the monitoring processes in respect of grants to voluntary and not-for-profit organisations. At the time of the review, this covered payments totalling £22.8 million during 2015/16 of which approximately £20.3 million were related to social policy and £2.5 million to other areas. Internal audit concluded that controls were effective where grants were made in respect of social policy, although it highlighted that there was a risk of a lack of effective oversight by members as required information on contract performance had not been properly reported to the Social Policy PDSP.

In respect of funding of other areas, controls were found to be unsound with four 'high' graded recommendations and four 'medium' graded recommendations made by internal audit.

### Focus on West Lothian Leisure

The Council has an interest in one ALEO, West Lothian Leisure Limited (WLL). West Lothian Leisure was established in 1998 but during 2016 converted, from a registered society, to a company limited by guarantee with the council as the sole member. The Council provides a management fee, which for 2016/17 amounted to £1.9 million, being approximately 20% of WLL's income. From 1 April 2017, additional leisure and cultural services were transferred from the Council to WLL.

One consequence of using more complex structures involving ALEOs in delivering services is that the public may be less clear about who is responsible for services. Maintaining transparency by having arrangements that are easy for people to get access to and understand is a key objective of good governance. This is detailed in the Accounts Commission's *How councils work: Arm's-length external organisations (ALEOs): are you getting it right?* 2011 report.

It is good practice that councils should monitor how ALEOs perform against both financial and service expectations. Internal audit undertook a review of financial monitoring and reporting in relation to WLL and concluded that the control framework required improvement. A number of recommendations were made in respect of improving the governance and control environment, which were accepted and management have advised that these have been implemented.

The West Lothian Leisure Advisory Committee is the committee responsible for oversight of the Council's relationship with WLL. As a result of the internal audit report, financial and performance reporting was separated into different reports. However, all papers considered by this committee have up until now been done so in private.

During 2016/17 three members of the advisory committee were also directors of WLL. The Accounts Commission's 2011 report identifies that such roles are incompatible or pose a real risk to governance and accountability, stating that "*the councillor or officer who scrutinises an ALEO on behalf of the council, or makes funding decisions affecting an ALEO, should not be a board member of the ALEO.*"

On 28 February 2017, the Council Executive was given explicit advice about appointment of members to ALEOs based on Standards Commission advice. Since the May elections, no member on the advisory committee is also a director of WLL. However, the Council Scheme of Administration does not set out that this should not occur. In addition to the actions identified by internal audit, therefore, the Council should review its governance arrangements to ensure they provide for a relationship with WLL that is clear and complies with best practice and relevant guidance, thus reducing the risk of conflicts of interest arising.

**Action plan point – 14**

### Fraud and irregularity

In line with our responsibilities under the Code, we have considered the Council's high level arrangements as they relate to the prevention and detection of fraud and error. Overall we consider the Council's arrangements to be appropriate.

#### *National Fraud Initiative*

The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error. These exercises are undertaken every two years as part of the statutory audit of the participating bodies. Local authorities were required to submit datasets in autumn 2016 and matches for investigation and follow-up were released early in 2017.

We reviewed the Council's arrangements for participation in the NFI in support of preparation of a return to Audit Scotland. We were satisfied that the Council had appropriate arrangements to respond to the NFI and had initiated their response to the most recent exercise.

### Standards of conduct

Through consideration of the Council's financial regulations, standing orders and scheme of administration, supplemented by consideration of the Code of Conduct for elected members, we are satisfied that the Council has established appropriate arrangements. The Standards Commission for Scotland did consider two cases in respect of councillors during the period and in both cases found against them for relatively minor breaches in respect of disclosure of interests.

### Governance and transparency – what have we concluded?

- ▶ The Council has a comprehensive framework of governance arrangements and shows clear commitment to the core principles. Internal audit is well respected, however, we have raised a number of recommendations for consideration to strengthen the reporting and monitoring by the audit committee.
- ▶ We consider there is scope to strengthen the arrangements for scrutiny of corporate and service performance. The relationship between the new governance & risk and audit committees should be monitored. The Council needs to improve the controls and governance arrangements around Following the Public Pound.

Value for money is concerned with using resources effectively and continually improving services. This includes consideration of whether resources are being used effectively; services are improving and the Council has appropriate arrangements to demonstrate Best Value.

### Performance and improvement

#### *Framework for improvement*

The Council uses the Covalent performance management software as their central performance management system. Covalent supports management and reporting of performance and includes functionality for setting and reviewing targets and thresholds to trigger intervention or action from the service.

The Council has an improvement strategy which guides how continuous improvement is pursued throughout the organisation. The strategy is well rounded in that it considers the different stages of the improvement cycle, from engagement, to planning, performance management and self-assessment. Services carry out self-assessment of their performance through the West Lothian Assessment Model (WLAM). There are two elements to the WLAM, looking at what has been done (enablers) and what has been achieved (results).

Information on the enablers is provided by the service's assessment team. Results information is lifted from the relevant performance indicators on the Covalent system by the Council's Performance and Improvement Service and analysed jointly along with the assessment team. These performance indicators are related to both processes and activities. A final score is then agreed based on both parts of the assessment.

WLAM cycles run for three years, with each WLAM unit required to carry out one assessment per cycle with the aim of achieving continuous improvement. Assessments are presented to a WLAM Review Panel, which is made up of the Chief Executive and two other senior managers (not from the service subject to review). The Review Panel is set up to provide high level scrutiny and peer review, and ensure a consistent approach to self-assessment.

The Council produced an end of programme report for the WLAM cycle 2014-17. This showed that the average score across the Council had improved from the previous cycle and all services (where comparable information was available) had improved performance in their assessment. The Council did acknowledge that the pace of improvement varied between services and that some services could benefit from swiftly addressing the recommendations from their Review Panel.

The Council is currently considering the refresh of the WLAM programme for 2017-20.

#### **Statutory performance indicators**

The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting. The 2015 Direction set out a streamlined and more flexible set of performance information for the 2016/17 financial year that the Commission required councils to collect and report in public. Councils are required to publish the required information from the financial year ended 31 March 2017 each year through to the financial year ending 31 March 2019. The schedule within the 2015 Direction sets out the required information as:

##### *Achievement of Best Value*

SP 1: Each council will report a range of information setting out its performance in:

- ▶ improving local public services (including with partners)
- ▶ improving local outcomes (including with partners)
- ▶ engaging with communities and service users, and responding to their views and concerns
- ▶ achieving Best Value, including its use of performance benchmarking; options appraisal; and use of resources

##### *Local Government Benchmarking Framework*

SP 2: Each council will report its performance in accordance with the requirements of the Local Government Benchmarking Framework (LGBF)



### Performance and improvement (continued)

The Council utilises four categories of performance indicator in its performance management framework:

- ▶ Public Performance Reporting (PPR): A small number of key indicators – linked to the key processes / activities and / or outcomes that are reported externally, for example to meet the Accounts Commission's requirements.
- ▶ High Level: Key indicators – linked to the key processes / activities and / or outcomes that are reported to senior officers and elected members.
- ▶ WLAM: Indicators of local service performance – linked to the key processes / activities that are reported within the service.
- ▶ Management: Indicators that provide management information for use in the service to plan or forecast provision

Service plans, approved through the PDSPs at the start of the financial year, set out the performance targets for the year ahead as well as reporting on the trend performance against the indicator for the previous three years.

The Council reports annually to its performance committee on comparative performance through the LGBF. The most recent report covered the 2015/16 performance year. This shows that the Council generally performs well against its peers. Using data from the Local Government Benchmarking Framework, the Council calculates an average ranking against other Scottish Local Authorities to measure performance. Under the most recent reported figures it came fifth overall in 2015/16, down from second in 2014/15. The report identified a number of areas where performance had declined, particularly around cost pressures in adult social work.

The BVAR will report in more detail on the Council's performance, focussing in particular on trend performance and the linkage between indicators and improvements in outcomes.

### Options appraisal and decision making

In advance of approving the transfer of management of facilities and functions to a modernised West Lothian Leisure, the Council Executive received a series of papers outlining the options appraisal exercise undertaken in advance of the recommended option. The move to a shared service delivery was driven by the need to generate additional savings of £0.5 million, but the appraisal decision was based on criteria which would indicate the likelihood that the option would support the Council's priorities of people living longer, healthier lives through increased participation in sport, leisure and cultural activities.

In line with the revised arrangements for Best Value, and the Accounts Commission's strategic priorities, our approach to which we set out in our indicative five year plan, we will undertake further detailed work on options appraisal and decision making in future years following the adoption and implementation of the new Corporate Plan.

### Value for money – what have we concluded?

- ▶ We have concluded that the Council has a comprehensive performance improvement framework, founded on the well established West Lothian Assessment Model. This has provided a stable and consistent framework through which services undertake self-assessment and seek to improve their performance.
- ▶ The Council monitors a suite of performance indicators through the Covalent system. Performance information shows that the Council generally performs very well compared to other councils, although the Council recognises areas where performance can be improved.

### **3. Other audit deliverables**

### 3. Other audit deliverables

Under the terms of our appointment, we provide other assurance activities such as the certification of certain grant claims and the Council's Whole of Government Accounts return, as well as information returns to Audit Scotland.

Other audit deliverables			
Aspect of work	What we did and what we found	Expected completion / submission date	Submitted on time
Annual Audit Plan	Reported to audit committee on 27 February 2017	31 March 2017	Yes
Audit Scotland Fraud Return submission	We submitted fraud returns summarising the reporting to audit and governance committee during the year.	26 May 2017	Yes
Submit NFI return to Audit Scotland	Reviewed the Council's arrangements and completed an information return – see conclusion elsewhere in this report	30 June 2017	No – submitted July 2017 due to EY staff illness
Submit Audit Scotland EU Funding questionnaire return	<p>The purpose of this questionnaire was to support the development of an understanding of Scotland's reliance on EU structural funding arrangements and in particular the extent to which public bodies have been preparing themselves for the consequences of not having access to EU funds in the future.</p> <p>We identified that the Council is managing £5.95 million of EU funds through 2016/17 and 2017/18, with 39 staff members involved in associated projects. Updates on the risk facing the Council are reported to the Partnership and Resources PDSP.</p>	30 June 2017	Yes
Submit certified Education Maintenance Allowance return	The return was not received by the Council submission deadline. When testing was undertaken during July, specific supporting evidence was not available for key elements of the claim, with evidence held offsite at schools. Our opinion was qualified as a result.	31 July 2017	No, due to the delays as a result of lack of evidence available from the Council
Submit certified Criminal Justice Social Work claim	Audit work has been undertaken with no significant findings arising.	29 September 2017	Complete
Whole of Government Accounts assurance statement to NAO	Audit work will be undertaken on updated WGA pack, following audit adjustments made to the financial statements.	29 September 2017	Complete
Certify Annual Accounts and submit Annual Audit Report	Pending formal approval of the financial statements	30 September 2017	On target
Submit Best Value Data Return to Audit Scotland	N/A for the Council due to BVAR in 2017	2 October 2017	N/A
Submit certified Non-Domestic Rates return	Audit work has been undertaken with no significant findings arising.	6 October 2017	On target
Submit certified Housing benefit subsidies claim to DWP	Work is in progress and we will discuss findings with the relevant officers prior to submission of our certification report.	30 November 2017	On target

# Appendices

- A – The Council’s responsibilities**
- B – Required communications with the audit committee**
- C – Auditor independence**
- D – Accounting and regulatory update**
- E – Summary of audit differences**
- F – Action plan**

# A. The Council's responsibilities



The Code of Audit Practice (the Code) summarises the responsibilities on all audited bodies falling within the public sector audit framework. We summarise these on this page.

<b>Responsibilities of audited bodies</b>	
<b>Corporate governance</b>	<p>Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.</p>
<b>Financial statements and related reports</b>	<p>Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:</p> <ul style="list-style-type: none"> <li>▶ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.</li> <li>▶ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.</li> <li>▶ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.</li> <li>▶ maintaining proper accounting records.</li> <li>▶ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.</li> </ul> <p>Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.</p> <p>Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<b>Standards of conduct / prevention and detection of fraud and error</b>	<p>Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<b>Financial position</b>	<p>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>▶ such financial monitoring and reporting arrangements as may be specified</li> <li>▶ compliance with any statutory financial requirements and achievement of financial targets</li> <li>▶ balances and reserves, including strategies about levels and their future use</li> <li>▶ how they plan to deal with uncertainty in the medium and longer term</li> <li>▶ the impact of planned future policies and foreseeable developments on their financial position.</li> </ul>
<b>Best Value</b>	<p>Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.</p> <p>Specified audited bodies also have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.</p>

## B. Required communications



There are certain additional communications that we must provide to the Audit Committee, in accordance with ISA 260 and other auditing standards. These are set out below.

Required communication - what is reported?	Our reporting to you
<p><b>Terms of engagement</b></p> <p>Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p>	<p>Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice</p>
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	<p>Annual Audit Plan – 27 February 2017</p>
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Any significant difficulties encountered during the audit</li> <li>▶ Any significant matters arising from the audit that were discussed with management</li> <li>▶ Written representations we have requested</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Any other matters significant to overseeing the financial reporting process</li> <li>▶ Findings and issues around the opening balance on initial audits</li> </ul>	<p>This Annual Audit Report</p> <p>We request written representation from you in respect of key matters arising during the course of our audit, and in accordance with auditing standards. A copy of this letter is provided for your consideration and signature at the time of approval of the financial statements.</p>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>No conditions or events were identified, either individually or together to raise any doubt about the Council's ability to continue for the 12 months from the date of our report.</p>
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Significant corrected misstatements, in writing</li> </ul>	<p>This Annual Audit Report</p>
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Asking the audit committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Council</li> <li>▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> <li>(a) management;</li> <li>(b) employees with significant roles in internal control; or</li> <li>(c) others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ A discussion of any other matters related to fraud, relevant to audit committee responsibility.</li> </ul>	<p>This Annual Audit Report</p>

Required communication - What is reported?	Our reporting to you
<p><b>Significant deficiencies in internal controls identified during the audit</b></p> <ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	This Annual Audit Report
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the Council's related parties including, where applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and/or regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters to report.
<p><b>Subsequent events</b></p> <ul style="list-style-type: none"> <li>▶ Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	We have asked management and those charged with governance. We have no matters to report.
<p><b>Other information</b></p> <ul style="list-style-type: none"> <li>▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.</li> </ul>	We have no matters to report.
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ We were unable to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations.
<p><b>Consideration of laws and / or regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off"</li> <li>▶ Asking the audit committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the audit committee.</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
<p><b>Group Audits</b></p> <ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the group audit team's planned involvement in the component auditor's work on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of a component auditor's work of gave rise to a concern about its quality. Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group or component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	<p>Annual Audit Plan – 27 February 2017</p> <p>This Annual Audit Report</p>
<p><b>Independence</b></p> <ul style="list-style-type: none"> <li>▶ Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</li> </ul>	This Annual Audit Report – Appendix C

Professional ethical standards, and the Terms of our Appointment, require us to communicate all significant facts and matters that have a bearing on EY's objectivity and independence as auditor of the Council.

## What we are required to communicate

Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:

- ▶ The principal threats.
- ▶ Safeguards adopted and their effectiveness.
- ▶ An overall assessment of threats and safeguards.
- ▶ Information on the firm's general policies and processes for maintaining objectivity and independence.
- ▶ Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards.

## Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated 27 February 2017.

We complied with the APB Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your audit committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the audit committee on 25 September 2017.

## Summary of fees

As part of our reporting on our independence, we set out below a summary of the fees initially agreed for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the Code requirements.

Additional auditor remuneration of £4,000 was agreed with management in respect of the audit of the Council's nine charitable trust funds.

Auditor remuneration per Annual Audit Plan	£201,333
Audit Scotland central costs	£130,480
<b>Total fee per Annual Audit Plan</b>	<b>£331,813</b>
Additional auditor remuneration	£4,000
Non-audit service fees	-
<b>Total fees</b>	<b>£335,813</b>



# D. Accounting and regulatory update



There are a number of new accounting standards and interpretations which will impact on the local authority accounting code of practice in the next two or three years. The following table provides a high level summary of those that have the potential to have the most significant impact on you.

Area	Summary	Potential impact
<i>IFRS 9 – Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard will change:</p> <ul style="list-style-type: none"> <li>▶ How financial assets are classified and measured</li> <li>▶ How the impairment of financial assets are calculated</li> <li>▶ Financial hedge accounting</li> <li>▶ The disclosure requirements for financial assets.</li> </ul> <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains uncertainty. The Council will, however, have to:</p> <ul style="list-style-type: none"> <li>▶ Reclassify existing financial instrument assets</li> <li>▶ Remeasure and recalculate potential impairments of those assets; and</li> <li>▶ Prepare additional disclosure notes for material items</li> </ul>
<i>IFRS 15 Revenue from Contracts with Customers</i>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> <li>▶ Leases;</li> <li>▶ Financial instruments;</li> <li>▶ Insurance contracts; and</li> <li>▶ for local authorities, Council Tax and NDR income.</li> </ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>There are transitional arrangements within the standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.</p>	<p>Again CIPFA have issued initial thoughts on the approach to adopting IFRS 15, although uncertainty remains until the Code is issued. For all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none"> <li>▶ Disaggregate revenue into appropriate categories</li> <li>▶ Identify relevant performance obligations and allocate income to each</li> <li>▶ Summarise significant judgements</li> </ul>
<i>IFRS 16 Leases</i>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard, IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p>

# E. Summary of Audit Differences



There were a number of significant adjustments processed to the unaudited financial statements as a result of our audit work. The impact of these is summarised below.

## Summary of audit differences – prior period adjustments

No.	Account	Comprehensive income and expenditure statement (Increase) / Decrease	Balance sheet (Decrease) / Increase
<b>1</b>	<b>Revaluation adjustment to correct increase in value of other land and buildings in prior year</b>		
	Property, plant & equipment – land & buildings		£426.2 million
	Revaluation reserve		£(426.2) million
<b>2</b>	<b>Recognition of revaluation of schools PPP assets</b>		
	Property, plant & equipment – schools PPP assets		£56.0 million
	Revaluation reserve		£(56.0)million
<b>3</b>	<b>Impairment to carrying value of Council Dwelling additions in the period to hold at Existing Use Value – Social Housing in accordance with the Code of Practice on Local Authority Accounting</b>		
	Property, plant and equipment – Council Dwellings		(£12.2 million)
	Impairment recognised in cost of services	£12.2 million	
<b>4</b>	<b>Adjustment to remove HRA developer contributions from creditors and reflect these as a transfer between HRA fund and General Fund.</b>		
	Short Term Creditors		£6.6 million
	Housing Revenue Account Expenditure	(£6.6 million)	
	Housing Revenue Account Fund		£(6.6) million
	General Fund – earmarked reserves		£6.6 million

## E. Summary of Audit Differences (cont.)



There were a number of significant adjustments processed to the unaudited financial statements as a result of our audit work. The impact of these is summarised below.

### Summary of audit differences – current year adjustments

No.	Account	Comprehensive income and expenditure statement (Increase) / Decrease	Balance sheet (Decrease) / Increase
<b>1</b>	<b>Revaluation adjustment to correct increase in value of other land and buildings in prior year</b>		
	Property, plant & equipment – land & buildings		£(426.2) million
	Revaluation reserve		£426.2 million
<b>2</b>	<b>Impairment to carrying value of Council Dwelling additions in the period to hold at Existing Use Value – Social Housing in accordance with the Code of Practice on Local Authority Accounting</b>		
	Property, plant and equipment – Council Dwellings		(£20.6 million)
	Impairment recognised in cost of services	£20.6 million	
<b>3</b>	<b>Adjustment to depreciation in year to reflect depreciation on PPP assets</b>		
	Property, plant and equipment - depreciation		£(12.8) million
	Depreciation charged to cost of services	£12.8 million	
<b>4</b>	<b>Recognition of initial contribution to West Lothian Integration Joint Board and subsequent income received to deliver services.</b>		
	CIES – Service gross income	£(60.6) million	
	CIES – Service gross expenditure	£60.6 million	
<b>5</b>	<b>Adjustment to remove incorrect recognition of an accrual and prepaid income within the draft financial statements.</b>		
	Short-term creditors		£0.5 million
	Short-term debtors		£(0.5) million

## E. Summary of Audit Differences (cont.)



There were a number of significant adjustments processed to the unaudited financial statements as a result of our audit work. One difference remains unadjusted as set out below.

### Summary of audit differences – unadjusted differences

No.	Account	Comprehensive income and expenditure statement (Increase) / Decrease	Balance sheet (Decrease) / Increase
1	<b>Net estimated impact of recognising West Lothian Leisure as a subsidiary in the group financial statements instead of as an associate</b>		
	Group net assets		£(3.0) million
	Group reserves		£3.0 million

This action plan summarises specific recommendations included elsewhere within this Annual Audit Report. We have graded these findings according to our consideration of their priority for the Council or management to action.

## Classification of recommendations

**Grade 1:** Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	<p><b>Financial reporting process</b></p> <p>Overall the financial reporting process is well established within the Council.</p> <p>However, particularly in relation to non-transactional items, we have identified that there are examples where judgements made in the financial statements process are not fully and appropriately documented and approved.</p>	<p>Where key judgements on items within the financial statements are being made, these should be fully documented and subject to approval by the Head of Finance and Property Services, and retained to support current and future year financial statements.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Key judgements will be fully documented and approved by the Head of Finance and Property Services for the 2017/18 financial statements onwards.</p>
2	<p><b>PPE Valuations</b></p> <p>Our audit work identified significant movements in operational building valuations which were not being taken into account when assessing whether, in line with Code requirements, the year end values of assets could be materially different from the carrying value recorded in the financial statements.</p>	<p>Management requires to consider and agree an appropriate process to ensure the valuation cycle is appropriate to take into account potential material movements in key assets, as well as a means to ensure that where a 1 April valuation is undertaken, that the valuation remains appropriate as at the 31 March balance sheet.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>A review will be undertaken by the end of December 2017 to agree an appropriate process.</p>
3	<p><b>Group financial statements</b></p> <p>From 1 April 2017, the articles of association of West Lothian Leisure were changed again. In addition, the company took on additional leisure and culture assets of the Council.</p>	<p>An updated assessment of the group relationship with West Lothian Leisure should be conducted in advance of preparation of the 2017/18 financial statements.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>An assessment has been completed. West Lothian Leisure will be accounted for as a subsidiary in the 2017/18 financial statements.</p>
4	<p><b>Financial management – risk assessment of savings</b></p> <p>Management has an established process of risk assessing the delivering of savings within the in-year budget monitoring. Savings will, however, become increasingly difficult to deliver.</p>	<p>We have discussed with management the means to identify within budget papers the risk assessment associated with individual savings proposals. We recommend that an overall red/amber/green rating is provided to members on savings proposals allowing them to focus on the area of greatest financial risk.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Savings proposals going forward will be assessed on a red/amber/green basis by officers. This information will be included in the revenue budget papers reported to elected members.</p>

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
5	<p><b>Level of uncommitted general fund reserves</b></p> <p>The Council has one of the lowest levels of uncommitted general fund reserves of all Scottish local authorities. While the Council exhibits good in-year financial management, as financial savings become harder to delivery, this low level of reserves reduces the Council's flexibility around budget decisions.</p>	<p>Management should consider whether the target level of uncommitted reserves remains appropriate in the context of approval of the forthcoming medium-term financial strategy.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Management has considered if the level of uncommitted reserves remains appropriate. Taking account of clear financial planning arrangements, sound financial management and the level of other reserves, the Head of Finance and Property Services believes the level of uncommitted reserves is appropriate.</p> <p>The level of uncommitted reserves will continue to be reviewed as part of the revenue budget setting process and will continue to be subject to a specific recommendation in the annual revenue budget report.</p>
6	<p><b>Approval of 2017/18 budget</b></p> <p>As the final year of the existing five year financial plan, the Council set a one-year budget for 2017/18. While an overview of the economic outlook was provided to members, there was no detailed information provided on the financial challenges facing the Council over the medium-term.</p>	<p>While we understand that the Council links the financial strategy to the corporate plan, we recommend that in setting budgets, the Council should always have a multi-year budget strategy in place so that savings are being considered in the context of a medium-term plan.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Updates on the economic context at UK, Scottish and West Lothian level and an update on the council's future budget model are now being presented quarterly to the Partnership and Resources PDSP. In future, these updates will include information for at least three years in advance on the anticipated financial position of the council. This information will also be included in any reports on future financial planning.</p>
7	<p><b>Engagement of members in long-term financial planning</b></p> <p>In advance of public consultation, the corporate management team has been developing proposals to meet the significant forecast budget gaps. While members have approved the overall process, their detailed consideration of officer savings proposals will commence in December 2017. These are expected to include difficult decisions and could leave the delivery of savings in the required timescales at risk.</p>	<p>With significant challenges facing the Council over the coming years, in our view it is important that members take an early lead in shaping the direction of future priorities and service delivery.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Council, in February 2017 agreed objectives, a process and a timetable for corporate and financial planning. In accordance with the agreed process and timetable a consultation is to take place from mid October to mid November and provides all stakeholders in West Lothian with the opportunity to comment on proposed priorities, officer savings proposals and future council tax levels.</p> <p>Reports on all responses to the consultation will be presented to PDSPs in December 2017 providing the opportunity for elected members to share the direction of future priorities and service delivery.</p>

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
<p><b>8</b></p>	<p><b>Operation of audit and governance &amp; risk committees</b></p> <p>With the remit of the audit and governance committee split across these two new committees, to introduce a greater focus on risk, there is the potential for unnecessary duplication in the work of the committees, together with a lack of clarity in respect of where reports and business are considered.</p> <p>In addition, while the audit committee received the unaudited accounts on 30 June 2017, its remit does not formally include the annual accounts and so there is a risk of uncertainty arising around the audit committee's role in considering the external audit report on the annual accounts.</p>	<p>It is recommended that, in line with best practice, these committees undertake annual self-assessments of effectiveness, including with a focus on how they have interacted with each other over a full cycle of reporting. The role of the audit committee with the annual accounts should also be clarified.</p> <p>In addition, best practice would suggest that the scheme of administration sets out that the chairs of these committees should not be drawn from the Council administration.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>It is intended to include a self assessment in the work-plan for both committees.</p> <p>In accordance with the agreed procedures, Council will consider for approval the auditor's annual report and audited annual accounts. Following approval, the auditor's report and the audited annual accounts will be referred to audit committee for information.</p> <p>Changes to the scheme of administration are a matter for elected members of the council to consider. The covering report by the Head of Finance and Property Services on the auditor's annual report will highlight these recommendations to elected members for consideration.</p>
<p><b>9</b></p>	<p><b>Scrutiny of performance</b></p> <p>The Performance committee and the Education (Quality Assurance) committee are the main committees within the scheme of administration for consideration of performance.</p> <p>At the current time, the scheme of administration does not set out the membership of these committees in relation to roles elected members may have on other committees.</p>	<p>In our view, there is scope to review and potentially enhance the arrangements in the Scheme of Administration for review of performance within the committee structure, to ensure that this provides for sufficient involvement from elected members drawn from outside the decision-making committees of the Council.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Changes to the scheme of administration are a matter for elected members of the Council to consider. The covering report by the Head of Finance and Property Services on the auditor's annual report will highlight these recommendations to elected members for consideration.</p>

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
10	<p><b>Performance committee reporting</b></p> <p>The performance committee is the key committee for independent scrutiny of overall corporate performance. Improvements could, however, be made to the information and reports received on corporate performance.</p> <p>Review of committee minutes, and attendance at the committee, also found that there is scope to improve evidence of member involvement in providing robust challenge and scrutiny to drive forward improvement at the Council.</p>	<p>As the key committee for driving improvement at a corporate level, including oversight of the key Council priorities against which the Council reports in its public performance reporting, the performance committee should receive appropriate information on corporate performance and record evidence of effective and robust challenge and scrutiny provided by the committee in respect of achievement of corporate performance targets should be recorded.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>A officer review will be undertaken by the end of October 2017 to consider how reporting and scrutiny on corporate performance can be improved. The documented minutes of performance committee will provide more details of questions and discussion at the committee.</p>
11	<p><b>Prioritisation of internal audit reviews</b></p> <p>Experience has shown that the original annual audit plan is not always delivered with reviews either rescheduled into future years or removed from the plan as other pressures on resource arise. For example, in 2016/17 four reviews were rescheduled to 2017/18 and three removed, totalling 125 days out of the original 370 day plan.</p>	<p>While the audit committee is asked to review a revised plan, in our judgement, prioritisation of reviews in the original plan is important to support members in discharging their oversight role on the appropriate delivery of the internal audit plan for the year.</p> <p>Good practice would also show the audit plan productive days as an element of total resources available.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>In future the audit reviews included in the annual audit plan, and presented to the audit committee for approval, will be prioritised and the productive days as an element of total resources will also be included in the plan.</p>
12	<p><b>Internal audit performance indicators</b></p> <p>In our view, certain targets set for measurement of the performance of internal audit are not sufficiently stretching, with for example 12 weeks to deliver a draft report providing a risk that control weaknesses continue un-addressed while the report is being prepared.</p> <p>Key performance indicators also indicate that 100% of the annual audit plan has been delivered, but this does not relate to a measurement of the original plan set at the start of the year.</p>	<p>A review of internal audit performance indicators should be undertaken to ensure that these are appropriately challenging, relevant to business needs and take account of changes in annual audit plans in the year.</p> <p>In addition, while internal audit reports appear to be suitably challenging of the control environment, a key indicator of the challenge provided is the percentage of recommendations which are accepted and implemented by management.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Internal audit performance indicators are currently subject to ongoing review, however a further review will be undertaken by the end of December 2017.</p>



No.	Findings and risk	Recommendation / grading	Management response / Implementation timeframe
13	<p><b>Role of internal audit</b></p> <p>The Audit, Risk and Counter Fraud Manager fulfils a role both as Head of Internal Audit and also Risk Manager. This creates, in our view, a potential for conflict of interest to arise.</p>	<p>During a forthcoming period of potentially significant change, senior officers should consider the potential for this risk to arise and to ensure there is appropriate mitigation, such that the risk manager is not involved in activities which could subsequently affect their independence in conducting internal audit reviews in certain areas.</p>	<p>The view of the council's Corporate Management Team is that the arrangements in the council have improved significantly since responsibility for risk management was combined with Internal Audit.</p> <p>A review will be undertaken by the end of December 2017 to identify any potential conflicts of interest to ensure mitigating actions are implemented.</p>
14	<p><b>FtPP Compliance / Governance</b></p> <p>Scrutiny of the performance of West Lothian Leisure has been undertaken in private throughout 2016/17. In addition, two members of the committee charged with scrutinising performance have also been directors of the Company. This is not in line with the Accounts Commission's guidance on working with arms-length external bodies.</p>	<p>In addition to addressing the weaknesses identified through an internal audit review, the Council should review the overall governance and scrutiny arrangements in respect of West Lothian Leisure to ensure these accord with best practice.</p>	<p>A review will be undertaken by the end of February 2018 of governance and scrutiny arrangements in respect of West Lothian Leisure.</p>

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