

AUDIT & PERFORMANCE REVIEW COMMITTEE

At a Meeting of the Audit & Performance Review Committee held in Committee Room 3, Council Offices, Garshake Road, Dumbarton on Wednesday, 10 December 2014 at 2.05 p.m.

Present: Councillors Jim Brown, Jonathan McColl, Michelle McGinty, Ian Murray, Martin Rooney and Mr Edward Haynes.

Attending: Joyce White, Chief Executive; Angela Wilson, Executive Director of Corporate Services; Richard Cairns, Executive Director of Infrastructure and Regeneration; Terry Lanagan, Executive Director of Educational Services; Stephen West, Head of Finance and Resources; Colin McDougall, Audit and Risk Manager; Soumen Sengupta, Head of Strategy, Planning & Health Improvement, West Dunbartonshire Community Health & Care Partnership; Peter Barry, Head of Customer & Community Services; and Craig Stewart, Committee Officer, Legal, Democratic and Regulatory Services.

Also Attending: Mr David McConnell, Assistant Director; Ms Elaine Boyd, Senior Audit Manager, and Mr Laurence Slavin, Senior Auditor, Audit Scotland.

Apologies: Apologies for absence were intimated on behalf of Councillors George Black, Tommy Rainey and Gail Robertson and Mr Stevie J. Doogan.

Councillor Jonathan McColl in the Chair

DECLARATIONS OF INTEREST

It was noted that there were no declarations of interest in any of the items of business on the agenda at this point in the meeting.

MINUTES OF PREVIOUS MEETING

The Minutes of Meeting of the Audit & Performance Review Committee held on 24 September 2014 were submitted and approved as a correct record.

TREASURY MANAGEMENT MID YEAR REPORT 2014/15

A report was submitted by the Executive Director of Corporate Services providing an update on treasury management during 2013/14.

After discussion and having heard the Head of Finance and Resources and relevant officers in further explanation and in answer to Members' questions, the Committee agreed:-

- (1) to note the 2014/15 revised estimates of treasury and prudential indicators as advised within the report (Tables A, B, C, D, E, F, H, M and N); and
- (2) to note the amendment to the investment counterparty criteria for Category 1 - Good Credit Quality (Section 4.5.4 of the report).

REMIT FROM WEST DUNBARTONSHIRE COUNCIL: AUDIT SCOTLAND - ANNUAL REPORT ON THE 2013/14 AUDIT

In terms of remit from the Meeting of West Dunbartonshire Council held on 29 October 2014 (Page XXXX refers), there was submitted relevant excerpt minute and report advising on the findings in relation to the external auditor's final report to Members on the completion of their 2013/14 audit.

The Committee agreed to note the contents of the report.

INTERNAL AUDIT PLAN 2014/15 PROGRESS REPORT TO 30 SEPTEMBER 2014

A report was submitted by the Executive Director of Corporate Services advising on the work undertaken by the Internal Audit Section against the Audit Plan 2014/15.

After discussion and having heard the Audit and Risk Manager, Executive Director of Corporate Services and relevant officers in further explanation and in answer to Members' questions, the Committee agreed to note the contents of the report.

AUDIT ACTION PLANS

A report was submitted by the Executive Director of Corporate Services advising of recently issued Internal Audit action plans and progress made against action plans previously issued contained within Internal Audit and External Audit Plans.

After discussion and having heard the Audit and Risk Manager, Chief Executive and relevant officers in elaboration and in answer to Members' questions, the Committee agreed:-

- (1) to note the terms of the discussion that had taken place in respect of this matter, particularly the management actions that were being taken to tackle and deal with the continuing problem of sickness absence, which had been highlighted by Audit Scotland; and
- (2) otherwise to note the contents of the report.

STRATEGIC RISK AND RESILIENCE

A report was submitted by the Executive Director of Corporate Services on the outcome of the six month assessment of Strategic Risks and an update on progress of resilience planning.

After discussion and having heard the Executive Director of Corporate Services, Chief Executive and relevant officers in further explanation and in answer to Members' questions, the Committee agreed to note the contents of the report.

FOOD STANDARDS AGENCY AUDIT OF WEST DUNBARTONSHIRE COUNCIL - FOOD ENFORCEMENT SERVICE

A report was submitted by the Executive Director of Corporate Services on the results of the Food Standards Agency (FSA) audit of the Environmental Health Section's Food Law Enforcement Service.

The Committee agreed to note the positive outcome of the FSA audit report.

SCOTTISH PUBLIC SERVICES OMBUDSMAN COMPLAINTS REPORT 2013/14

A report was submitted by the Executive Director of Corporate Services presenting the Scottish Public Services Ombudsman (SPSO) report 2013/14 on complaints handling by West Dunbartonshire Council.

After discussion and having heard the Executive Director of Corporate Services, Chief Executive and relevant officers in further explanation and in answer to Members' questions, the Committee agreed to note the contents of the report.

The meeting closed at 3.10 p.m.

WEST DUNBARTONSHIRE COUNCIL**Report by Executive Director of Corporate Services****Audit and Performance Review Committee: 11 March 2015**

Subject: Internal Audit Plan 2014/15 Progress Report to 31 January 2015**1. Purpose**

- 1.1** The purpose of this report is to advise Members of the work undertaken by the Internal Audit Section against the Audit Plan 2014/15.

2. Recommendation

- 2.1** It is recommended that the Committee note the contents of this report.

3. Background

- 3.1** In accordance with the Annual Audit Plan, Internal Audit report to Members on the work completed by the Section on a regular basis. The progress report for the ten months to 31 January 2015 is attached at Appendix A.

4. Main Issues

- 4.1** There are variances from the planned programme of work reported at this stage of which the most significant is an adverse variance of 234 days for leave (comprises annual leave / public holidays / sickness absence / special leave). This is principally due to 337 days of absence arising from long term sickness. Work for the remainder of the Audit Plan for 2014/15 is being prioritised to ensure that the programme of risk based audits can be completed.
- 4.2** The adverse variance of 151 days for staff turnover relates to voluntary early retirement. As part of the continuous review of service, two posts have now been deleted from the structure with the remaining resource in place continuing to provide the appropriate level of audit assurance.
- 4.3** The favourable variance for investigations of 127 days reflects both a reduction in the level of investigations work but also a significant change to the approach to this area of work in that there is now a greater level of partnership working across the Council as appropriate in order to achieve the most beneficial outcome for the organisation.
- 4.4** The Benefits Fraud Team will be transferred to join Internal Audit from 1 April 2015. This will enable a joined-up approach to fraud detection and will gradually see the WDC fraud team shift focus more onto corporate fraud areas.

5. Personnel Implications

- 5.1** The audit team is now around the same size of teams in other similar-size authorities.

6. Financial Implications

- 6.1** There are no financial implications.

7. Risk Analysis

- 7.1** There is a risk that failure to deliver sufficient of the Internal Audit Plan would result in an inability to provide assurances over the Council's system of internal financial control to those charged with governance. The main basis for providing assurance is coverage of the planned risk based systems audits. Every endeavour is made to ensure that no material slippage occurs in risk based systems audits by concentrating resources on these audits.

8. Equalities, Health & Human Rights Impact Assessment

- 8.1** EIA is not appropriate to this report.

9. Consultation

- 9.1** This report has been subject to a check by Legal, Democratic & Regulatory Services.

10. Strategic Assessment

- 10.1** This report relates to "Assuring Our Success through strong financial governance and sustainable budget management".

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Angela Wilson
Executive Director of Corporate Services
Date: 10 February 2015

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Appendices: A – Internal Audit Report for the ten months to 31st January 2015

Background Papers: Audit & Performance Review Committee – 12th March 2014: Internal Audit Plan 2014/15.

Wards Affected: N/A

WEST DUNBARTONSHIRE COUNCIL**Appendix A****INTERNAL AUDIT SECTION****PROGRESS REPORT FOR THE PERIOD 1ST APRIL 2014 TO 31st JANUARY 2015**

CATEGORY	PLANNED TIME (DAYS)	ACTUAL TIME (DAYS)	VARIANCE (DAYS)
Risk Based Audit	367	322	45 F
Computer Audit	75	81	-6 A
Development	73	32	41 F
Investigations	257	130	127 F
CRSA/Regularity	79	21	58 F
Corporate Governance	75	38	37 F
Follow Up	28	23	5 F
Year-End Procedures	16	9	7 F
Performance Indicators	21	8	13 F
Financial Services/Grant Claims	21	13	8 F
Pub.Int.Disc/Contingency/NFI Admin/FOI	45	30	15 F
Administration / Staffing	73	74	-1 A
Management & Planning	77	43	34 F
Training / Staff Development	68	66	2 F
Leave (including sickness absence)	269	503	-234 A
Staff Turnover	0	151	-151 A
TOTAL	1544	1544	0

WEST DUNBARTONSHIRE COUNCIL**Report by Executive Director of Corporate Services****Audit and Performance Review Committee: 11 March 2015**

Subject: Audit Action Plans**1. Purpose**

1.1 The purpose of this report is to advise the Committee of:

- Recently issued Internal Audit action plans; and
- Progress made against action plans previously issued contained within Internal Audit and External Audit reports.

2. Recommendations

2.1 It is recommended that Members consider and note the contents of this report.

3. Background

3.1 When audit reports are issued by External and Internal Audit departmental management agree an action plan in relation to issues highlighted by the audit report. Progress on implementing the actions is monitored and reported to the Audit and Performance Review Committee.

4. Main Issues

4.1 Appendix A contains Internal Audit action plans recently agreed and issued. Appendix B details the outstanding actions on previously issued Internal Audit reports. Appendix C details the outstanding actions for External Audit reports.

5. People Implications

5.1 There are no personnel issues with this report.

6. Financial Implications

6.1 There are no financial implications with this report.

7. Risk Analysis

7.1 The key areas of work performed by both Internal Audit and External Audit are carried out according to a risk based approach that

determines the nature, extent and timing of the required audit assignments.

7.2 Recommendations have timescales for completion in line with the following categories:

Category	Expected implementation timescale
<u>High Risk:</u> Material observations requiring immediate action. These require to be added to the department's risk register	Generally, implementation of recommendations should start immediately and be fully completed within three months of action plan being agreed
<u>Medium risk:</u> Significant observations requiring reasonably urgent action.	Generally, complete implementation of recommendations within six months of action plan being agreed
<u>Low risk:</u> Minor observations which require action to improve the efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management.	Generally, complete implementation of recommendations within twelve months of action plan being agreed

8. Equalities Impact Assessment (EIA)

8.1 There are no issues identified.

9. Consultation

9.1 This report has been subject to a check by Legal, Democratic & Regulatory Services.

10. Strategic Assessment

10.1 This report relates to Assuring Our Success through strong financial governance and sustainable budget management.

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Angela Wilson
Executive Director of Corporate Services
Date: 9 February 2015

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Appendices: A - Internal Audit Reports (Recently Issued)
B - Internal Audit Reports (Previously Issued)
C - External Audit Reports

Background Papers: Internal Audit Reports
External Audit Reports






Wards Affected: All Wards

Appendix A


Internal Audit Reports (Recently Issued)




Generated on: 06 February 2015









Action Status	
	Cancelled
	Overdue; Neglected
	Unassigned; Check Progress
	Not Started; In Progress; Assigned
	Completed

Project 74. Repairs and Maintenance - Health & Safety (Report Issued January 2015)

Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
<p><u>1. Use of Register of Adresses Where Care Should Be Taken</u></p> <p>Management should make employees aware where the register of addresses where care should be taken can be obtained in order that they can refer to it.</p> <p>Medium Risk</p>	<p>WDC do not have an official flagging system due to system capabilities and data protection obligations, however information is informally shared and made available to teams.</p> <p>Supervisory staff have been instructed to review this prior to instructing employees to visit or work in properties and advise where care should be taken.</p>		<div>0%</div>	28-Feb-2015	28-Feb-2015	Martin Feeney	


Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
	The Integrated Housing Maintenance System (IHMS) will allow automatic flagging on electronic / physical pre-works and repair orders once introduced probably in 2015/16 – 2016/17.						
<u>2. COSHH Risk Assessments Not Reviewed by H & S Team</u> The Control of Substances Harmful to Health (COSHH) risk assessments should be reviewed by the Maintenance and Repairs Health and Safety Assessment Team to ensure that they fully comply with the current legislation and practices. Medium Risk	The Maintenance and Repairs review team were reconvened to review COSHH and Manual Handling Assessment in addition to working on new style of Risk Assessment / Safe System of Work (RA / SSoW) in-line with BSI British Standards BS 18004:2008. The COSHH assessments will be reissued by the end of March 2015.		<div><div>0%</div></div>	30-Apr-2015	30-Apr-2015	Martin Feeney	
<u>3. Control of Noise Assessments Not Carried Out Periodically</u> Control of noise assessments should be carried out periodically to ensure that exposure does not exceed the legal limit. Medium Risk	The Corporate Health and Safety section will complete assessments of the workshops ensuring legal noise limits are not being exceeded. Any concerns raised will be addressed and all recommendations considered.		<div><div>0%</div></div>	31-Mar-2015	31-Mar-2015	Martin Feeney	
<u>4. Fire Alarms Not Regularly Tested</u> Fire alarms should be tested regularly to ensure that they	Procedures in-line with the Council policy have now commenced in Cochno Street depot		<div><div>100%</div></div>	31-Jan-2015	31-Jan-2015	Martin Feeney	Procedures in-line with Council policy have now recommenced in all Maintenance and Repairs

Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
are in good working order. Medium Risk	where weekly testing of call points appeared to have fallen away. All other Maintenance and repair establishments test weekly and maintain records to evidence this.						establishments where call points are tested on a weekly basis and records maintained to evidence this.
<u>5. H & S Inspection Overdue</u> The H & S Inspection by HEED Management of the Cochno St premises must be carried out at the earliest opportunity. A copy should be forwarded to the Corporate H & S team for their information. Medium Risk	An inspection was carried out on 3.10.14 by TU and management representatives and a copy forward to the Corporate H & S team. This will be carried out at 3 monthly intervals in future.		<div><div>100%</div></div>	31-Jan-2015	31-Jan-2015	Martin Feeney	Appropriate inspections are being carried out in all Maintenance and Repairs establishments which are in-line with Council policy and procedures.
<u>6. Employees Not Familiar With H & S Policy and Procedures</u> Management should take steps to make employees aware of where the H & S Policy and Procedures can be found. Low Risk	An item will be included in February's team brief. Information leaflets will be posted on notice boards and information will also be included in the crafts persons employee manual which will be issued by end of March 2015.		<div><div>0%</div></div>	30-Apr-2015	30-Apr-2015	Martin Feeney	
<u>7. Training In Breakaway Techniques</u> Management should arrange to have all front line employees trained in breakaway techniques. Low Risk	The RA / SSoW 'Lone Working – Including Out of Hours Emergencies' will be replaced with a new SSoW using the BSI British Standards BS18004:2008 format which should be introduced in April 2015 following which all employees will attend training on the new format.		<div><div>0%</div></div>	30-Jun-2015	30-Jun-2015	Martin Feeney	


Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
<u>8. Access to Relevant H & S Reports</u> Management should make relevant H & S reports available to employees and advise them where they can be found. Low Risk	Incidents are discussed at Maintenance and Repairs JCC and H&S committee meetings including data on the number, type of H&S incidents that have occurred. Reports from Corporate H & S will be included in the discussions. Advice on where this information can be found will be posted on notice boards in future and will continue to be included in team briefs.		<div><div>0%</div></div>	28-Feb-2015	28-Feb-2015	Martin Feeney	
<u>9. First Aid Requirements</u> There should be a formal assessment of the first aid requirements of the premises and adequate processes put in place as a result. Low Risk	Management will arrange to have documented evidence produced showing compliance. Assessments had been carried out in terms of the council policy and the appropriate numbers of officers have been trained and adequate procedures are in place in all Maintenance and Repairs Offices / Depots.		<div><div>100%</div></div>	31-Jan-2015	31-Jan-2015	Martin Feeney	Maintenance and Repairs is a higher risk category area and a reassessment of its first aid requirements has now been completed. Currently there are 12 First Aiders and in addition some craftspersons have attended first aid basic courses.
<u>10. Display Screen Equipment Guidance</u> Employees should be advised where guidance on the use of Display Screen Equipment (DSE) can be found in order that they can consider if their work place complies with it.	Employees will be advised where the Council's self-assessment DSE process can be found on the WDC Intranet. Where it is necessary to engage a specialist DSE assessor; these will be engaged as at present		<div><div>0%</div></div>	28-Feb-2015	28-Feb-2015	Martin Feeney	

Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
Low Risk	via the council's OH provider. Information will be included with the February Team Brief.						

Project 76. Travel & Subsistence (Report Issued February 2015)

Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
<p><u>1. Issues Relating to Policy & Practice</u></p> <p>It is recommended that the Travel & Subsistence Policy be reviewed to ensure that key points are clear and explicit, where appropriate. This should ensure that staff and managers are clear on the process of claiming and approving claims and that there is a consistent approach across the Authority.</p> <p>In addition, employees should be reminded of their responsibilities when making/approving mileage claims in accordance with the requirements of the policy particularly in relation to:</p> <p>timescale for submission of claims claiming of appropriate rates i.e. business or public transport rate, or use of public transport for business</p>	<p>The policy is currently being reviewed and these audit findings will inform further changes. The undernoted will be used as milestones and underpin communication of revised arrangements.</p> <p>Claimants and authorisers of claims will be reminded that an appropriate VAT receipt dated no later than the date of the first journey should be submitted with the claim form in line with HMRC requirements and appropriate receipts for all other expenditure claimed.</p> <p>Claimants will be reminded that all appropriate details should be recorded on the claim form which validates the mileage</p>		<div>0%</div>	30-Sep-2015	30-Sep-2015	Paul McGowan	

Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
<p>journeys checking of driving documents on an annual basis submission of VAT receipts with mileage claims submission of expenditure receipts with all claims for subsistence</p> <p>Medium Risk</p>	<p>claim. It is not sufficient to record e.g. 'to bank' 'to/from Dumbarton' etc.</p> <p>Claimants should be reminded to use the RAC or AA mileage calculators to ensure that the correct distance and mileage is being claimed. Authorisers of claims should also spot check calculations of mileage.</p> <p>Managers who have omitted to carry out annual checking of driving documents i.e. driving licence, insurance certificates and MOT certificates (if appropriate) should now do so, and thereafter ensure that appropriate processes are put into place for this check to be carried out on an annual basis.</p> <p>Departments should be reminded of the requirement of carrying out an annual check of driving documents. Claimants should be reminded that all claims must be authorised by a line manager/appropriate member of staff who is certified as an authorised signatory.</p> <p>Departments/Managers</p>						

Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
	<p>should be reminded of their responsibility in relation to excess travel where staff have been relocated. Claims for the extra mileage incurred must be considered in accordance with the Revised Excess Travel Scheme 2014.</p> <p>A review of the requirements to claim additional mileage for peripatetic employees should be undertaken by the employee's Manager and HR Business Partner per the requirements of the post.</p>						
<p><u>2. Issues Relating to Processes</u> Consider how payroll modernisation may assist in further streamlining processes for the payment of mileage and expenses</p> <p>Medium Risk</p>	<p>A process to collate and hold a full and comprehensive list of authorised signatories approved to authorise payroll documentation including travel & subsistence claims should be undertaken. Additionally, the listing should be reviewed periodically to ensure the list is appropriately.</p> <p>Claimants should be reminded that all claims must be authorised by a line manager/appropriate member of staff who is certified as an authorised signatory.</p>		<div>0%</div>	31-May-2015	31-May-2015	Arun Menon	






Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
	Payroll team to refuse/reject claims for remedial action where they do not comply with any aspect of the policy (this applies even where the manager has authorised)						

Appendix B





Internal Audit Reports (Previously Issued)

Generated on: 06 February 2015



Action Status	
	Cancelled
	Overdue; Neglected
	Unassigned; Check Progress
	Not Started; In Progress; Assigned
	Completed

Project 60. Procurement Corporate Function 13-14 (Report Issued December 2013)

Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
<u>1. Procurement Risk Register</u> The action identified to mitigate the risk of suppliers failing to perform to agreed standards should be implemented ie. Implement strategic sourcing toolkit. Low Risk	Agreed. This is an action in our 2013/14 Service Plan and development and delivery will continue into 2014/15.			31-Dec-2014	30-Apr-2015	Stephen West	A Priority Action Plan has been developed with supplier and contract management being a key action. SRM Policy and Procedures will be rolled out over the next few months.
<u>2. Monitoring of Procurement Spending</u> Procurement should monitor the volumes / quantities of goods procured in order to assess levels of demand and investigate instances of increase.	At the moment this is done as and when a tender is being developed for market. We have an action in our 2013/14 Service Plan to develop reports in this area and this will			31-Dec-2014	28-Mar-2015	Stephen West	This will be completed by 28th February 2015.

Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
Low Risk	continue into 2014/15.						

Project 61. CHCP Excursions S.014.13 (Report Issued December 2013)








Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
<u>1. Excursions Policy</u> CHCP should participate in a working group to produce a policy to comply with the framework published by the Scottish Government and record the associated risk. (Medium Risk)	CHCP will participate in a working group to produce a policy to comply with the framework published by the Scottish Government.	▶	<div><div>66%</div></div>	31-Dec-2014	31-Mar-2015	John Duffy; John Hamilton	This action was originally for an excursions policy for Educational Services. However, it was decided a corporate approach including CHCP and Corporate Services was desirable. Therefore the action's completion date has been amended from end Dec 2014 to end Mar 2015, as the additional work will take a bit longer.

Appendix C

Audit Scotland Reports

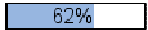


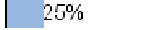

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Project 13. Annual Report on the 2011/12 Audit


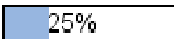
Risk Identified	Action Status Progress Bar	Original Due Date of Action	Actual Due Date of Action	Sub-Action Code	Planned Management Action	Sub-Action Progress Bar	Sub-Action Status Icon	Sub-Action Due Date	Sub-Action Assigned To	Sub-Action Latest Note
10. Scottish Housing Quality Standards: The Council have a duty to ensure 100% of housing stock complies with SHQS by 2015. Retention of the housing stock affords greater control over delivery of SHQS but also creates additional financial pressure on the Council. Risk: The Council may fail to meet the SHQS 2015 deadline.		31-Mar-2015	31-Mar-2015	CS/EAAP/098a	In agreeing to retain the Council's housing stock, members were presented with details as to the level of investment to fund the achievement of SHQS and the expected levels of rent increases required to pay for the borrowing required to fund the improvements. Progress towards achieving SHQS will be monitored by HEED and the Chief Executive.			31-Mar-2015	Helen Turley	The Council has reported 83% compliance with the SHQS which is 8% ahead of the target (75%) and is reflective of a proactive strategic approach to housing asset management.
				CS/EAAP/098b	In addition the HRA capital plan is aligned to the achievement of SHQS on time and linked to the expected performance improvement arising from the use of flexible framework contracts it is expected that SHQS will be attained on time.			31-Mar-2015	Helen Turley	Stock Condition Survey completed and incorporated into HRA Capital Plan to 6 February 2014 Council.
				CS/EAAP/098c	CMT monitors progress in relation to the capital plan on a regular basis and this is also regularly reported to			31-Mar-2015	Richard Cairns	Reports to SAMG/SMT and then to CMT.

					HEED Committee and Council.					
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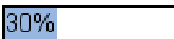
Project 15. Annual Report on the 2012/13 Audit

Risk Identified	Action Status Progress Bar	Original Due Date of Action	Actual Due Date of Action	Sub-Action Code	Planned Management Action	Sub-Action Progress Bar	Sub-Action Status Icon	Sub-Action Due Date	Sub-Action Assigned To	Sub-Action Latest Note
4. Financial Pressure: The Council currently has an assumed cumulative funding gap of £21.68 million over the period 2013/14 - 2016/17 and continues to face an increase in demand for services due to the current economic climate and changes in demography. Risk: The Council may not be able to generate efficiencies and savings to bridge the funding gap.		31-Aug-2016	31-Aug-2016	CS/EAAP/117a	The Long Term Financial Strategy going to Council on 30 October 2013 asks CMT to identify efficiencies for forward planning to meet the anticipated gap.			30-Oct-2013	Stephen West	Updated Long Term Financial Strategy provided to and agreed by Council on 30 October 2013.
				CS/EAAP/117b	Updates of the Long Term Financial Strategy will be presented to Council on at least an annual basis to update the projections as new information becomes available.			31-Aug-2016	Stephen West	Long Term Financial Strategy provided to Council on 30 October 2013. Further updates will be provided on an ongoing annual basis.






Project 16. WDC 2013/14 Review of Governance Arrangements and Main Financial Systems Report. Issued June 2014.

Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
<p><u>13. Disaster Recovery Plan (R)</u> The ICT department has produced a high level disaster recovery plan however further work is required to complete the supporting documentation which underpins the overall plan.</p> <p>Risk: The Council might not be able to protect and/or recover their ICT infrastructure in the event of a disaster.</p>	Underlying technology at WDC is changing and the DR plan will be produced to reflect the changing environment.			30-Jun-2015	30-Jun-2015	Brian Miller	July 14. A change to the due date has been agreed with External Auditor as the underlying technical infrastructure will change as part of the ICT Modernisation project delivery.

Project 17. Annual Report on the 2013/14 audit

Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
<p><u>4. Sickness Absence</u> The council are continuing to focus on improvement attendance at work and have set challenging targets to be achieved by 2017. Whilst there has been some improvement in teacher attendance in the past 12 months there has been no clear improvement in local government employee attendance.</p> <p>Risk The Council are not achieving best value from</p>	<p>Work is currently ongoing within all council departments to ensure that the attendance management policy is consistently and effectively applied and that good practice in relation to improve levels of attendance is shared.</p> <p>The Attendance Working Group consider the effectiveness of current activity and continue to seek new approaches to</p>			31-Mar-2017	31-Mar-2017	Paul McGowan	<p>A renewed communications campaign is being developed to highlight attendance issues and will be launched in the coming month.</p> <p>Work is currently ongoing within all council departments to ensure that the attendance management policy is consistently applied and that absences are recorded and actions monitored.</p> <p>The Attendance Working Group continues to meet on a regular basis to consider the effectiveness of current activity and continue to seek</p>

Recommendation	Agreed Action	Status	Progress Bar	Original Due Date of Action	Actual Due Date of Action	Assigned To	Note
<p>the staff resources available to them.</p> <p>Recommendation The council should consider the effectiveness of current activity and continue to seek new approaches to decrease absenteeism.</p>	<p>support managers and decrease absenteeism.</p> <p>Workforce Management System functionality will be enhanced to provide more detailed recording and reporting of absences and of management actions taken.</p> <p>A renewed communications campaign will be launched to increase awareness amongst staff.</p>						<p>new approaches to support managers and decrease absenteeism. Regular meetings are also held with our OH provider to ensure that appropriate OH advice is received and interventions actions.</p>

Action Status	
	Cancelled
	Overdue; Neglected
	Unassigned; Check Progress
	Not Started; In Progress; Assigned
	Completed

WEST DUNBARTONSHIRE COUNCIL**Report by Executive Director of Corporate Services****Audit and Performance Review Committee: 11 March 2015**

Subject: Internal Audit Charter - Update**1. Purpose**

- 1.1** The purpose of this report is to provide the Committee with an updated version of the Audit Charter previously submitted to the meeting on 25 September 2013.

2. Recommendations

- 2.1** It is recommended that Members approve the revised Internal Audit Charter.

3. Background

- 3.1** In accordance with the Public Sector Internal Audit Standards (PSIAS), effective from 1 April 2013, the Council should formally define the terms of reference for the purpose, authority and responsibility of the internal audit activity in an Internal Audit Charter. The PSIAS requires that the Audit Charter be reviewed by the Audit and Risk Manager on an annual basis, with any changes advised to the CMT and approved by the Audit and Performance Review Committee.
- 3.2** The previous version of Internal Audit Charter was approved by the Audit and Performance Review Committee on 25 September 2013.

4. Main Issues

- 4.1** The authority for the operation of the Internal Audit Section is contained within the Council's Financial Regulations. The Internal Audit Charter provides further information on the detailed arrangements on how Internal Audit effectively discharges its role and provides the necessary annual assurance assessment to Council.
- 4.2** The updated Internal Audit Charter reflects the requirements of the PSIAS with minor adjustments made to reflect recent staff changes within the audit team and to ensure full adherence to the self-assessment checklist for compliance with the PSIAS as prepared by the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG).

5. People Implications

5.1 There are no personnel issues.

6. Financial Implications

6.1 There are no financial implications.

7. Risk Analysis

7.1 The aim of the Internal Audit Section is to help the Council discharge its responsibilities and achieve its objectives by systematically reviewing how well it manages its risks and operates internal control and governance procedures. Compliance with the PSIAS, including the preparation of an updated Internal Audit Charter, reduces the risk that Internal Audit may be diverted from its key purposes as the Charter clearly identifies the role and objectives, authority, scope, responsibility, resources and reporting function of Internal Audit.

8. Equalities Impact Assessment (EIA)

8.1 There are no issues identified.

9. Consultation

9.1 This report has been subject to consultation with Legal, Democratic & Regulatory Services.

10. Strategic Assessment

10.1 This report relates to all five of the Council's Strategic Priorities.

.....
Angela Wilson
Executive Director of Corporate Services
Date: 12 February 2015

Person to Contact: Colin McDougall, Audit and Risk Manager
Telephone 01389 737436
Email: colin.mcdougall@west-dunbarton.gov.uk

Appendices: A – Internal Audit Charter

Background Papers: Report to Audit and Performance Review
Committee on 25 September 2013 (Internal Audit
Charter and PSIAS Update)

Public Sector Internal Audit Standards

Wards Affected: All Wards



INTERNAL AUDIT CHARTER

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1. INTRODUCTION

1.1 This Charter identifies the role and objectives, authority, scope, responsibility, resources and reporting function of Internal Audit. The main determinant of the effectiveness of the Internal Audit function within the Council is that it is seen to be independent. To ensure this, Internal Audit will operate within a framework that allows:

- Unrestricted access to senior management and elected members;
- Reporting in its own name; and
- Segregation from line operations.

1.2 The new Public Sector Internal Audit Standards (PSIAS) came into effect on 1st April 2013. These standards are mandatory and provide a clear specification for the arrangements that should be put in place for an internal audit service. The PSIAS are based on the International Standards of Internal Auditing and developed and issued by CIPFA, the Chartered Institute of Internal Auditors UK (CIIA) and HM Treasury. They provide a coherent and consistent internal audit framework for the whole of the public sector. The PSIAS apply to all internal audit service providers, whether in-house, shared service or outsourced.

1.3 In terms of the PSIAS, *“the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter”*.

1.4 The authority for Internal Audit to operate in West Dunbartonshire Council is contained in the Council’s Financial Regulations. This Internal Audit Charter expands upon that framework by defining the detailed arrangements and sets out the Audit and Risk Manager’s (hereinafter in this document referred to as the Chief Internal Auditor) strategy for discharging his role and providing the necessary annual assurance opinions.

1.5 The PSIAS defines Internal Auditing as follows:

“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

2. ROLE AND OBJECTIVES OF INTERNAL AUDIT

- 2.1** As an independent appraisal function within the Council, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources and the management of risk. In addition, the other objectives of the function are to:
- Support the Head of Finance and Resources to discharge his duties as Proper Officer (Section 95, Local Government Scotland Act 1973);
 - Contribute to and support the Finance and Resources Service's objective of ensuring the provision of, and promoting the need for, sound financial systems;
 - Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets; and
 - Conduct special assignment and investigations into any matter or activity affecting the probity, interest and operating efficiency of the Council.
- 2.2** Internal Audit will have regard to the possibility of malpractice, fraud and other illegal acts, and will seek to identify serious defects in the internal control system which may permit such irregularities. The Council's Business Irregularity Procedures will be used to deal with any irregularities identified.

3. AUTHORITY OF INTERNAL AUDIT

- 3.1** All Internal Audit activity is carried out in accordance with the Council's Financial Regulations to the effect that a continuous internal audit, under the independent control and direction of the Head of Finance and Resources, shall be undertaken (per Financial Regulations, paragraph I1).
- 3.2** In accordance with paragraph I2 of the Financial Regulations, the Head of Finance and Resources (Section 95 Officer) or his authorised representatives shall have authority to:
- (i) Enter at all reasonable times any Council premises or land;
 - (ii) Have access to all records, documents and correspondence relating to financial and other transactions of the Council;
 - (iii) Require and receive such explanations as are necessary concerning any matter under examination;
 - (iv) Require any employee of the Council to produce cash, stores, or any other Council property under his/her control.

- 3.3** Internal Audit staff will as necessary be provided with a separate log-in to any computer system within the Council and have full access to any system, personal computer or other devices being used for Council business purposes.

4. POSITION OF INTERNAL AUDIT WITHIN THE ORGANISATION

- 4.1** Internal Audit is an independent review activity. It is not an extension of, or a substitute for, the functions of line management and must remain free from any undue influence or other pressure affecting its actions and reporting.
- 4.2** In accordance with paragraphs A5, A6 and A7 of the Financial Regulations, at all times, management's responsibilities include:
- Maintaining proper internal controls in all processes for which they have responsibility to ensure probity in systems and operations;
 - The prevention, detection and resolution of fraud and irregularities;
 - Co-operating fully with Internal Audit and ensuring that Internal Audit can properly fulfill their role; and
 - Considering and acting upon Internal Audit findings and recommendations or accepting responsibility for any resultant risk from not doing so.
- 4.3** The status of Internal Audit should enable it to function effectively, with recognition of the independence of Internal Audit fundamental to its effectiveness. The Chief Internal Auditor should have sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management of the organisation.
- 4.4** Within West Dunbartonshire Council, the Chief Internal Auditor reports on an administrative basis to the Head of Finance and Resources who is the Council's nominated Section 95 Officer. However the Chief Internal Auditor also has unrestricted access to those charged with governance, specifically: Elected Members; the Chief Executive; Executive Directors; and to the Head of Legal, Democratic and Regulatory Services who is the Council's Monitoring Officer.

The Chief Internal Auditor has direct access to the Chair of the Audit and Performance Review Committee to discuss any matters the committee or auditors believe should be raised privately. One of the functions of the Audit and Performance Review Committee is to ensure that no unjustified restrictions and limitations are made to the scope and activities of Internal Audit. Additionally, unrestricted access to all Officers of the Council is afforded to all members of the Internal Audit service.

4.5 Within the PSIAS and the associated Local Government Application Note (LGAN), widespread use is made of the term “board”. For the purposes of overseeing the activities of the Council’s internal audit function, the “board” is defined as the Audit and Performance Review Committee. In terms of accountability and independence, the Chief Internal Auditor reports functionally to the Audit and Performance Review Committee. In this context functional reporting means the Audit and Performance Review Committee will be asked to:

- Approve the preparation of the Internal Audit Charter;
- Approve the preparation of the Annual Audit Plan;
- Receive regular reports from the Chief Internal Auditor on Internal Audit activity, including action plans on work carried out; and
- Make appropriate enquiries of management to ensure that Internal Audit is adequately resourced to meet assurance and other key responsibilities.

4.6 The Internal Audit Section uses a risk based methodology to determine the key elements of the annual audit plan. Within the PSIAS and the associated LGAN, widespread use is made of the term “senior management”. For the purposes of overseeing the activities of the Council’s internal audit function, “senior management” is defined as the Council’s Corporate Management Team (CMT), (i.e. the Chief Executive and the four Executive Directors – this may also include all Heads of Service for certain issues). On an annual basis, each member of the CMT individually provides the Chief Internal Auditor with an assurance statement in relation to the adequacy and effectiveness of his / her department’s internal financial control system. In recognition of the responsibility of the Chief Executive and Executive Directors (the CMT) to provide an assurance statement, the annual audit plan is prepared in consultation with the CMT.

4.7 In addition to managing the work of the Internal Audit function, the Chief Internal Auditor also has management responsibility for:

- Corporate Fraud
- Health & Safety;
- Risk Management;
- Insurance;
- Business Continuity;
- Civil Contingencies; and
- ICT Security.

In order to ensure the independence and objectivity of Internal Audit is maintained and demonstrated, any internal audit work on these areas will be carried out by Internal Audit staff with the Chief Internal Auditor as the

client and therefore with no involvement in determining the scope of such work or in the delivery and reporting of the internal audit review and the report will be submitted on an appropriate independent basis, e.g. by the Chief Internal Auditor of another Scottish local authority.

- 4.8 A structure chart showing access available for Internal Audit to those charged with governance is included at Appendix 1.

5. SCOPE OF INTERNAL AUDIT

- 5.1 The scope of Internal Audit allows for unrestricted coverage of the authority's activities and unrestricted access to all records and assets deemed necessary in the course of the audit.
- 5.2 The overall remit of Internal Audit covers the activities of:
- West Dunbartonshire Council;
 - WD Leisure (West Dunbartonshire's Leisure Trust);
 - Dunbartonshire and Argyll & Bute Valuation Joint Board;
 - Argyll, Bute and Dunbartonshire Criminal Justice Social Work Partnership; and
 - Such other related bodies as the Head of Finance and Resources may from time to time determine as being appropriate.
- 5.3 Internal Audit will seek to foster good working relationships with Elected Members, Council management, External Audit and other agencies as appropriate.
- 5.4 In liaising with External Audit the main objectives will be to:
- Minimise the incidence of duplication of effort;
 - Ensure appropriate sharing of information; and
 - Ensure co-ordination of the overall audit effort.

6. INTERNAL AUDIT RESPONSIBILITY

- 6.1 The main areas of Internal Audit responsibility within the Council are to:
1. Review, appraise and report on:
 - The extent to which the assets and interests are accounted for and safeguarded from loss;
 - The soundness, adequacy and application of internal controls;
 - The suitability and reliability of financial and other management data, including aspects of performance measurement.

2. Investigate all frauds and irregularities (as detailed in the Council's Business Irregularity Procedures and Strategy for the Prevention and Detection of Fraud);
 3. Advise on internal control implications of new systems; and
 4. Conduct VFM studies.
- 6.2** The Chief Internal Auditor will prepare and maintain an annual audit plan in consultation with departmental senior management and with reference to the Council's risk register. The annual audit plan will be ratified by the Head of Finance and Resources and presented to the Audit and Performance Review Committee for approval.
- 6.3** The Chief Internal Auditor will establish a framework to assess the Council's system of internal control. An annual assurance statement will be provided to the Head of Finance and Resources and Elected Members
- 6.4** Internal Audit will fulfill its responsibilities in accordance with:
- Relevant codes of ethics standards and guidelines issued by the professional institutes;
 - Relevant corporate governance documents, standards, policies and procedures; and
 - Its own Audit Manual and other internal standards, which will be adhered to by its entire staff including any contracted external specialists where appropriate.
- 6.5** Internal Audit adheres to the Public Sector Internal Audit Standards issued by the Internal Audit Standards Advisory Board in 2013 which as from 1 April 2013 have superseded the previously issued CIPFA Code of Practice for Internal Audit in Local Government (2006) and will sit alongside the CIPFA Role of the Head of Internal Audit document.

7. AUDIT RESOURCES

- 7.1** The staffing structure of the Internal Audit Section will comprise a mix of qualified and technician posts with a mix of professional specialists to reflect the varied functions of the Section.
- 7.2** As far as is practicable, Internal Audit staff will not participate in the day-to-day operation of any systems of internal financial control. However, there are occasions when internal audit staff may have to contribute to a Departmental or Corporate initiative. In these circumstances audit personnel may be called upon to carry out non-audit work on a short life basis only.

- 7.3** Members of the Internal Audit Section may be expected to contribute to the general management and conduct of Council business through membership of working groups and participation in ad hoc exercises.
- 7.4** The Chief Internal Auditor may request from the CMT that appropriate specialists should be made available to Internal Audit to assist in any audit work which requires specialist knowledge and expertise.
- 7.5** The Chief Internal Auditor will carry out an annual review of the development and training needs of all audit personnel and will arrange appropriate training, as allocated budgets will permit.

8. AUDIT REPORTING

- 8.1** Internal Audit has a protocol for reporting findings. This protocol covers both formal written reports and verbal communications, as appropriate.
- 8.2** Audit reports will explain the scope and objectives of the audit and give an assessment of the risks identified. The report will present findings and conclusions in an objective manner and make appropriate recommendations.
- 8.3** Internal Audit will provide departmental management with a draft report to provide an opportunity to agree the factual accuracy of the content before the final report is issued with an action plan.
- 8.4** In accordance with the reporting protocol, departmental management will be required to provide a formal response to the action plan contained in the final audit report.
- 8.5** Findings and recommendations are categorised and have expected implementation timescales for completion as follows:

Category	Expected implementation timescale
<u>High Risk:</u> Material observations requiring immediate action. These require to be added to the department's risk register	Generally, implementation of recommendations should start immediately and be fully completed within three months of action plan being agreed
<u>Medium risk:</u> Significant observations requiring reasonably urgent action.	Generally, complete implementation of

	recommendations within six months of action plan being agreed
<u>Low risk:</u> Minor observations which require action to improve the efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management.	Generally, complete implementation of recommendations within twelve months of action plan being agreed

- 8.6** Internal Audit will provide the Audit and Performance Review Committee with regular reports on the implementation by departmental management of agreed action plans for both Internal Audit and External Audit reports. In addition, Internal Audit will also undertake appropriate follow-up on assignment findings and recommendations derived from its own work.
- 8.7** The Audit and Risk Manager will periodically report to the CMT and the Audit and Performance Review Committee on the Internal Audit function's purpose, authority and responsibility as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by the CMT and the Audit and Performance Review Committee.
- 8.8** In addition, the Audit Manager will inform the CMT and the Audit and Performance Review Committee on the internal audit function's quality assurance and continuous improvement programme, including results of ongoing internal self-assessments and external assessments conducted at least every five years.

9. CONSULTANCY WORK

- 9.1** Internal Audit, using its systematic and disciplined approach, plays an important role for the Council within its business transformation programme and performance improvement framework through the provision of advice and consultancy services to:
- advise on cost effective controls for new systems and activities to balance risk and control;
 - highlight opportunities to reduce costs through greater economy and efficiency within systems and activities as part of strategic and service reviews;
 - provide quality assurance on projects involving major change and systems development; and

- provide an independent and objective assessment of the evidence on progress with implementing action plans to demonstrate continuous improvement.
- 9.2** Increasingly departmental management have engaged Internal Audit at an early stage in new developments and business transformation programmes and projects to conduct consultancy work. Acceptance of the assignment will be dependant on available resources, the nature of the assignment and any potential impact on assurances.
- 9.3** The role of Internal Audit in a consultancy assignment is to provide advice, facilitation and support to departmental management who retain the responsibility for the ultimate decisions taken within the area under review.

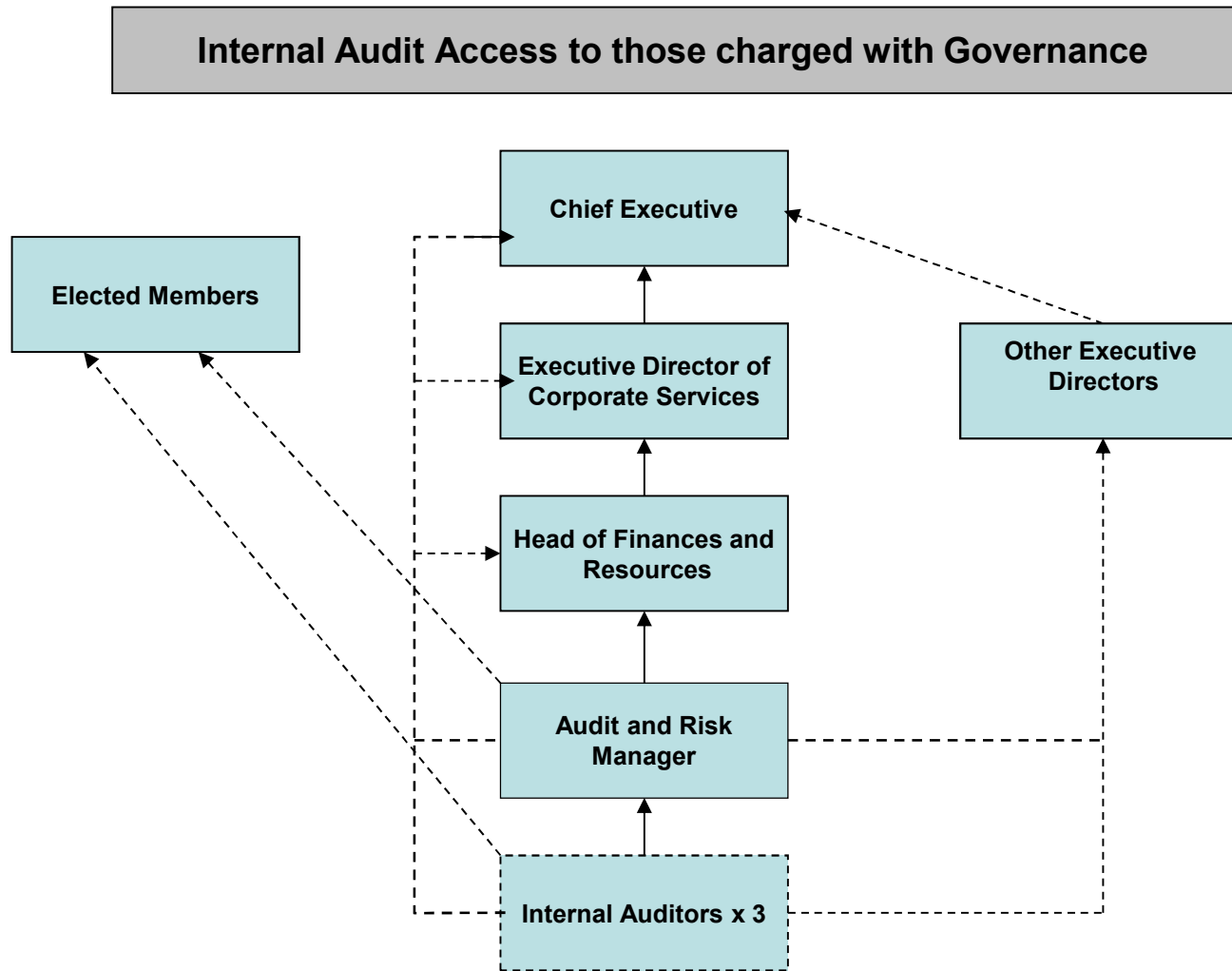
10. STANDARDS

- 10.1** Internal Audit standards will be consistent with the Public Sector Internal Audit Standards (PSIAS).

11. FINANCIAL ADVICE

- 11.1** Internal Audit is often asked to provide financial advice. Wherever possible assistance will be provided to clients, however the Chief Internal Auditor is alert to the potential for conflicts of interest to arise and considers each request on its merit.

January 2015



WEST DUNBARTONSHIRE COUNCIL**Report by Executive Director of Corporate Services****Audit and Performance Review Committee: 11 March 2015**

Subject: Audit Scotland - Review of Adequacy of Internal Audit Arrangements

1. Purpose

- 1.1** The purpose of this report is to advise the Committee of the External Auditor's assessment of the adequacy of the Council's Internal Audit arrangements.

2. Recommendations

- 2.1** It is recommended that Members note the contents of this report.

3. Background

- 3.1** Audit Scotland's Code of Audit Practice sets out the wider dimension of public sector audit and requires the external auditor to undertake an annual assessment of the adequacy, strengths and weaknesses of the internal audit function. In addition, based on this assessment, areas are outlined where Audit Scotland, in their capacity as the Council's External Auditors, plan to place formal reliance on the work of Internal Audit.

4. Main Issues

- 4.1** Audit Scotland has issued a letter (see Appendix A) which sets out the nature of the review and raises a number of points. The Council's response to these points is included at Appendix B.
- 4.2** As is noted in Appendix A, External Audit intends to place reliance on the work of Internal Audit in the following areas:
- Main accounting system
 - Creditor payments
 - Council tax collections & refunds
 - Payroll - leavers and transfers
 - NDR recovery & enforcement
 - CT & NDR valuation – new properties

5. People Implications

5.1 There are no personnel issues.

6. Financial Implications

6.1 There are no financial implications.

7. Risk Analysis

7.1 Failure to ensure that adequate Internal Audit arrangements are in place may result in External Audit being unable to place reliance on the work performed within individual Internal Audit assignments.

8. Equalities Impact Assessment (EIA)

8.1 There are no issues identified.

9. Consultation

9.1 This report has been subject to a check by Legal, Democratic & Regulatory Services.

10. Strategic Assessment

10.1 This report relates to all five of the Council's Strategic Priorities.

.....
Angela Wilson
Executive Director of Corporate Services
Date: 23 February 2015

Person to Contact: Colin McDougall, Audit and Risk Manager
Telephone 01389 737436
Email: colin.mcdougall@west-dunbarton.gov.uk

Appendices: A – Audit Scotland Letter - Review of Adequacy of Internal Audit Arrangements
B – Council response to Audit Scotland's letter

Background Papers: Public Sector Internal Audit Standards

Wards Affected: All Wards

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Angela Wilson
Executive Director of Corporate Services
West Dunbartonshire Council
Garshake Road
Dumbarton
G82 3PU

13 February 2015

Dear Angela,

West Dunbartonshire Council
Review of Adequacy of Internal Audit Arrangements

Audit Scotland's Code of Audit Practice (the 'Code') sets out the wider dimension of public sector audit and requires the external auditor to undertake an annual assessment of the adequacy, strengths and weaknesses of the internal audit function. In addition, based on this assessment, we outline the areas where we plan to place formal reliance on the work of internal audit.

Our review covered the following:

- Organisational status – the specific status of internal audit within the Council and the effect this has on the degree to which it can be objective.
- Technical competency – whether internal audit is performed by persons with adequate technical training and proficiency as internal auditors.
- Nature of assignments – the scope and coverage of the internal audit function.
- Standard of audit work – whether internal audit's work is properly planned, supervised, reviewed and documented.

Evidence to support findings was drawn from discussions with relevant Council officers.

We will perform a review of the internal audit files for the areas on which we are proposing to place reliance once those areas of work have been completed.

Annual Review of Arrangements

We have completed a preliminary assessment of the adequacy of internal audit for 2014/15 in conjunction with our overall risk assessment process for the Council and concluded that internal audit have adequate documentation, standards and reporting procedures. This evaluation should allow us to place reliance on a number of aspects of their work during 2014/15 therefore avoiding duplication of audit coverage.

We would, however, wish to raise the following points:

Independence

Section I of the Council's financial regulations state that '*A continuous internal audit, under the independent control and direction of the Chief Executive shall be undertaken.*' The Council's Audit & Risk Manager reports to the Head of Finance & Resources who, in turn, reports to the Executive Director of Corporate Services. As both the Head of Finance & Resources and the Audit & Risk Manager have responsibility for a number of operational areas which will be routinely subject to audit, there may be a concern that internal audit is not sufficiently independent of line management. We discussed this with the Council in 2012/13 and confirmed that appropriate measures had been implemented to ensure the independence of Internal Audit is maintained. In particular, it was agreed that the Section Head of Internal Audit would review files where it would be inappropriate for the Audit & Risk Manager to do so.

The Section Head retired in October 2014 and the Council has no plans to recruit a replacement. Therefore the arrangements agreed in 2012/13 are no longer viable. In order to ensure appropriate independence and objectivity is maintained, consideration needs to be given as to how internal audit is structured, including the Audit & Risk Manager's involvement in the audit planning and review process. This issue arises in 2014/15 as the Audit & Risk Manager is responsible for risk management and it is included in the 2014/15 internal audit plan.

Resources

The loss of the Section Head reduces the level of supervisory resource within the department. In addition, it is planned that Internal Audit merges with the Benefit Fraud team. This will give the Audit & Risk Manager the additional responsibility of managing the Corporate Fraud Team Leader. The activity of the Corporate Fraud team will feature in the audit plan going forward and now aligns all audit and fraud work undertaken in the Council into a joined-up service which will improve the coverage of anti-fraud activity.

These changes will increase the demands on the Audit & Risk Manager's time which could impact on performance within the Internal Audit team and his other areas of responsibility. However, it is noted that Audit & Risk Manager has delegated supervisory responsibilities to Grade 8 auditors to mitigate this risk.

Audit Process

Internal Audit follows a risk based methodology which informs their annual plan. The results of this assessment allocates an overall 'score' to each area and this score is used to identify which areas should be subject to audit scrutiny in year.

Internal audit have revised this methodology for 2015/16 by expanding the audit universe and the scoring mechanism. The Audit Manual will be updated to reflect the changes made.

Reliance on Internal Audit

We plan to place formal reliance on internal audit's work, in terms of International Statement of Auditing 610 (Considering the Work of Internal Audit), for our financial statements audit work, in the following areas:

- Main accounting system
- Creditor payments

- Council tax collections & refunds
- Payroll - leavers and transfers
- NDR recovery & enforcement
- CT & NDR valuation – new properties

If you have any queries regarding any of the points raised here, or would like to discuss these in more detail you can contact either myself or Laurence Slavin at the above telephone number.

Yours sincerely,

Elaine Boyd
Senior Audit Manager

cc Colin McDougall, Audit & Risk Manager

Our Ref: AW/CM
Date: 20 February 2015

Council Offices
Garshake Road
Dumbarton
G82 3PU

Elaine Boyd
Audit Scotland

Dear Elaine

**Subject: West Dunbartonshire Council
Review of Adequacy of Internal Audit Arrangements**

I refer to previous discussions and your letter of 13 February 2015 regarding the above subject. I am pleased to be advised that your team once again can place reliance on the internal audit team and as you state this avoids duplication of audit coverage. I note the points you make and would offer the following in response:

Independence

As the council strives to deliver the strategic priorities, the internal audit team are very much part of supporting the transformation agenda. Designing and implementing the appropriate structures, providing leadership and direction and supporting the development to achieve the most skilled and competent workforce, has been and continues to be, part of that change for the internal audit function also. In doing so, the independence of the function is paramount and the specific arrangements previously introduced have been revised to ensure that this independence is maintained.

Many internal audit functions in Scottish local authorities now have structures which involve the Chief Internal Auditor (WDC – Audit and Risk Manager) being responsible for operational areas routinely subject to audit. For WDC, Internal audit work on these areas will be carried out by Internal Audit staff, with the Chief Internal Auditor as the client and therefore with no involvement in determining the scope of such work or in the delivery and reporting of the internal audit review, with the report being submitted on an appropriate independent basis. This has been achieved by the Audit & Risk Manager arranging with a colleague in an equivalent post in another Council to undertake an independent review of this audit. Any future instances of such audits of services under the line management of the Audit & Risk Manager will follow a similar approach. The Audit & Risk Manager has widened the involvement of the audit team in generating the Internal Audit plan for 2015/16 and this process will continue on an annual basis.

Resources

As a result of staff changes during the year, the Grade 8 Auditors now have responsibility for the day-to-day work of the Audit Assistants and for reviewing of their work. The merger of internal audit and corporate fraud activities is intended to enable a joined-up approach to fraud detection and will gradually see the WDC fraud team shift focus more onto corporate fraud areas. I am satisfied that the Audit and Risk Manager, through the application of appropriate planning and reviewing arrangements, will be able to ensure that his own resources, and those of both the internal audit and corporate fraud teams, are effectively deployed.

Audit Process

The only change to the risk based methodology used to inform the audit plan is that the control risk scoring matrix of Likelihood / Impact has been changed from 5 x 5 to 4 x 4 in order to conform with the standard risk management scoring methodology used within the Council. This has been updated in the audit manual.

Yours sincerely

Angela Wilson

Executive Director Corporate Services

WEST DUNBARTONSHIRE COUNCIL**Report by Executive Director of Corporate Services****Audit & Performance Review Committee: 11 March 2015**

Subject: Audit Scotland Annual Audit Plan 2014/15**1. Purpose**

- 1.1 The purpose of this report is to present Audit Scotland's Annual Audit Plan for the audit of financial year 2014/15 to Committee for information.

2. Recommendations

- 2.1 Members are asked to note Audit Scotland's audit plan for the audit of financial year 2014/15.

3. Background

- 3.1 Audit Scotland have produced their Annual Audit Plan which provides an overview of the audit approach to be adopted and describes the outputs the Council can expect to receive. The plan is appended to this report for noting.

4. Main Issues

- 4.1 The appended Annual Audit plan identifies the main areas of activity in the Summary of Planned activity on page 3 of the attachment.
- 4.2 Paragraph 48 of the Plan identifies the resources that will be deployed to undertake the audit work. The plan advises that the auditors plan to place reliance on our own Internal Audit team to support the work of the plan (paragraphs 12 and 13).
- 4.3 A summary of the proposed audit timetable is provided on page 7 of the appended plan (Exhibit 1).
- 4.4 The fee for the local audit is £277,024 (2013/14: £274,281).
- 4.5 The Audit Scotland Team have developed excellent working relationships with staff across the Council and are providing a valuable source of information and guidance on a variety of best practice matters.

5. Personnel Implications

- 5.1 There are no people implications.

6. Financial Implications

- 6.1 The total fee quoted in paragraph 4.4 of £277,024 is lower than had been anticipated within the budget for 2015/16 agreed on 4 February 2015 – which was £280,670.

7. Risk Analysis

- 7.1 Audit Scotland's assessment of the risks facing the Council is detailed in their plan. An additional internal risk assessment was not required.

8. Equalities Impact Assessment (EIA)

- 8.1 An Equalities Impact Screening was carried out which revealed no relevant issues.

9. Consultation

- 9.1 This report has been subject to a check by Finance & Resources and Legal, Democratic & Regulatory Services.

10. Strategic Assessment

- 10.1 This report relates to all five of the Council's Strategic Priorities.

Angela Wilson
Executive Director of Corporate Services
13 February 2015

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Appendix A: Audit Scotland Annual Audit Plan 2014/15

Background Papers: None

Wards Affected: All wards



West Dunbartonshire Council Annual Audit Plan 2014/15

Prepared for West Dunbartonshire Council

February 2015

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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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement and irregularity in West Dunbartonshire Council's (the Council) financial statements.
2. This report summarises the key challenges and risks facing the Council and sets out the audit work that we propose to undertake in 2014/15. Our plan reflects:
 - the risks and priorities facing the Council
 - current national risks that are relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
 - issues brought forward from previous audit reports.
3. The Charities Accounts (Scotland) Regulations 2006 specifies the accounting and auditing rules for Scottish registered charities. Irrespective of the size of the charity, as a consequence of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, a full audit is required of all registered charities where the local

authority is the sole trustee. The Council has eight trusts having charitable status with total assets of £0.4 million. Accordingly, we will perform the audit of the Council's charitable trusts in parallel with the audit of the Council's financial statements.

Summary of planned audit activity

4. Our planned work in 2014/15 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the financial position of the Council as at 31 March 2015 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
- an audit of the financial statements and provision of an opinion for the charitable trusts where the local authority is the sole trustee
- reporting the findings of the shared risk assessment process in a Local Scrutiny Plan. This will summarise identified scrutiny risks and/or any changes to the Local Area Network's(LAN's) assessment since last year.
- a review and assessment of the Council's governance and performance arrangements in a number of key areas including review of internal controls, the adequacy of internal audit, ICT, performance management and governance work.
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- reporting of National Fraud Initiative arrangements and results
- review of local impact of national performance audits.

Responsibilities

5. The audit of the financial statements does not relieve management or the Audit & Performance Review Committee, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

6. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
7. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Head of Finance and Resources

8. It is the responsibility of the Head of Finance and Resources, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the

Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:

- acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control
- maintaining proper accounting records
- preparing financial statements timeously which give a true and fair view of the financial position of the Council as at 31 March 2015 and its expenditure and income for the year then ended.

Format of the accounts

9. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice. The Council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government. To enable summarisation common accounting principles and standard formats should be used.

Audit Approach

Our approach

10. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the Council. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of the Council and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how the Council will include these in the financial statements
 - assessing and addressing the risk of material misstatement in the financial statements
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
11. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2014/15 includes:
 - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for preparation of financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme for 2014/15.
12. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided by the internal audit section within the Council. Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

13. We plan to place formal reliance on aspects of the work of internal audit in the following areas, to support our audit opinion on the financial statements:

- Main accounting
- Council tax collections and refunds
- Payroll – leavers and transfers
- NDR recovery and enforcement
- Council Tax and NDR Valuation – new properties

14. In respect of our wider governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:

- Statutory performance indicators

Materiality

15. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

16. Based on our knowledge and understanding of the Council we have set our planning materiality at 1% of gross expenditure. For 2014/15 planning materiality is £3.5 million.

17. We set a lower level, known as performance materiality, when defining our audit procedures. This level depends on professional judgement and is informed by a number of factors including:

- extent of estimation and judgement within the financial statements
- nature and extent of prior year misstatements
- extent of audit testing coverage.

18. For 2014/15 performance materiality has been set at £0.9 million. We will report, to those charged with governance, all misstatements greater than £0.05 million.

19. In addition, an inaccuracy which would not normally be regarded as material in terms of monetary value may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Reporting arrangements

20. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The Council or Audit & Performance & Review Committee is

required to consider the unaudited annual accounts at a meeting by 31 August.

21. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period. This also applies to the unaudited accounts of the charitable trusts.
22. The 2014 regulations require the local authority (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.
23. The authority is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The local authority is also required to publish a copy of the accounts of its subsidiaries. The annual audit report is required to be published on the website by 31 December.
24. An agreed timetable is included at Exhibit 1 below which takes account of submission requirements and planned Audit & Performance Review Committee dates.

Exhibit 1: Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	30 May 2015
Meetings with officers to clarify expectations of working papers and financial system reports	March 2015
Planned committee approval of unaudited financial statements	24 June 2015
Submission of unaudited council financial statements with working papers package	30 June 2015
Submission of unaudited charitable trust financial statements with working papers package	30 June 2015
Progress meetings with lead officers on emerging issues	As required during the audit
Latest date for final clearance meeting with Head of Finance & Resources	2 September 2015
Agreement of unsigned financial statements for Audit Committee agenda, and issue of combined ISA 260report to those charged with governance and Annual Audit Report.	9 September 2015
Audit & Performance Review Committee date	23 September

Key stage	Date
	2015
Independent auditors report signed	23 September 2015
Latest date for submission of unaudited whole of government accounts to external audit	31 July 2015
Latest date for signing of WGA return	2 October 2015

25. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within four weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Assistant Director of Corporate Services, Head of Finance and Resources and Audit Scotland's Performance Audit and Best Value Group.
26. We will provide an independent auditor's report to the Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. As part of streamlining our audit approach, this year the Annual Audit Report will be combined with the ISA 260 report. As a result, the Annual Audit Report will be issued by 30 September which is one month earlier than previous years.

27. All annual audit reports produced are published on Audit Scotland's website: (www.audit-scotland.gov.uk).
28. Planned outputs for 2014/15 are summarised at Appendix I.

Quality control

29. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).
30. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, David McConnell..

Independence and objectivity

- 31. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.
- 32. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Council.

Audit issues and risks

Audit issues and risks

33. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for your organisation.
34. **Income:** Auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*) requires auditors to presume a risk of fraud where income streams are significant. The Council receives a significant amount of funding from the Scottish Government, however approximately £162 million is received from other sources, including service income, council tax and grants/contributions. The complexity of income means there is an inherent risk that income could be materially misstated. We will undertake targeted substantive testing on the income streams included in the financial statements.
35. **Management override of controls:** ISA 240 also highlights the unique position of management to influence the financial statements by overriding controls that otherwise operate effectively. The ability to override these controls exists in all

entities and therefore represents a financial statements risk due to fraud. We will undertake focused substantive testing of journal entries, accounting estimates and significant transactions outside the course of normal business.

36. **Managing financial pressures:** The refreshed long term financial strategy presented to the Council in August 2014 reported a cumulative budget gap for the period 2014/15 - 2016/17 of £20.6 million. In December 2014 the Council provided an updated financial position projection which took account of the 2014/15 budget exercise and management adjustments identified by the Corporate Management Team. This reduced the cumulative budget gap by 2016/17 to £16.6 million. We will continue to monitor and report on the Council's financial position and progress made delivering against agreed saving options
37. **Holiday pay accrual:** In 2013/14 the Council calculated their holiday pay accrual using a sample size of 5%. The Council made a commitment to benchmark with other local authorities to establish current practice and revise their levels of sampling accordingly. There is a risk that an increased sample size may highlight a material error in the 2013/14 accrual. We will assess the 2014/15 holiday pay accrual, the process to calculate it, and any potential error in the 2013/14 accrual as part of our financial statements audit.

38. Cash flow statement: The Council has historically prepared their cash flow statement using what is termed the direct method. This involves determination of various types of cash receipts and payments. In 2012/13 and 2013/14 we highlighted concerns about the preparation of the cash flow statement with material adjustments required in both years to correct errors in the draft statements. The Council have agreed to change the presentation of the cash flow statement and adopt the indirect method which calculates the cash flow by adjusting the net revenue figure for non-cash transactions. We will audit the revised cash flow statement, including the restated 2013/14 comparative, as part of our financial statements audit approach.

39. Capital revaluation: Capital expenditure on non current assets is capitalised when the works are carried out and should be removed from the balance sheet when the asset is revalued. This did not occur when the Council's housing stock was last subject to revaluation. Consequently the value of the Council's housing stock, as per the 31 March 2014 balance sheet, was overstated by £37.7 million and an adjustment was processed to correct this. There is a risk that a similar errors may have been made during the processing of capital transactions for other asset types. We will undertake substantive testing of capital transactions as part of our financial statements audit.

40. Capital slippage: Current projections are that the Council's 2014/15 capital programme will slip by approximately 19%. This compares favourably with the 2013/14 slippage of 25.5% and 45.3% in 2012/13 thus providing evidence that the Council's management of the capital programme is continuing to improve. However the Council has an ambitious ten year capital programme and a continued focus on project planning and delivery is important if current progress is to be maintained. We will review delivery of the annual capital programme as part of our financial statements audit.

41. Housing rent reconciliation: In 2012/13 and 2013/14 our audit has highlighted unreconciled differences between the financial ledger and the housing rents system. Whilst the differences are not material (£54,078 and £16,965 respectively) in the context of the total rent collected in year we note that these differences have fluctuated for a number of years. We will review the 2014/15 reconciliation as part of our financial statements audit.

42. Valuations: The financial statements of the Council include significant assets and liabilities where the valuations are determined by professional judgement and include significant assumptions and estimates including non-current assets (£761 million) and provisions (£2.6 million). The degree of subjectivity in the measurement and valuation represents a risk of material misstatement. We will undertake focused

substantive testing on these aspects of the financial statements.

Summary assurance plan

43. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix II. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix II. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

Fees and resources

Audit fee

44. Over the past four years, Audit Scotland has reduced audit fees by 23.5% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to restrict the increase in audit fees for 2014/15 to 1% which, in real terms, represents a 0.6% reduction at 2014 price levels.
45. In determining the audit fee we have taken account of the risk exposure of the Council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2015.
46. The agreed audit fee for the 2014/15 audit of the Council is £277,024. Our fee covers:
- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
 - your organisation's allocation of the cost of national performance audits and statutory reports by the Accounts Commission
 - a contribution towards functions that support the local audit process (e.g. technical support and coordination of

the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.

47. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team

48. David McConnell, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Elaine Boyd who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

Exhibit 2: Audit team

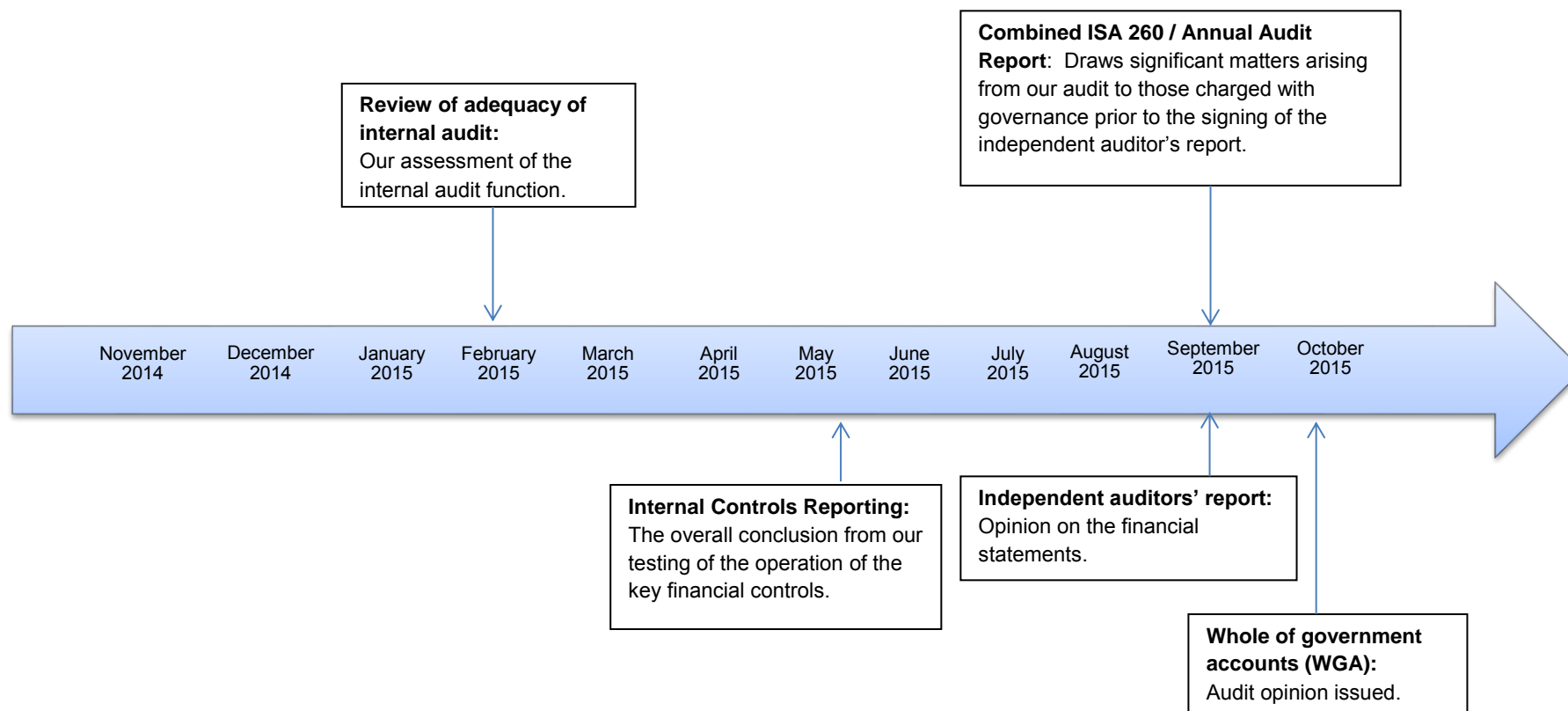
Name	Experience
David McConnell MA CPFA Assistant Director (Certifying auditor)	David has worked in public sector audit since 1981, firstly with the National Audit Office and since 1985, with the Accounts Commission/Audit Scotland. He therefore has extensive experience of audit in

Name	Experience
	Central Government, Local Government and the NHS.
Elaine Boyd FCCA Senior Audit Manager	Elaine has thirteen years experience of public sector audit with Audit Scotland, covering local government, health and central government. Prior to this, Elaine spent seven years in a financial management and audit role within the public sector and seven years in private practice.
Laurence Slavin CPFA Senior Auditor	Laurence has eleven years experience of public sector audit with Audit Scotland, covering local government, health and education. Prior to this Laurence spent seven years in an IT audit role within the private practice and gained experience both in an audit capacity and as a consultant on large scale IT projects.
Aimee MacDonald Professional Trainee	Aimee joined Audit Scotland in 2014 as a professional trainee. She holds an BAcc (Hons) in Accountancy and Finance and will commence studying for the Institute of Chartered Accountants of Scotland Qualifications in September 2015.

Name	Experience
Jim Cumming Senior Auditor (ICT)	Jim has fourteen years experience of public sector ICT audit with Audit Scotland, covering local government, Health and the central government sectors. Prior to joining Audit Scotland, Jim spent fifteen years in various IT development, quality, security and system administration and project management roles in engineering.

Appendix I: Planned audit outputs

The diagram below shows the key outputs planned for the Council in 2014/15.



Appendix II: Significant audit risks

We undertake a risk-based audit whereby we focus on those areas where we have identified a risk of material misstatement in the accounts. This section shows how our audit approach focuses on the risks we have identified through our planning procedures. ISA 315 *Identifying and assessing the risks of material misstatement through understanding the entity and its environment* defines a significant risk as “an identified and assessed risk of material misstatement that, in the auditor’s judgement, requires special audit consideration.”

In this section we identify a range of risks facing the Council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the Council and its officers, with the auditor’s role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Audit Risk	Source of assurance	Assurance procedure
<p>Income</p> <p>The Council receives a significant amount of income in addition to Scottish Government funding.</p> <p>The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.</p>	<ul style="list-style-type: none">• Robust income generation and cash handling processes, including separation of duties.• Independent monitoring of suspense codes – including bank reconciliations.• Normal budgetary control processes – reported monthly to Corporate Management Team (CMT) and departmental budget holders. <p>Authorisation processes regarding transactions within the ledger – e.g. journals & creditor requests.</p>	<ul style="list-style-type: none">• Analytical procedures on income streams.• Detailed testing of revenue transactions focusing on the areas of greatest risk.

Audit Risk	Source of assurance	Assurance procedure
<p>Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Internal audit work. • Budgetary control reporting throughout the year and the year end – particularly in relation to variance analysis. • Agreed consistent procedures (including separation of duties) and back up for year end accruals/ prepayments/ estimates/ provisions / Independent checks completed at year end over larger transactions at periods 13 and 1. • Appropriate controls over virements and journal processing. • Adherence to financial regulations and the financial management code of practice. • Adherence to code of conduct for employees including Officers who have a professional standing. 	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of any significant transactions that are outside the normal course of business.
<p>Managing financial pressures</p> <p>The Council continues to face a significant challenge in bridging a funding gap of over £16 million over the period 2014/15 to 2016/17. The Council may be unable to generate sufficient efficiencies and cost savings to bridge the funding gap.</p>	<ul style="list-style-type: none"> • Longer term finance strategy – reported to Council August each year and updated December/February. • Monitoring of budgetary control reporting to CMT monthly from period three (also committee & Council) – this includes monitoring of savings options. 	<ul style="list-style-type: none"> • Monitor the Council's financial position via revenue budget reports presented to full Council and meetings with officers. • Ongoing review of Council's progress delivering savings options. • Review of Council's revised long term Financial Strategy.

Audit Risk	Source of assurance	Assurance procedure
<p>Holiday pay accrual</p> <p>The Council are to review their approach to calculating the holiday pay accrual to benchmark with other local authorities to establish current practice in terms of sample sizes. There is a risk the accrual may be understated in the Council's balance sheet.</p>	<ul style="list-style-type: none"> • Benchmarking undertaken to consider consistency with other over sample sizes. • Independent review of the spreadsheet to ensure no further calculation errors. 	<ul style="list-style-type: none"> • Review the 2014/15 holiday pay accrual during the audit of the Council's 2014/15 financial statements.
<p>Cash flow statement</p> <p>The Council have agreed to prepare the 2014/15 cash flow statement using the indirect approach instead of the direct method they have historically used. This will also require the 2013/14 cash flow to be restated. There is a risk the revised statement may include material errors.</p>	<ul style="list-style-type: none"> • Cashflow 2013/14 spreadsheet and procedure reviewed and revamped into indirect method. • Revised spreadsheet & guidance notes provided. 	<ul style="list-style-type: none"> • Review the 2014/15 cash flow statement and restated 2013/14 cash flow statement during the audit of the Council's 2014/15 financial statements.
<p>Capital revaluation</p> <p>Errors processing capital transactions to reflect revaluations resulted in a £37.7 million adjustment to the value of the Council's housing stock in 2013/14. There is a risk that similar errors may have been made processing capital transactions for other asset types.</p>	<ul style="list-style-type: none"> • Review undertaken of current processes to ensure similar errors do not re-occur. • Independent check of year end capital work undertaken as part of normal process. 	<ul style="list-style-type: none"> • Substantive testing of a sample of capital transactions during the audit of the Council's 2014/15 financial statements.

Audit Risk	Source of assurance	Assurance procedure
<p>Capital slippage</p> <p>The Council's management of the capital programme is improving however capital slippage in 2014/15 is still projected to be approximately 19%. Future capital programmes and associated service improvements may not be delivered in a timely manner.</p>	<ul style="list-style-type: none"> Monitoring of capital spend monthly from period 3 through budgetary control reporting process – reported to CMT monthly (and & committee/council as part of normal cycle). Post project evaluation. 	<ul style="list-style-type: none"> Monitor capital expenditure through capital monitoring reports provided to CMT and Members. Review delivery of the annual capital programme during the audit of the Council's 2014/15 financial statements.
<p>Housing rent reconciliation</p> <p>In 2012/13 and 2013/14 our audit has highlighted unreconciled differences between the financial ledger and the housing rents system. There is a risk the financial ledger does not accurately record all relevant transactions.</p>	<ul style="list-style-type: none"> Review & revision of the reconciliation process & reporting. 	<ul style="list-style-type: none"> Review the 2014/15 reconciliation during the audit of the Council's 2014/15 financial statements.
<p>Valuations</p> <p>The financial statements of the Council include valuations which rely on significant assumptions and estimates. The extent of subjectivity in the measurement and valuation of these balances represents a risk of material misstatement.</p>	<ul style="list-style-type: none"> Valuation methodology used by the valuer consistent each year, where appropriate. Updated as required. Valuation methodology consistent with accepted valuation principles. Five year rolling programme of valuations & review of significant changes each year. Internal audit work on asset register. 	<ul style="list-style-type: none"> Completion of 'review of the work of an expert' for the professional valuer. Focused substantive testing of key areas.

WEST DUNBARTONSHIRE COUNCIL**Report by Executive Director of Corporate Services****Audit & Performance Review Committee: 11 March 2015**

Subject: Internal Audit Plan 2015/16**1. Purpose**

- 1.1 The purpose of this report is to advise members of the planned programme of work for the Internal Audit Section for the year 2015/16.

2. Recommendations

- 2.1 It is recommended that the Committee approve the Audit Plan for 2015/16.

3. Background

- 3.1 The Audit Plan was compiled using a risk based approach through a review of the Audit Universe which includes all significant activities and systems that contribute to the achievement of the Council's priorities and objectives.

4. Main Issues

- 4.1 The audit planning process has taken into account the following factors:
- A risk based audit needs assessment identifying all potential audit areas;
 - Consultations with senior management;
 - The plans of External Audit and other inspection agencies;
 - The Council's strategic priorities and risks;
 - Departmental objectives;
 - Current issues and changes in computer systems; and
 - Resources available.
- 4.2 Internal Audit monitors delivery of the plan continuously during the year using a number of performance indicators. Progress is reported to members on a regular basis.
- 4.3 The Annual Report on Internal Audit will compare the work actually undertaken against the work planned and summarise performance against targets. It will also provide an opinion on the adequacy and effectiveness of the Council's control environment. Work done underpins the Statement of Internal Financial Control / Annual Governance Statement which will be published with the Abstract of Accounts.

4.4 From 1 April 2015, the Benefits Fraud Team will be transferred to join Internal Audit to form a Corporate Fraud Team. This will enable a joined-up approach to fraud detection and will gradually see the WDC fraud team shift focus more onto corporate fraud areas. The Audit Plan also now includes a section showing the planned activity of the newly formed Corporate Fraud Team.

4.5 The draft Audit Plan is included at Appendix A.

5. Personnel Implications

5.1 There are no personnel issues with this report.

6. Financial Implications

6.1 There are no financial implications with this report.

7. Risk Analysis

7.1 The Plan has been constructed taking cognisance of the risks associated with major systems. Consultation with Senior Managers was carried out to ensure that risks associated with delivering the Council's objectives have been considered.

8. Equalities Impact Assessment (EIA)

8.1 There are no issues as it does not affect the delivery of a service or the development of a policy.

9. Consultation

9.1 This report has been subject to a check by Finance Services and Legal, Democratic & Regulatory Services with no issues identified.

10. Strategic Assessment

10.1 This report relates to all 5 of the Council's Strategic Priorities.

Angela Wilson
Executive Director of Corporate Services
11 February 2015

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Appendix A: Draft Internal Audit Plan 2015/16

Background Papers: None

Wards Affected: All wards

WEST DUNBARTONSHIRE COUNCIL

**INTERNAL AUDIT PLAN
2015-16**

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1 Introduction

1.1 Definition of Internal Audit

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'

Public Sector Internal Audit Standards

The Standards (applying the Institute of Internal Auditors International Standards to the UK Public Sector) have been agreed to be adopted from the 1st April 2013 by the relevant public sector Internal Audit Standard setters. Elements of the Standards are based on the Chartered Institute of Internal Auditors International Professional Practices Framework. Standard setters are; HM treasury; Scottish Government; Department of Finance and Personnel Northern Ireland; Welsh Government; department of Health; and the Chartered Institute of Public Finance and Accountancy.

In accordance with the Standards an Audit Charter is in place which defines the internal audit activity's purpose, authority and responsibility.

1.2 Authority

All Local Authorities in Scotland are subject to Section 95 of the Local Government Act (Scotland) 1973, and should make provision for Internal Audit, in accordance with the Public Sector Internal Audit Standards issued 2013 (The Standards).

1.3 Audit Planning

Internal Audit complies with the requirements of The Standards, per Section 2010 (Planning):

'The chief audit executive (WDC – Audit and Risk Manager) must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.'

2 The Audit Planning Process

2.1 Risk Assessment

A risk-based audit needs assessment has been carried out by Internal Audit staff in which a review of the “audit universe” has been carried out. The audit universe includes all significant activities and systems that contribute to the achievement of the Council's priorities and objectives.

This assessment of needs identifies all operations, resources, services and responsibilities, and prioritises key systems being operated, and key services provided. Senior management have been consulted on priority areas for review, while cognisance has been taken of the plans of External Audit and other statutory agencies, in order to avoid duplication, and increase potential for cross reliance. The audit needs assessment is based upon a matrix taking account of scores for each potential audit area in respect of:-

- Control risk
- Materiality
- Sensitivity
- Management concerns

The matrix gives an overall “score” for each area that is used to prioritise the audit reviews.

The risk process recognises the materiality of core financial systems by applying a weighting based on transaction value. In addition, the process ensures that major systems will be covered over a rolling programme by applying a weighting factor based on the date of the previous audit.

This process ensures that Internal Audit independence is maintained in the formation of the plan.

2.2 Systems Based Auditing

The systems based audit approach developed by the Chartered Institute of Public and Finance and Accountancy (CIPFA) will continue to form the basis for testing controls within each system, in line with good practice.

2.3 Strategic Risks

The Strategic Risk Register records the Council's own assessment of the most potentially damaging risks and their likelihood of occurrence. This document is used to inform the Audit Plan.

2.4 Strategic Plan 2012/17

As well as considering risk when formulating the plan, considerable attention has been paid to the strategic priorities and success factors contained in the Council's Strategic Plan 2012/17 in order to ensure there is a spread of audit coverage across these key areas. The contribution of the work included in the Audit Plan to the Council's strategic priorities and success factors is shown in italics in the appropriate schedules of this document.

2.5 Other Issues

Other factors which influence the plan are discussions with Senior Management, consideration of current issues arising, major computer systems being introduced, and recommendations from recently completed audits.

2.6 Contingency / Irregularity

Allowance has been made for matters arising requiring investigation, and ad-hoc work, based upon levels experienced in the past.

3 Resourcing the Plan

Internal Audit

The Internal Audit Section has a core establishment of 4.4 FTE including one professionally qualified member of staff. Computer Audit will be carried out alongside systems reviews and also by the ICT Security Officer who will contribute 96 operational days to the Audit Plan. Available Audit Days have been calculated as 969 days, following the deduction of Administration, Management and Planning, Training and Leave. Within this overall resource, 73 days has been included for the Audit and Risk Manager's time to reflect the contribution he makes to the activities of the Audit Section. The Audit and Risk Manager is professionally qualified to fulfil an audit role.

Through an assessment of the mix of knowledge, skills and experience of the Audit Team, it is considered that the available resources are sufficient to achieve the work outlined in the plan.

The Council's External Auditors work in conjunction with Internal Audit so that resources are optimised in providing overall assurance on the financial statements and the adequacy of the internal control environment. Towards the end of 2015/16, External Audit will advise on which areas of Internal Audit work it will place reliance upon for the year as outlined in its annual "Review of Adequacy of Internal Audit Arrangements" letter.

As described in Paragraph 2.1 above, a risk based audit needs assessment was carried out. The available staffing resources, in terms of Available Audit Days are matched to this and in 2015/16 in order to determine the areas of work to be included in the Audit Plan.

Planned Internal Audit Activity

The allocation of time to each audit category is shown in the table below.

Category	2015/16	
	Planned Days	% of Operational Time
Risk Based Audit	400	41.3
Computer Audit	110	11.4
Development	50	5.2
Investigations	161	16.6
Regularity / CRSA	70	7.2
Annual Assurance / Governance	15	1.5
Follow up	20	2.1
Year-end procedures	5	0.5
Performance Indicators	30	3.1
Financial Services / Grant Claims	15	1.5
Contingency	40	4.1
Review	53	5.5
Operational Time	969	100%
Secondment	30	-
Administration	37	-
Management and Planning	61	-
Training	26	-
Leave	306	-
Non-Operational Time	460	-
Overall Total	1429	-

Corporate Fraud

From 1 April 2015, the Council's Benefits Fraud Team will be transferred to join Internal Audit within the Audit and Risk Section to form a Corporate Fraud Team. This will enable a joined-up approach to fraud detection and will gradually see the WDC fraud team shift focus more onto corporate fraud areas. The Audit Plan also now includes a section showing the planned activity of the newly formed Corporate Fraud Team.

The Corporate Fraud Team has an establishment of 4 FTE. Available days have been calculated as 746 operational days, following the deduction of Administration, Management and Planning, Training and Leave. Through an assessment of the mix of knowledge, skills and experience of the Corporate Fraud Team, it is considered that the available resources are sufficient to achieve the work outlined in the plan. The Corporate Fraud Team Leader will report to the Audit and Risk Manager.

Planned Corporate Fraud Activity

The allocation of time to each category of work is shown in the table below.

Category	2015/16	
	Planned Days	% of Operational Time
Work carried out on behalf of DWP	140	18.8
National Fraud Initiative	120	16.1
Corporate Fraud	210	28.2
Development	65	8.7
Research	75	10.1
Contingency	96	12.9
Review	40	5.4
Operational Time	746	100%
Administration	23	-
Management and Planning	35	-
Training	20	-
Leave	224	-
Non-Operational Time	302	-
Overall Total	1048	--

4 Monitoring the Plan

Internal Audit reports performance to the Audit and Performance Review Committee on a quarterly basis:-

- Completion of Risk Based Audits as a percentage of planned
- Action Plans issued during the quarter
- Progress on implementation of audit recommendations

Internal Audit recommendations are now shown in Covalent, the Council's risk and performance management system. This enables both departmental management and Internal Audit to monitor and report on the implementation of recommendations more efficiently and has greatly reduced outstanding audit recommendations.

5. Annual Report

Section 2450 of the Standards states that:

'The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to form its governance statement.'

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

This work underpins the Statement of Internal Financial Control / Annual Governance Statement, which will be published with the Abstract of Accounts, and subject to the scrutiny of External Audit.

6 Quality Assurance and Improvement Programme

Sections 1310 to 1312 of the Standards refer to the need for a quality assurance and improvement plan to be developed to include both internal and external assessments.

Internal assessments must include ongoing monitoring of Internal Audit performance and periodic assessments by other persons within the organisation with sufficient knowledge of the work of Internal Audit. It is proposed that Finance Section Accountants will fulfil this role.

External assessments must be conducted at least every five years by a qualified independent assessor. The Scottish Local Government Chief Internal Auditors' Group (SLACIAG) has developed a framework for external assessments to be undertaken by member authorities of SLACIAG on a broadly reciprocal arrangement utilising a peer review option. The Council's Internal Audit Section is participating in this framework and an external validation of its own self-assessment will take place early in 2015/16.

In the Development Schedule, time has been allocated within the Audit Plan for 2015/16 to participate in these processes and implement any actions arising.

7 Delivering the Plan

The plan has been developed in line with the approved Internal Audit Charter and will be delivered in accordance with:

- The Standards;
- Relevant codes of ethics standards and guidelines issued by the professional institutes;
- Relevant corporate governance documents, standards, policies and procedures; and
- The Internal Audit Section's own Audit Manual and other internal standards, which will be adhered to by its entire staff including any contracted external specialists where appropriate.

8 Schedule of Risk Based Audits

Audit	Days	Objectives / key tasks
Treasury Management <i>Strong financial governance and sustainable budget management</i>	20	<ul style="list-style-type: none"> Review cash flow management procedures and compliance with relevant standards. Review lending and investment policy and procedures, borrowing policy and procedures and test compliance.
Council Tax Billing <i>Strong financial governance and sustainable budget management</i>	25	<ul style="list-style-type: none"> Review procedures and ensure compliance with legislative requirements, including setting of council tax Check that printed demand notices are in required format and that calculation and payment arrangements are correct. Test controls on billing revisions, suppressions and overall reconciliations for number / value of liable properties.
NDR Billing & Collection <i>Strong financial governance and sustainable budget management</i>	25	<ul style="list-style-type: none"> Check that printed demand notices are in required format and that calculation and payment arrangements are correct. Test controls on billing revisions, suppressions and overall reconciliations for number / value of liable properties. Review adequacy and efficiency of the procedures in place for income collection. Confirm that reports of accounts with credit balances are regularly reviewed and promptly investigated. Check reconciliations and confirm that they were undertaken on a regular basis by an independent employee.
Construction Industry Scheme - Review of Practices <i>Strong financial governance and sustainable budget management</i>	25	<ul style="list-style-type: none"> Review processes and procedures Department checks of invoices to confirm the breakdown of labour and materials Checks on employment status of who is contracting with the Council Review Creditors Section checking of payment status with HMRC
Asset Management Strategy – Vehicles <i>Fit-for-purpose estate and facilities</i>	15	<ul style="list-style-type: none"> Review strategy / policy, including reference to investment in vehicle fleet Consider if economies / efficiencies have resulted from investment made Consider sustainability issues
Attendance Management <i>Committed and dynamic workforce</i>	20	<ul style="list-style-type: none"> Ascertain compliance with established policy in terms of: <ul style="list-style-type: none"> reporting and recording of absence employee contact by management during absences return to work meetings triggers reached occupational health referrals attendance review meetings and resulting management actions

Internal Audit Plan 2015-16

Audit	Days	Objectives / key tasks
Review of key reconciliations <i>Strong financial governance and sustainable budget management</i>	15	<ul style="list-style-type: none"> • Identification of key reconciliations performed • Frequency of performance • Supporting documentation • Review / authorisation processes • Treatment of reconciling items / suspense item
Use of Consultants <i>Strong financial governance and sustainable budget management</i>	20	<ul style="list-style-type: none"> • Rationale for use • Procurement process • Monitoring of outputs and payment process
Child Protection <i>Improve the wellbeing of communities and protect the welfare of vulnerable people</i>	25	<ul style="list-style-type: none"> • Review system in place for recognising / identifying vulnerable children issues • Access controls to sensitive data • Security of data • Review of reports from external inspectorate agencies
Senior Officer financial controls <i>Strong financial governance and sustainable budget management</i>	20	<ul style="list-style-type: none"> • Review financial regulations and scheme of delegation and consider general adherence thereto • Review structures and control arrangements • Review segregation of duties arrangements at senior levels in the organisation
SEEMIS <i>Improve life chances for children and young people</i>	15	<ul style="list-style-type: none"> • Service provision SEEMIS • Access controls • Security of data
Validation and monitoring of projected savings <i>Strong financial governance and sustainable budget management</i>	15	<ul style="list-style-type: none"> • Review BCR reports • Review reports to CMT and committee and test check accuracy of information provided • Assess overall Council spend position
Procurement – approved contractors list <i>Strong financial governance and sustainable budget management</i>	15	<ul style="list-style-type: none"> • Ascertain nature and extent of usage of approved contacts and values involved • Rationale for use compared to formal procurement route

Internal Audit Plan 2015-16

Audit	Days	Objectives / key tasks
Self-Directed Support <i>Improve the wellbeing of communities and protect the welfare of vulnerable people</i>	19	<ul style="list-style-type: none"> Review assessment / eligibility Review payment process Review monitoring of expenditure
Purchasing in the homeless service <i>Improve local housing and environmentally sustainable infrastructure</i>	16	<ul style="list-style-type: none"> Review procurement arrangements Review budget monitoring Review ordering / stocks / inventory process
Review of overtime and additional working <i>Strong financial governance and sustainable budget management</i>	20	<ul style="list-style-type: none"> Review overtime / additional working payment and ascertain rationale compared to hiring additional employees Review budget monitoring arrangements for overtime and additional working Ascertain if there any working time directive issues
Leisure Trust – procurement <i>Strong financial governance and sustainable budget management</i>	15	<ul style="list-style-type: none"> Review procurement arrangements Review procedures, e.g. separation of duties, recognition of capital and revenue distinction Ascertain compliance with procedures
Dunbartonshire and Argyll & Bute Valuation Joint Board	20	<ul style="list-style-type: none"> General governance structures and procedures
	345	
Completion of 2014/15 risk based audits	55	n/a
	400	
Management Review	40	n/a
Total	440	

9. Schedule of Computer Audits

Audit	Days	Objectives / key tasks
Printer / Printing Controls <i>Innovative use of Information Technology</i>	15	<ul style="list-style-type: none"> • Ensure risks identified by network-based vulnerability scans of the printers themselves are accounted for and mitigated • Review the adequacy of policies and procedures governing the security of networked printers • Review the deployment of printing functions, particularly where sensitive information may be processed • Ensure the remote administration web console for each networked printer is configured strongly • Review locked print function
Internet and Email controls <i>Innovative use of Information Technology</i>	25	<ul style="list-style-type: none"> • Are adequate policies in place and enforced <ul style="list-style-type: none"> ○ Best practice policy ○ Acceptable usage policy ○ Confidentiality policy • Usage monitored and management made aware of issues • Staff understanding of their responsibilities • Adequacy of information to alert staff of potential problems • Review whether filters are fit for purpose, both internet and Email SPAM/Malware filters. • Network efficiency, spam, denial-of-service attacks and junk mail • Legal liability, such as retention of information or the use of legal disclaimers in e-mail messages • Information security, including protection of intellectual value, confidentiality and defence against viruses and other malicious code that an organization's guidance should detail
ICT Infrastructure management <i>Innovative use of Information Technology</i>	25	<ul style="list-style-type: none"> • Review Governance arrangements for ICT Infrastructure, including ITIL controls and change management. • ICT Infrastructure Management, ITIL (Information Technology Infrastructure Library) <ul style="list-style-type: none"> ○ Incident Management / Service Desk ○ Problem Management ○ Change Management ○ Release Management ○ Configuration Management ○ Design Coordination ○ Service Level Management ○ Capacity Management ○ Availability Management ○ IT Service Continuity Management ○ Supplier Management ○ Financial Management ○ Service Portfolio Management ○ Service Review

Internal Audit Plan 2015-16

Audit	Days	Objectives / key tasks
Web based applications <i>Innovative use of Information Technology</i>	25	<ul style="list-style-type: none"> Review of security controls of web based applications such as Covalent and Achieve forms Are data centres subjected to relevant scrutiny Are adequate access controls in place, both for data centre admins and WDC application admins Is there adequate separation of resources, e.g. no means for another organisation to access WDC data Is there adequate screening of staff working at the data centres sufficient to satisfy WDC controls
Included within risk based audits <i>Innovative use of Information Technology</i>	20	<ul style="list-style-type: none"> Coverage of computer audit elements of risk based audits, including application controls and access controls.
	110	
Management Review	5	n/a
Total	115	

10. Schedule of Development Work

Audit	Days	Objectives / key tasks
Audit programmes	20	Development of audit programmes
PSIAS	20	Preparation for PSIAS review process
TeamMate Development	10	Upgrades, audit programme uploads and layout modifications as appropriate
Total	50	

WEST DUNBARTONSHIRE COUNCIL

Report by Executive Director of Corporate Services

Audit & Performance Review Committee: 11 March 2015

Subject: Public Interest Disclosures for the period 1st July 2014 to 31st December 2014

1. Purpose

- 1.1** The purpose of this report is to advise Committee of public interest disclosures received during the period 1st July 2014 to 31st December 2014.

2. Recommendations

- 2.1** It is recommended that Members note the content of this report.

3. Background

- 3.1** A disclosure in the public interest is where a concern is raised about a danger or illegality that has a public interest aspect to it. A confidential reporting facility is managed by Internal Audit as part of the WDC Public Interest Disclosure Policy. Internal Audit maintains a central record of all concerns raised under the Public Interest Disclosure Policy.

4. Main Issues

- 4.1** A total of 13 disclosures were received during the period July 2014 to December 2014 as summarised below:

<u>Ref</u>	<u>Date Received</u>	<u>Detail</u>	<u>Date completed</u>	<u>Outcome</u>
1.	13-Jul-14	Allegation that employee is taking drugs	19-Aug-14	Unfounded
2.	15-Jul-14	Allegation that tenant was not living at their address	4-Aug-14	Upheld – monitoring continuing by Housing
3.	4-Aug-14	Allegation that a Gardener was abusing Council resources	18-Aug-14	Unfounded
4.	9-Sep-14	Allegation that disciplinary procedures have not been followed	14-Oct-14	Unfounded – disciplinary action was taken

<u>Ref</u>	<u>Date Received</u>	<u>Detail</u>	<u>Date completed</u>	<u>Outcome</u>
5.	17-Sep-14	Allegation that employee is misusing Council vehicle and materials	n/a	Investigation by department in progress
6.	18-Sep-14	Allegation that Council vehicle used for personal business	16-Oct-14	Unfounded
7.	1-Oct-14	Allegation of theft of Council assets	n/a	Investigation in progress
8.	10-Oct-14	Allegation of theft of Council assets	n/a	Investigation in progress
9.	10-Oct-14	Allegation that adults without SCRO checks were allowed to supervise pupils	17-Dec-14	Unfounded
10.	13-Oct-14	Allegation that that former tenant of Council house still accessing unlet house to collect mail	24-Oct-14	Unfounded
11.	4-Nov-14	Allegation that employees working while under the influence of drugs and using WDC vehicle out with work time	11-Dec-14	Unfounded
12.	28-Nov-14	Allegation that waste materials are being transferred from contractor vehicles to Council vehicles	19-Jan-15	Unfounded
13.	16-Dec-14	Allegation that employee on duty was smelling of alcohol	17-Dec-14	Unfounded

- 4.2** Activity relating to public interest disclosure for recent reporting periods is as follows:

<u>Period</u>	<u>No. of Cases</u>
1 st January 2013 to 30 th June 2013	8
1 st July 2013 to 31 st December 2013	12
1 st January 2014 to 30 th June 2014	7

5. People Implications

- 5.1** There are no personnel implications with this report.

6. Financial Implications

- 6.1** There are no financial implications with this report.

7. Risk Analysis

- 7.1** There are risks to the Council in financial, legal, operational and reputational terms of not providing a service to enable a disclosure in the public interest.

8. Equalities Impact Assessment (EIA)

- 8.1** There are no issues identified.

9. Consultation

- 9.1** This report has been subject to a check by Legal, Democratic and Regulatory Services.

10. Strategic Assessment

- 10.1** The Public Interest Disclosure Policy contributes to Council's strategic priorities by ensuring that early warnings of malpractice may mitigate the extent of financial losses to the Council, contributes to better asset management by utilising employees to manage risks to the organisation's reputation and supports fit for purpose services through the continuation and promotion of robust employment practice.

Angela Wilson
Executive Director of Corporate Services
Date: 10 February 2015

Person to Contact: Colin McDougall, Audit and Risk Manager,
Council Offices, Garshake Road, Dumbarton
Telephone (01389-737436).
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Appendices: None

Background Papers: Revised Public Interest Disclosure Policy agreed by the
Corporate Services Committee on 13th August 2014

Wards Affected: All

WEST DUNBARTONSHIRE COUNCIL

Report by the Executive Director of Corporate Services

Audit and Performance Review Committee : 11 March 2015

Subject: Prudential Indicators 2014/15 to 2017/18 and Treasury Management Strategy 2015/16 to 2017/18

1. Purpose

1.1 The purpose of this report is to provide Members with an update on the following:

- (a) Prudential Indicators for 2014/15 to 2017/18; and
- (b) Treasury Management Strategy (including the Investment Strategy) for 2015/16 to 2017/18.

2. Recommendations

2.1 Members are requested to note that Council approved the following on 4 February 2015:

- (a) Agree the Prudential Indicators and Limits set out within Appendix 1:
 - Capital Expenditure and Capital Financing Requirements (Tables A and B);
 - Actual and estimates of the ratio of financing costs to Net Revenue Stream (Table C);
 - Incremental impact of capital investment decisions on the Band D Council Tax (Table D); and
 - Incremental impact of capital investment decisions Housing Rent levels (Table E).
- (b) Approve the Treasury Management Strategy for 2015/16 to 2017/18 (including the Investment Strategy) contained within Appendix 2.
- (c) Agree the Treasury Prudential Indicators and Limits set out in Appendix 2:
 - Operational Boundaries (Table G);
 - Authorised Limits (Table H);
 - Counterparty Limits (Table K); and
 - Treasury Management Limits on Activity (Table M).
- (d) Approve the statement by the Section 95 Officer regarding the gross debt level in comparison to the Capital Financing Requirement (Appendix 2 - Point 2.2).
- (e) Refer this report to the Audit and Performance Review Committee to ensure further scrutiny takes place.

3. Background

- 3.1** With the introduction of the Prudential Code, the Council has freedom over capital expenditure so long as it is prudent, affordable and sustainable. In order to show it is working within these limits the Council must approve, revise and monitor a range of prudential indicators covering the forthcoming three years.
- 3.2** The Council's treasury activities are strictly regulated by statutory requirements (*Code on the Investments of Money by Scottish Local Authorities*) and a professional code of practice (*CIPFA Treasury Management Code of Practice*). The code requires an annual strategy to be reported to Council in advance of the forthcoming year outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. Further reports are issued as follows:
- (a) Mid-year monitoring report on actual treasury activity during the year including revised indicators where appropriate; and
 - (b) Year-end report on actual treasury activity for the previous year.
- 3.3** Section 56 of the Local Government (Scotland) Act 1973 Act permits local authorities in Scotland to discharge their functions by committees. Exceptions include setting the council tax (s56 (6) (b)) and borrowing money (s56 (6) (d)), which requires the authority, that is full Council, to discharge. The Section 56 provisions were extended to require Council to approve the Annual Investment Strategy via the *Code on the Investments of Money by Scottish Local Authorities* (issued on 1 April 2010) been issued under section 40 of the Local Government in Scotland Act 2003.
- 3.4** As a result of Section 56, both the Prudential Indicators and the Treasury Management Strategy (including the Investment Strategy) are required to be approved by full Council before the start of the financial year.
- 3.5** The CIPFA Treasury Management Code of Practice requires greater Member scrutiny of the treasury policies, increased Member training and awareness and greater frequency of information.
- 3.6** One of the key clauses is that a responsible body is required to ensure effective scrutiny of the treasury management strategy and policies. Within West Dunbartonshire Council the body identified to fulfil this role is the Audit and Performance Review Committee.
- 3.7** The Prudential Indicators 2014/15 to 2017/18 and Treasury Management Strategy 2015/16 to 2017/18 should be referred to the Audit and Performance Review Committee once approved by Council to ensure further scrutiny takes place.

4. Main Issues

- 4.1** The Local Government in Scotland Act 2003 requires Council to adopt the CIPFA Prudential Code and to produce prudential indicators. Appendix 1 of this report details the Council's expected year end indicators for 2014/15, revises the indicators for 2015/16 and 2016/17 and introduces new indicators for 2017/18.
- 4.2** Within this overall prudential framework there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. As a consequence the treasury management strategy (which includes details of both debt and investment) for 2015/16 to 2017/18 is included as Appendix 2 to complement the prudential indicators relating to the treasury activity.
- 4.3** Details of the risks, mitigating controls and limits associated with each of the permitted investment categories are shown in Appendix 3. Credit rating type and definitions are attached as Appendix 4 and a list of approved sovereign countries for investments are attached as Appendix 5.

5. People Implications

- 5.1** There are no people implications arising from this report.

6. Financial Implications

- 6.1** The prudential indicators detailed in Appendix 1 show the Council's likely capital financing for the period 2014/15 to 2017/18 while the treasury management indicators detailed in Appendix 2 show the likely borrowing requirement for the same period. In each year the gross borrowing requirement is below the capital financing requirement (Appendix 2 – section 2.1 and 2.2).
- 6.2** As a key indicator of prudence this illustrates that the Council only undertakes long term borrowing for capital purposes and that over the last few years investment balances have been utilised to fund capital expenditure due to the concerns over the general economic environment and restricted counterparty lists.

7. Risk Analysis

- 7.1** There are three main risks associated with the formulation of prudential indicators and the treasury management strategy as detailed in Appendix 1 and 2:
- (a) Capital receipts which affect the capital financing and borrowing requirement may not materialise and if this occurs then additional borrowing will be required in order to fund the financing requirement;

- (b) The risk of Counterparties default (i.e. loss of principal sum invested) must also be taken into account; however the robust controls included within the investment strategy (Appendix 2 – section 6) will assist in mitigating this risk; and
- (c) Capital inflation may increase capital expenditure levels, which in turn may affect the capital financing and borrowing requirement leading to an increase in borrowing, assuming no additional capital receipts are available.

8. Equalities Impact Assessment

8.1 No equalities impact assessment was required in relation to this report.

9. Consultation

9.1 Legal and finance have been consulted in relation to this report and appendices

10. Strategic Assessment

10.1 Proper budgetary control and sound financial practice are cornerstones of good governance and support Council and officers to pursue the 5 strategic priorities of the Council's Strategic Plan. This report forms part of the financial governance of the Council.

Angela Wilson
Executive Director of Corporate Services
Date: 11 February 2015

Person to Contact:	Jennifer Ogilvie, Business Partner (Corporate Functions), Garshake Road, Dumbarton, Telephone (01389) 737453 Email: Jennifer.ogilvie@west-dunbarton.gov.uk
Appendices:	<ul style="list-style-type: none"> 1 Prudential Indicators 2014/15 to 2017/18 2 Treasury Management Strategy 2015/16 to 2017/18 3 West Dunbartonshire Council and Common Good Funds Permitted Investments, Associated Controls and Limits 4 Counterparty Rating Explanations 5 Approved Countries for Investment
Background Papers:	Treasury Management Strategy – Council 6 February 2014
Wards Affected:	All wards affected.

Prudential Indicators 2014/15 to 2017/18

1. The Capital Expenditure Plans

- 1.1** The Council's gross capital expenditure plans are summarised below in Table A and this forms the first of the prudential indicators. Total expenditure is partially funded by resources such as capital receipts, capital grants, etc. Any remaining expenditure which cannot be immediately funded from other resources will form a borrowing need.
- 1.2** A certain level of capital expenditure will be grant supported by the Government; anything above this level will be funded from the Council's own resources.
- 1.3** There are two main limiting factors which may impact on the Council's ability to undertake unsupported capital expenditure:
- Whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs; and
 - The Government may use a control to limit either the total of all councils' plans nationally, or in the event of an assessment by central government that local plans are unaffordable at a specific council, it may implement a local control. No such control has been implemented since the inception of the prudential code, however, HM Treasury keep this under review.
- 1.4** The summary of capital expenditure as per the capital plan refresh reported to Council on 4 February 2015 for General Services and HRA is shown in the table below:

Table A

£000	2014/15 Revised	2015/16 Estimated	2016/17 Estimated	2017/18 Estimated
General Services	33,482	65,530	77,163	36,947
Financed by:				
Capital receipts	189	2,506	7,438	4,920
Capital grants	12,855	12,942	12,012	8,600
Revenue	1,618	402	242	242
Net financing need for the year	18,820	49,680	57,471	23,186

£000	2014/15 Revised	2015/16 Estimated	2016/17 Estimated	2017/18 Estimated
HRA	33,415	29,860	27,917	27,386
Financed by:				
Capital receipts	950	1,431	610	14
Capital grants	3,094	0	2,000	2,500
Revenue	1,969	2,434	2,189	2,354
Net financing need for the year	27,402	25,995	23,118	22,518

£000	2014/15 Revised	2015/16 Estimated	2016/17 Estimated	2017/18 Estimated
General Services	33,482	65,530	77,163	36,947
HRA	33,415	29,860	27,917	27,386
Capital Expenditure	69,897	95,390	105,080	64,333
Financed by:				
Capital receipts	1,139	3,937	8,048	4,934
Capital grants	15,949	12,942	14,012	11,100
Revenue	3,587	2,836	2,431	2,596
Net financing need for the year	46,222	75,675	80,589	45,704

2. The Council's Borrowing Need (the Capital Financing Requirement)

- 2.1** The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing need. The net capital financing need (as indicated in Table A) impacts directly on the CFR.
- 2.2** Following accounting changes the CFR includes any other long term liabilities (i.e. PPP schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £89.753m of such schemes within the CFR.
- 2.3** The CFR projections for both General Services and HRA are shown in table B:

Table B

£000	2014/15 Revised	2015/16 Estimated	2016/17 Estimated	2017/18 Estimated
Capital Financing Requirement				
CFR – General Services	216,132	262,452	312,961	328,962
CFR – HRA	164,920	181,708	198,497	214,581
Total CFR	381,051	444,160	511,458	543,543
Movement in CFR	34,883	63,109	67,298	32,085

Movement in CFR represented by				
Net financing need for the year (above)	46,222	75,675	80,589	45,704
Less scheduled debt amortisation and other financing movements	(11,339)	(12,566)	(13,291)	(13,619)
Movement in CFR	34,883	63,109	67,298	32,085

- 2.4** The CFR for both General Services and HRA is projected to increase from 2014/15 onwards.
- 2.5** The expected impact of the capital expenditure decisions above on the Council's debt and investment position are shown in the treasury strategy (Appendix 2).
- ## 3. Affordability Prudential Indicators
- 3.1** The previous sections cover the overall capital and control of borrowing, but within this framework prudential indicators are required to assess the affordability of the capital

investment plans. These indicate the impact of the capital investment plans on the overall Council's finances. The Council is asked to approve the following indicators:

3.1.1 Actual and Estimates of the ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (loan charges) against the net revenue stream (funding sources e.g. AEF and council tax). The estimates of financing costs include current commitments and the impact of capital expenditure as per Table A.

Table C

	2014/15 Revised	2015/16 Estimated	2016/17 Estimated	2017/18 Estimated
General Services	4.78%	4.77%	5.02%	5.52%
HRA	33.49%	31.16%	31.45%	30.54%

3.1.2 Estimates of the incremental impact of capital investment decisions on the Council Tax

This indicator identifies the trend in the cost of approved capital expenditure compared to the current expenditure levels. The assumptions are based on the 10 year capital plan, but will invariably include some elements which are estimated over the three year period.

Table D

	Proposed Budget 2015/16	Forward Projection 2016/17	Forward Projection 2017/18
Council Tax - Band D	£20.50	£24.23	£9.99

3.1.3 Estimates of the incremental impact of capital investment decisions on Housing

This indicator identifies the trend in the cost of approved capital expenditure compared to the current expenditure levels, expressed as a discrete impact on weekly rent levels.

Table E

	Proposed Budget 2015/16	Forward Projection 2016/17	Forward Projection 2017/18
Weekly Housing Rent levels	£2.26	£2.19	£2.16

Treasury Management Strategy 2015/16 – 2017/18

1. Background

- 1.1** The treasury management service is an important part of the overall financial management of the Council's affairs. Whilst the prudential indicators in Appendix 1 consider the affordability and impact of capital expenditure decisions, the treasury service covers the effective funding of these decisions. There are specific treasury prudential indicators included in this strategy which need approval.
- 1.2** The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2011). This Council adopted the revised Code of Practice on Treasury Management on 28 March 2012.
- 1.3** As a requirement of the Code the Council adopted revised Treasury Management Policy Statement and four Treasury Management clauses on 28 March 2012. These form part of the Council's financial regulations and are also a requirement of one of the prudential indicators.
- 1.4** The policy requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. Further reports are issued as follows:
- Mid year monitoring report on actual activity during the year including revised indicators where appropriate; and
 - Year-end report on actual activity for the previous year.
- 1.5** This strategy covers:
- The Council's debt and investment projections;
 - Limits to the Council's borrowing activity;
 - The economic climate and expected movement in interest rates;
 - The Council's borrowing, debt and investment strategies;
 - Treasury performance indicators; and
 - Specific limits on treasury activities.

2. The Council's debt and investment projections

- 2.1** The Council's treasury portfolio position at 31 March 2014, with forward projections are summarised below. Table F shows the gross debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any under or over borrowing.

Table F

£000	2014/15 Revised	2015/16 Estimated	2016/17 Estimated	2017/18 Estimated
External Debt				
Debt at 1 April	255,346	284,881	349,864	419,211
Maturing Debt	(66,415)	(12,029)	(12,644)	(12,931)
New Borrowing : Maturing Debt	60,454	12,025	12,644	12,931
New Borrowing : CFR	35,496	64,987	69,347	34,121
Debt at 31 March	284,881	349,864	419,211	453,332
Long Term Liabilities at 1 April	89,753	89,140	87,262	85,213
Change in Long Term Liabilities	(613)	(1,878)	(2,049)	(2,036)
LTL at 31 March	89,140	87,262	85,213	83,177
Gross Debt at 31 March	374,021	437,126	504,424	536,509
CFR	381,051	444,160	511,458	543,543
Under/(Over) Borrowing	7,030	7,034	7,034	7,034

- 2.2** Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/16 and following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. This is illustrated by comparing the estimated gross debt as at 31 March 2015 with the CFR as at 31 March 2018.

- 2.3** **The Section 95 Officer (Head of Finance & Resources) reports that the Council has complied with this prudential indicator, and no difficulties are envisaged for the current or future years.** This view takes into account current commitments, existing plans, and the approved 10 year capital plan.

3. Limits to Borrowing Activity

- 3.1** The Operational Boundary is detailed in Table G below and is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Table G

£000	2014/15 Revised	2015/16 Estimated	2016/17 Estimated	2017/18 Estimated
External Debt	411,424	480,839	554,867	590,160

- 3.2** The Authorised Limit for External Borrowing – a further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is not allowed to exceed. This needs to be set or revised by Members. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit (Affordable Capital Expenditure Limit) determined under section 35(1) of the Local Government in Scotland Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the authorised limit detailed in Table H below:

Table H

£000	2014/15 Revised	2015/16 Estimated	2016/17 Estimated	2017/18 Estimated
External Debt	448,826	524,551	605,309	643,811

3.3 Advance Borrowing - This Council will not borrow more than or earlier than required purely in order to profit from the investment return of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.3.1 Advance borrowing will only be taken for risk management purposes subject to sound justification. The Section 95 Officer (Head of Finance & Resources) may do this under delegated power where, for instance, a sharp rise in interest rates is expected and so borrowing early at fixed interest rates will be economically beneficial. A cautious approach to any such borrowing will be adopted, however where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.

3.3.2 Full consideration will be given to balancing investment risks, such as the credit and interest risk resulting from the temporary investment of the sums, against the risk of adverse interest rate movements in addition to the existing debt maturity profile over the medium term.

3.3.3 As required by The Investment Regulations (Code on the Investments of Money by Scottish Local Authorities) which came into force on 1 April 2010 the Council will appraise all risks associated with advance borrowing activity. The Council will fully document the justification for the decision prior to the activity being undertaken, with subsequent reporting either within the mid year or annual reporting mechanism.

4. Prospect for Interest Rates

4.1 The Council has appointed Capita asset services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Table I gives the Capita asset services central view.

Table I

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

Source: Capita Interest Rate Forecast 5 January 2015

- 4.2** UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.
- 4.3** The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.
- 4.4** The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:
- Greece: the general election on 25 January 2015 may bring a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify;
 - As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
 - Investment returns are likely to remain relatively low during 2015/16 and beyond;
 - Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early

2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

5. Borrowing and Debt Strategy 2015/16 – 2017/18

- 5.1** The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.
- 5.2** Against this background and the risk within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Section 95 Officer (Head of Finance & Resources) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.
- 5.3** If it was felt that there was a significant risk of a sharp fall in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- 5.4** If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.
- 5.5** The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investments returns.
- 5.6** Any decisions will be reported to Members via the Members Bulletin at the next available opportunity.

6. Investment Strategy

- 6.1** The Council's investment policy has regard to the Local Government Investment (Scotland) Regulations (and accompanying finance circular). The Council has also adopted both the 2011 revised Treasury Management Code of Practice and the 2013 revised Prudential Code. The day to day investment policies and practices are contained in the Council's Treasury Management Practices, which reflect the requirements of these codes. These practices are regularly reviewed.
- 6.2 Key Objectives** – Following the economic background above, the current investment climate has one over-riding risk consideration - counterparty security risk. As a result of these underlying concerns officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy. The Council's investment strategy primary objectives are safeguarding the re-payment of the principal and

interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

6.2.1 In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, outlooks and watches published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Capita asset services ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

6.2.2 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "Credit Default Swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Capita asset services (formerly Sector) in producing its colour codings which show the varying degrees of creditworthiness.

6.2.3 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

6.2.4 The aim of the strategy is to generate a list of highly creditworthy counterparties which will enable diversification, and thus avoidance of concentration, with the prime intention of providing security of investment and minimisation of risk.

6.3 Investment Strategy – The process for investment strategy under the regulations covers a wide range of Council investments and will be broadly managed in the following way:

- Short Term Cash – Cash relating to day to day cash flow will be maintained on a shorter term basis in cash type products with consideration to the liquidity requirements outlined above.
- Longer Term Cash – Cash relating to reserves, provisions and balances on the balance sheet may be held for longer periods of time in cash type products or in longer term bonds or funds depending on:
 - Cash flow requirements:
 - The underlying expectation for interest rates; and
 - The economic background of these investments may be held longer term.

- Service Type Investments – These types of investments will predominately be policy driven and approved by Members. Shareholdings, development opportunities, loans to third parties, equity instruments and investment properties held for rental returns) will be regularly reviewed to judge the investment performance.
- Non Service Type Investments – Investments such as Joint venture delivery companies such as Hub West Scotland and investments in regeneration partnerships and development opportunities

6.4 Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service

A development for Member reporting is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are additional new requirements to the Member reporting.

6.4.1 These benchmarks are targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

6.4.2 In the context of benchmarking, assessing security is a very subjective area to assess. Security is currently evidenced by the application of minimum quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poors). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. Table J shows average defaults for differing periods of investment grade products for each Fitch/Moody's Standard and Poors long term rating category.

Table J

Long term rating	1 year	2 years	3 years	4 years	5 years
AAA	0.00%	0.02%	0.06%	0.10%	0.13%
AA	0.02%	0.04%	0.14%	0.27%	0.38%
A (including A-)	0.09%	0.24%	0.43%	0.61%	0.86%
BBB	0.20%	0.60%	1.03%	1.52%	2.00%

6.4.3 The Council's minimum long term rating criteria is currently "A-", meaning the average expectation of default for a one year investment in a counterparty with a "A" long term rating would be 0.09% of the total investment (e.g. for a £1m investment the average loss would be £900). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio.

6.4.4 As required by the CIPFA Treasury Management Code of Practice The Council will "ensure that it has adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives". In respect to liquidity as defined above the Council seeks to maintain:

- Bank overdraft - £1.000m; and
- Liquid short term deposits of at least £5m available on an overnight basis.

6.4.5 Local measures of yield investment benchmarks that will be used to assess returns are:

- Internal returns above the 7 day LIBID rate;
- Internal returns above the 1 month LIBID rate for fixed investments; and
- Internal returns above the Council's instant access account.

6.5 Council Permitted Investments – The Investments Regulations (Code on the Investment of Money by Scottish Local Authorities) requires Council approval of all the types of investment to be used and set appropriate limits for the amount that can be held for each investment type. These types of investment are termed permitted investments and any investments used which have not been approved as a permitted investment will be considered ultra vires.

6.5.1 The permitted investments which may be used in the forthcoming year are noted below. Details of the risks, mitigating controls and limits associated with each of these permitted categories are shown in Appendix 3.

- **Cash Type Instruments**

- Deposits with the Debt Management Account Facility (UK Government);
- Deposits with other local authorities or public bodies;
- Money Market Funds;
- Call accounts, deposit accounts with financial institutions (banks and building societies);
- Term deposits with financial institutions (banks and building societies);
- UK Government Gilts and Treasury Bills;
- Certificates of deposits with financial institutions (banks and building societies); and
- Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates, etc).

- **Other Investments**

- Investment properties;
- Loans to third parties, including soft loans;
- Loans to a local authority company;
- Shareholding in a local authority company;
- Non-local authority shareholdings;
- Joint venture delivery companies such as hub West Scotland;
- Regeneration partnerships and development opportunities; and
- Local Authority Mortgage Scheme (LAMS).

6.5.2 Permitted investments related to the Common Good are also shown in Appendix 3, and where applicable the same counterparty selection criteria as noted in 6.6 below will be applied.

6.6 Investment Counterparty Selection Criteria

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

6.6.1 The Section 95 Officer (Head of Finance & Resources) will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria selects which counterparties the Council will choose from, rather than defining what its investments are.

6.6.2 The minimum rating criteria to be used uses the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. Credit rating type and definitions are attached as Appendix 4.

6.6.3 Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to any counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

6.6.4 The criteria for providing a pool of high quality cash type investment counterparties is:

- **Category 1 - Good Credit Quality** – the Council will only use financial institutions (including certificates of deposit and corporate bonds) which:
 - Are UK banks; and/or
 - Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AA; The UK will be excluded from any Sovereign rating criteria.
 - And have, as a minimum, the following Fitch, Moody's and Standard and Poors (S&P) credit ratings (where rated):
 - Short Term – F1 (or equivalent from Fitch, Moody's and S&P)
 - Long Term – A- (or equivalent from Fitch, Moody's and S&P)

The difference between the ratings will be reflected in the money limits as noted in Table L

- **Category 2 – Part nationalised UK banks** – Lloyds Bank Group and Royal Bank of Scotland Group. These banks can be included if they continue to be part nationalised or they meet the ratings in Category 1 above.
- **Category 3- The Council's own banker** for transactional purposes if the bank falls below the above criteria specified in category 1, although in this case balances will be minimised in both monetary size and time.
- **Category 4 - Bank Subsidiary and Treasury Operations** – the Council will use these where the parent bank has the necessary ratings outlined in category 1.

- **Category 5 - Building Societies** – the Council will use all Societies which meet the ratings for banks outlined in category 1.
- **Category 6 - Money Market Funds** – the Council will use money market funds that are AAA rated (by at least one of the 3 rating agencies).
- **Category 7 - UK Government** (including gilts, treasury bills and the DMADF)
- **Category 8 - Local Authorities, etc**

6.6.5 Due to the uncertainty in the financial markets it is recommended that the Investment Strategy is approved which will provide officers with the flexibility to deal with any unexpected occurrences. Officers can restrict the pool of available counterparties from these criteria to safer instruments and institutions.

6.6.6 The time limits for institutions on the Council's cash type counterparty list are as noted in Table K:

Table K

Investment Category	Fitch (or equivalent)	Money Limit	Time Limit
1	F1+ / AA-	£10million	364 days
	F1 / A-	£5 million	
2	F1/A-	£10 million (per group)	364 days
3		£5 million	Overnight
4		£5 million	364 days
5	As in 1 above	£10 m and £5m	364 days
6	Sector Limit	£20 million	Very liquid no time limit applies
	Fund Limit	£5 million	
7		No limit	6 months
8	Sector Limit Fund Limit	£20 million £5 million	364 days

6.6.7 The Council's bankers are currently the Clydesdale Bank Plc which falls within Category 3. It is recognised that the money limit of £5million may be breached for purely operational purposes on a temporary overnight basis only. The Head of Finance & Resources will endeavour to avoid this scenario but this allows for circumstances that are outwith the Council's control where funds may be deposited unexpectedly or at short notice into the Council's accounts after the dealing deadline for the day has passed. In such a circumstance the funds will require to be kept on an overnight basis in the Council's bank account until appropriate arrangements can be made for investment.

6.6.8 Table K does not include a monetary limit for category 7 which are funds deposited with the UK Government namely the Debt Management Account Deposit Facility (DMADF). This facility allows local authorities to deposit surplus cash on flexible terms and receive a market related rate of interest. Funds are held by the Bank of England and the scheme carried the Government's own sovereign credit rating offering the highest available security and therefore no maximum monetary limit has been set.

6.6.9 Country and sector considerations - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen

by the credit rating of the Sovereign state in Banks 1 above and the list of approved countries for investments are detailed in Appendix 5. In addition:

- No more than 25% will be placed with any country outside of the UK at any time;
- Limits in place above will apply to Group companies; and
- Sector limits will be monitored regularly for appropriateness.

6.6.10 Use of additional information other than credit ratings – Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

6.6.11 Economic Investment Considerations - Expectations on shorter-term interest rates, on which investment decisions are based, show likelihood of the current 0.5% Bank Rate remaining flat but with the possibility of a rise in March 2015. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

6.6.12 There is an operational difficulty arising from the current banking crisis. There is currently little value investing longer term unless credit quality is reduced. Whilst some selective options do provide additional yield uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

6.6.13 The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Section 95 Officer (Head of Finance & Resources) may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

6.6.14 Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local authority deposits), Money Market Funds and strongly rated. The credit criteria have been amended to reflect these facilities.

6.7 Sensitivity to Interest Rate Movements - Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. Table L highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

Table L

Loan Type	2015/16 Estimate	+ 1%	- 1%
Variable Rate Debt Payments	£0.003m	+£0.008m	-£0.003m
Variable Rate Investment income	-£0.025m	-£0.050m	£0.025m

7. Treasury Management Limits on Activity

7.1 There are four further treasury activity limits, which were previously prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs.

- *Upper limits on variable interest rate exposure* – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments
- *Upper limits on fixed interest rate exposure* – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- *Maturity structures of borrowing* – These limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- *Total principal funds invested for greater than 364 days* - These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The proposed indicators are shown within Table M:

Table M

	2015/16 Upper	2016/17 Upper	2017/18 Upper			
Limits on fixed interest rates	100%	100%	100%			
Limits on variable interest rates	50%	50%	50%			
Maturity Structure of fixed interest rate borrowing						
	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	0%	50%	0%	50%	0%	50%
12 months to 2 years	0%	50%	0%	50%	0%	50%
2 years to 5 years	0%	50%	0%	50%	0%	50%
5 years to 10 years	0%	50%	0%	50%	0%	50%
10 years to 20 years	0%	50%	0%	50%	0%	50%
20 years to 30 years	0%	50%	0%	50%	0%	50%
30 years to 40 years	0%	50%	0%	50%	0%	50%
40 years to 50 years	0%	100%	0%	100%	0%	100%
50 years to 60 years	0%	100%	0%	100%	0%	100%
60 years to 70 years	0%	100%	0%	100%	0%	100%
Principal sums invested > 364 days	£nil	£1m	£nil	£1m	£nil	£1m

7.2 The upper limit applies to the maturity structure of fixed interest rate borrowing in the table above. The level has been set to take account of the way that local authorities have to record certain market loans where the maturity date is deemed to be the next call date rather than the eventual repayment date.

8. Performance Indicators

8.1 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. Examples of performance indicators often used for the treasury function are:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available;
- Debt – Average rate movement year on year; and
- Investments – Internal returns above the 7 day LIBID rate.

8.2 The results of these indicators will be reported in the Treasury Annual Report for 2015/16.

9. Treasury Management Advisors

9.1 The Council uses Capita asset services as its treasury management advisors. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments; and
- Credit ratings/market information service comprising the three main credit rating agencies.

9.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not place upon external service providers.

9.3 The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value is assessed are properly agreed and documented, and subjected to regular review.

9.4 Whilst the advisers provide support to the internal treasury function the final decision on treasury matters remains with the Council.

10. The Monitoring of Investment Counterparties

10.1 The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita asset services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Executive Director of Corporate Services and, if required, new counterparties which meet the criteria will be added to the list.

**West Dunbartonshire Council and Common Good Funds Permitted Investments,
Associated Controls and Limits**

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Cash Type Instruments			
Deposits with the Debt Management Account Facility (UK Government) (Very low risk)	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.	As shown in the counterparty section criteria 6.6.6 above.
Deposits with other local authorities or public bodies (Very low risk)	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Liquidity may present a problem as deposits can only be broken with the agreement of the counterparty, and penalties can apply. Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. Non- local authority deposits will follow the approved credit rating criteria.	As shown in the counterparty section criteria 6.6.6 above.
Money Market Funds (MMFs) (Very low risk)	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs are Constant Net Asset Value (CNAV), and the fund has a "AAA" rated status from either Fitch, Moody's or Standard & Poors.	As shown in the counterparty section criteria 6.6.6 above
Call account deposit accounts with financial institutions (banks and building societies) (Low risk depending on credit rating)	These tend to be low risk investments, but will exhibit higher risks than the first three categories above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. The selection defaults to the lowest available credit rating to provide additional risk control measures. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria 6.6.6 above

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Term deposits with financial institutions (banks and building societies) (Low to medium risk depending on period & credit rating)	These tend to be low risk investments, but will exhibit higher risks than the first three categories above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. The selection defaults to the lowest available credit rating to provide additional risk control measures. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria 6.6.6 above.
Government Gilts and Treasury Bills (Very low risk)	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity).	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures.	As shown in the counterparty section criteria 6.6.6 above.
Certificates of deposits with financial institutions (Low risk)	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than the first three categories above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. The selection defaults to the lowest available credit rating to provide additional risk control measures. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria 6.6.6 above.
Structured deposit facilities with banks and building societies (escalating / de-escalating rates, etc.) (Low to medium risk depending on period & credit rating)	These tend to be medium to low risk investments, but will exhibit higher risks than the first three categories above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. The selection defaults to the lowest available credit rating to provide additional risk control measures. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria 6.6.6 above.

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Corporate Bonds (Medium to high risk depending on period & credit rating)	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. The selection defaults to the lowest available credit rating to provide additional risk control measures. Corporate bonds will be restricted to those meeting the base criteria. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in the counterparty section criteria 6.6.6 above.
Other Types of Investments			
Investment properties	These are properties that are not used to facilitate service delivery but are held solely to earn rentals or for capital appreciation or both. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids).	In larger investment portfolios some small allocation of property based investment may counterbalance/compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams.	Services will determine monetary and time limits managing risk accordingly.
Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	Services will determine monetary and time limits managing risk accordingly.
Loans to a local authority company	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each loan to a local authority company requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.	Services will determine monetary and time limits managing risk accordingly.
Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	Services will determine monetary and time limits managing risk accordingly.

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by rational behind the service the investment and the likelihood of loss.	Services will determine monetary and time limits managing risk accordingly.
Joint venture delivery companies such as hub West Scotland	Public sector organisations across a hub territory will work in partnership with each other, and a private sector delivery partner, in a joint venture delivery company called hub West Scotland. The hub company will take a strategic, long-term planning approach of its infrastructure requirements to support the delivery of community services. Hub will provide a mechanism for delivering and managing assets more effectively, with continuous improvement leading to better value for money, which will be measured through detailed key performance indicators.	Any investment in hub West Scotland requires approval from the Section 95 Officer (Head of Finance & Resources) and the Chief Executive in consultation with the Leader of the Council and the Leader of the Opposition and each application will be supported by the service rational behind the investment and the likelihood of loss.	The Section 95 Officer (Head of Finance & Resources) will determine monetary and time limits managing risk accordingly.
Regeneration partnerships and development opportunities	Investments undertaken with the prime intention of local area regeneration.	Any investment in a regeneration partnership / development opportunity requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	Services will determine monetary and time limits managing risk accordingly.
Local Authority Mortgage Scheme (LAMS)	These are service investments at market rates of interest. Under this scheme the Council is required to place funds for a number of years with the bank which is participating in this scheme	Any investment in the LAMS requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	Services will determine monetary and time limits managing risk accordingly.

The Monitoring of Investment Counterparties - The status of counterparties will be monitored regularly. The Council receives credit rating and market information from Capita asset services, including rating changes, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the

principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Executive Director of Corporate Services, and if required new counterparties which meet the criteria will be added to the list.

Appendix 4

Type of Rating	Rating	Explanation
Fitch -Short Term	F1+	Indicates exceptionally strong capacity for timely payment of financial commitments
	F1	Indicates strong capacity for timely payment of financial commitments
Fitch - Long Term	AA-	Indicates very strong capacity for timely payment of financial commitments and this capacity is not significantly vulnerable to foreseeable events
	A-	Indicates strong capacity for timely payment of financial commitments. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings
Moody's - Short Term	P-1	Banks based Prime-1 for deposits offer superior credit quality and a very strong capacity for timely payment of short term deposit obligations
Moody's - Long Term	Aa	Offer excellent credit quality, with susceptibility to long term risks with a vulnerability to greater fluctuations within protective elements
	A	Offer excellent credit quality, but elements suggest a Susceptibility to impairment over the long term
Standard & Poors - Short Term	A-1	Indicates a strong capacity to meet institutions financial commitments. Within this category, certain obligors are design with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments is EXTREMELY STRONG
Standard & Poors - Long Term	AA-	Indicates strong capacity for timely payment of financial commitments
	A-	Indicates strong capacity for timely payment of financial commitments. This capacity may, nevertheless, be more susceptible to the adverse effects of changes in circumstances or in economic conditions than is the case for higher rated category

**West Dunbartonshire Council and Common Good Funds Permitted Investments,
Approved Countries for Investments**

Based on lowest available rating

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- United Kingdom
- Hong Kong
- Netherlands
- U.S.A.

AA

- Abu Dhabi
- France
- Qatar

AA-

- Belgium
- Saudi Arabia

WEST DUNBARTONSHIRE COUNCIL**Report by Executive Director of Corporate Services****Audit & Performance Review Committee
11 March 2014**

Subject: Local Government Benchmarking Framework 2013/14

1 Purpose

- 1.1** The purpose of this report is to provide the Committee with the West Dunbartonshire position in the recently published Local Government Benchmarking Overview report for 2013/14

2 Recommendations

- 2.1** It is recommended that members:
- Note the publication of the national overview report
 - Note the relative position of West Dunbartonshire across the suite of indicators used in the benchmarking report
 - Note the actions already underway within each department following publication of this information

3 Background

- 3.1** All 32 Scottish local authorities are participating in a comprehensive approach to performance scrutiny through the Local Government Benchmarking Framework (LGBF). This Framework brings together performance indicators covering information about a wide range of key services including education, housing, social work, and leisure, as well as service costs and customer satisfaction results.
- 3.2** Using the same indicators across all local authorities allows comparison of performance, identification of best practice, learning from each other, to facilitate continuous improvement. To support this comparative work the Improvement Service, who lead the LGBF team, produce an annual overview report. This report contains performance information for each Council against each indicator in the framework. The publication of the 2013/14 overview report on 30 January represents the fourth year of comparative benchmarking data.

4 Main Issues

- 4.1** The annual overview benchmarking report was published by the Improvement Service at the end of January 2015. The data used relates to the period 2013/14.

The timetable for collating and reporting the indicators within the framework is prescribed by the Improvement Service. Previously concerns were raised about the late publication of the overview report and the lack of value the data can add at such a late stage in the year.

- 4.2** Of the 60 LGBF indicators the Council performed better than the Scotland figure for 31 PIs and worse for 29. Compared to other councils, 15 PIs were ranked in the top quartile (1st to 8th), 17 in the second quartile (9th to 16th), 13 in the third quartile (17th to 24th), and 15 in the fourth quartile (25th to 32nd). Compared to the previous year, our ranking improved for 28 PIs and fell for 23. A further 7 showed no change in ranking and 2 were not applicable as they were new PIs for 2013/14.
- 4.3** Appendix 1 details the performance of West Dunbartonshire Council relative to other Local Authorities across all the PIs in the LGBF. Alongside the overall benchmarking work and the activity carried out locally each Local Authority is assigned to a 'family group' of comparable areas within the LGBF. This allows further consideration into areas of varying performance to understand data collation, performance and best practice.
- 4.3** As in previous years, the CMT have remitted each directorate to review the indicators which fall within their areas of responsibility, scrutinising performance and trend information on each indicator. This complements the performance information already available and in turn informs actions incorporated in service / department plans to sustain or improve performance.
- 4.4** The work underway in each department, linked to service planning, will ensure a focus on continuous improvement through identification of performance requiring review. This is in line with the Strategic Planning and Performance Framework which places an emphasis on continuous improvement through an ongoing process of customer feedback, benchmarking and consultation.

5 People Implications

- 5.1** There are no people implications.

6 Financial Implications

- 6.1** There are no financial implications from this report, however there may be financial implications following review of performance and remedial actions.

7 Risk Analysis

- 7.1** The content of this report forms a core element of the Council's public performance reporting (PPR) for 2014/15. The performance information and relevant remedial actions will also form an element of department plans so it is

critical performance is understood and fully scrutinised to ensure appropriate action is taken.

8 Equalities, Health & Human Rights Impact Assessment (EIA)

8.1 No issues were identified in relation to this report.

9 Consultation

9.1 All departments were consulted in the submission of information to the LGBF and have been involved in reviewing the national overview report.

10 Strategic Assessment

10.1 The LGBF is a nationally published suite of information which allows robust scrutiny of comparative performance. It allows us to learn from best practice in other areas to ensure progress is made on delivery of the strategic priorities of the Council.

Angela Wilson
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Date: 10 February 2015

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Appendices: Appendix 1: Local Government Benchmarking Framework 2013/14 – Analysis for WDC

Background Papers: [Audit Scotland's Direction and Guide 2014](#)
[Local Government Benchmarking Framework](#) – National Benchmarking Overview Report 2015

Wards Affected: All wards

Appendix 1:
Local Government Benchmarking Framework 2013/14 – WDC ranking & Analysis

Summary of Table 1:

Service Areas	No. of PIs	Compared to Scottish average		13/14 Rank				Trend in Rank between 12/13 and 13/14			
		Better	Worse	1-8	9-16	17-24	25 - 32	Better	Worse	No Change	N/A
Children's Services	12	5	7	4	1	2	5	6	6	0	0
Corporate Services	8	3	5	3	0	3	2	2	4	2	0
Social Work Services	5	3	2	1	2	0	2	1	3	1	0
Culture & Leisure Services	8	4	4	1	4	1	2	5	2	1	0
Environmental Services	17	11	6	4	5	5	3	8	6	3	0
Housing Services	7	3	4	1	4	2	0	4	1	0	2
Corporate Asset	2	1	1	0	1	0	1	1	1	0	0
Economic Development	1	1	0	1	0	0	0	1	0	0	0
Total	60	31	29	15	17	13	15	28	23	7	2

	Indicator	Description	13/14 Value	13/14 position against Scottish average + = better - = worse	13/14 Rank	13/14 Scottish Average	Trend in Rank between 12/13 and 13/14 (number of places better/worse)
Children's Services	CHN1	Cost Per Primary School Pupil	5473.47	-	26	4749.59	Better (1)
	CHN2	Cost per Secondary School Pupil	6586.57	-	18	6523.31	Better (9)
	CHN3	Cost per Pre-School Education Registration	3644.24	-	25	2998.58	Better (4)
	CHN4	% of Pupils Gaining 5+ Awards at Level 5	32.44	-	29	39.28	worse (1)
	CHN5	% of Pupils Gaining 5+ Awards at Level 6	24.49	-	26	28.08	better (5)
	CHN6	% of Pupils from Deprived Areas Gaining 5+ Awards at Level 5 (SIMD)	22.8	+	6	19.52	worse (3)
	CHN7	% Pupils from Deprived Areas Gaining 5+ Awards at Level 6 (SIMD)	17.83	+	3	12.59	better (10)
	CHN8a	The Gross Cost of "Children Looked After" in Residential Based Services per Child per Week	1994.98	+	2	2928.15	Better (17)
	CHN8b	The Gross Cost of "Children Looked After" in a Community Setting per Child per Week	144	+	4	250	Worse (3)
	CHN9	Balance of Care for looked after children: % of children being looked after in the Community	87	-	24	91	worse (5)
	CHN10	% of Adults Satisfied with Local Schools	86	+	10	81	worse (1)
	CHN11	Proportion of Pupils Entering Positive Destinations	90.10	-	31	92.3	worse (9)

	Indicator	Description	13/14 Value	position against Scottish average + = better - = worse	13/14 Rank	13/14 Scottish Average	Trend in Rank between 12/13 and 13/14 (number of places better/worse)
Corporate Services	CORP 1	Support services as a % of Total Gross expenditure	3.36	+	3	5.13	No change
	CORP 2	Cost of Democratic Core per 1,000 population	36655.16	-	19	32076.88	Worse (1)
	CORP 3b	The percentage of the highest paid 5% of employees who are women	55.32	+	3	50.7	Worse (1)
	CORP 4	The cost per dwelling of collecting Council Tax	13.31	-	21	12.13	Better (3)
	CORP 5b2	(Domestic Noise) Average time (hours) between time of complaint and attendance on site, for those requiring attendance on site	0.35	+	1	80.73	Better (1)
	CORP 6	Sickness Absence Days per Employee	11.38	-	32	9.24	Worse (1)
	CORP 7	Percentage of income due from Council Tax received by the end of the year	94.52	-	24	95.16	No change
	CORP 8	Percentage of invoices sampled that were paid within 30 days	86.61	-	28	91.93	Worse (1)
	Indicator	Description	13/14 Value	position against Scottish average + = better - = worse	13/14 Rank	13/14 Scottish Average	Trend in Rank between 12/13 and 13/14 (number of places better/worse)
Social Work Services	SW1	Older Persons (Over65) Home Care Costs per Hour	18.47	+	9	20.25	No change
	SW2	SDS spend on adults 18+ as a % of total social work spend on adults 18+	1.39	-	26	6.4	Worse (3)
	SW3	% of people 65+ with intensive needs receiving care at home	40.71	+	8	34.74	Worse (1)
	SW4	% of Adults satisfied with social care or social work services	68	+	9	55	Worse (2)
	SW5	Average weekly cost per resident	415.97	-	25	367.96	Better (1)

	Indicator	Description	13/14 Value	position against Scottish average + = better - = worse	13/14 Rank	13/14 Scottish Average	Trend in Rank between 12/13 and 13/14 (number of places better/worse)
Culture & leisure Services	C&L1	Cost per attendance at Sports facilities	3.13	+	15	3.84	Better (9)
	C&L2	Cost Per Library Visit	2.85	+	12	2.71	Better (10)
	C&L3	Cost of Museums per Visit	2.10	+	6	3.72	Worse (1)
	C&L4	Cost of Parks& Open Spaces per 1,000 Population	50695.91	-	31	30785.70	No change
	C&L5a	% of adults satisfied with libraries	85	-	13	81.00	Better (2)
	C&L5b	% of adults satisfied with parks and open spaces	88	+	15	86.00	Better (6)
	C&L5c	% of adults satisfied with museums and galleries	71	-	18	76.00	Worse (3)
	C&L5d	% of adults satisfied with leisure facilities	69	-	27	78.00	Better (3)
	Indicator	Description	13/14 Value	position against Scottish average + = better - = worse	13/14 Rank	13/14 Scottish Average	Trend in Rank between 12/13 and 13/14 (number of places better/worse)
Environmental Services	ENV1	Gross cost of Waste collection per premises	54.96	+	2	79.88	Better (2)
	ENV1a	Net cost per Waste collection per premises	37.70	+	3	61.29	Better (1)
	ENV2	Gross cost per Waste disposal per premises	120.26	-	23	108.76	Worse (4)
	ENV2a	Net cost per waste disposal premises	110.16	-	26	91.8	Better (1)
	ENV3a	Net cost of street cleaning per 1,000 population	29317.45	-	32	15617.06	No change
	ENV3c	Cleanliness Score (%age Acceptable)	97.8	+	10	96.1	Better (13)
	ENV4a	Cost of maintenance per kilometre of roads	21090.72	-	31	6058.42	Better (1)
	ENV4b	Percentage of A class roads that should be considered for maintenance treatment	24.75	+	13	28.7	Worse (1)
	ENV4c	Percentage of B class roads that should be considered for maintenance treatment	29.43	+	16	35.2	Worse (8)

	ENV4d	Percentage of C class roads that should be considered for maintenance treatment	42.39	-	24	36.6	Worse (10)
	ENV4e	Percentage of unclassified roads that should be considered for maintenance treatment	37.37	-	17	39.4	No change
	ENV5	Cost of trading standards and environmental health per 1,000 population	21300.52	+	16	23866.29	Worse (9)
	ENV5a	Cost of trading standards per 1,000 population	3741.23	+	7	5584.59	Better (2)
	ENV5b	Cost of environmental health per 1,000 population	17559.29	-	18	18301.71	Worse (4)
	ENV6	The % of total waste arising that is recycled	44.01	+	16	42.2	No change
	ENV7a	% of adults satisfied with refuse collection	82	—	22	83	Better (3)
	ENV7b	% of adults satisfied with street cleaning	81	+	7	74	Better (22)

	Indicator	Description	13/14 Value	position against Scottish average + = better - = worse	13/14 Rank	13/14 Scottish Average	Trend in Rank between 12/13 and 13/14 (number of places better/worse)
Housing Services	HSN1a	Current tenants' arrears as a percentage of net rent due	n/a	n/a	n/a	n/a	n/a
	HSN1b	Gross rent arrears (all tenants) as at 31 March each year as a percentage of rent due for the reporting year	8.6	—	24	5.51	n/a
	HSN2	Percentage of rent due in the year that was lost due to voids	1.45	-	16	1.31	Better (7)
	HSN3	Percentage of dwellings meeting SHQS	83.49	-	14	83.67	Better (11)
	HSN4a	Percentage of repairs completed within target times	n/a	n/a	n/a	n/a	n/a
	HSN4b	Average time taken to complete non-emergency repairs	8.67	+	10	10.17	n/a
	HSN5	Percentage of council dwellings that are energy efficient	95.48	+	12	88.83	Better (12)

			12/13 Value	12/13 position against Scottish average + = better - = worse	12/13 Rank	12/13 Scottis h Averag e	Trend in Rank between 11/12 and 12/13 (number of places better/worse)
Indicator	Description						
Corporate Asset	CORP- ASSET1	Proportion of operational buildings that are suitable for their current use	87.06	+	13	78.21	Worse (3)
	CORP- ASSET2	Proportion of internal floor area of operational buildings in satisfactory condition	50.54	-	31	80.92	Better (1)
Economic development	ECON1	% Unemployed People Assisted into work from Council operated / funded Employability Programmes	9.69	+	2	12.58	Better (6)