Agenda

West Dunbartonshire COUNCIL

Audit Committee

Date: Wednesday, 17 June 2020

Time: 10:00

Venue: By Zoom Video Conferencing

Contact: Craig Stewart, Committee Officer
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Dear Member

The Convener has directed that the powers contained in Section 43 of the Local Government in Scotland Act 2003 will be used and so Members will attend this meeting of the **Audit Committee** remotely. The business is shown on the attached agenda.

Yours faithfully

JOYCE WHITE

Chief Executive

Distribution:

Councillor John Mooney (Chair)
Councillor Jim Brown
Councillor Karen Conaghan
Councillor Daniel Lennie
Councillor Jonathan McColl
Councillor John Millar
Councillor Martin Rooney (Vice Chair)
Councillor Brian Walker
Mr C Johnstone

All other Councillors for information

Chief Executive
Strategic Director - Transformation & Public Service Reform
Strategic Director - Regeneration, Environment & Growth
Chief Officer of West Dunbartonshire Health & Social Care Partnership

Date of issue: 4 June 2020

AUDIT COMMITTEE

WEDNESDAY, 17 JUNE 2020

AGENDA

1 APOLOGIES

2 DECLARATIONS OF INTEREST

Members are invited to declare if they have an interest in any of the items of business on this agenda and the reasons for such declarations.

3 MINUTES OF PREVIOUS MEETING 5 - 8

Submit for approval as a correct record, the Minutes of Meeting of the Audit Committee held on 20 November 2019.

4 OPEN FORUM

The Committee is asked to note that no open forum questions have been submitted by members of the public.

5 PRUDENTIAL INDICATORS 2019/20 TO 2029/30 AND TREASURY MANAGEMENT STRATEGY 2020/21 TO 2029/30 9 – 46

Submit report by the Strategic Lead – Resources providing Members with the opportunity to further scrutinise the Prudential Indicators for 2019/20 to 2022/23 and Treasury Management Strategy (including the Investment Strategy) for 2020/21 to 2022/23, an the indicative indicators for the period from 2023/24 to 2029/30.

6 INTERNAL AUDIT PLAN 2019/20 – PROGRESS TO 20 MAY 2020 47 - 72

Submit report by the Strategic Lead - Resources advising Members of progress at 20 May 2020 against the Audit Plan 2019/20.

7 INTERNAL AUDIT PLAN 2020/21 73 - 82

Submit report by the Strategic Lead - Resources advising of the planned programme of work for the Internal Audit Section for the year 2020/21.

8 AUDIT SCOTLAND ANNUAL AUDIT PLAN 2019/20 83 - 104

Submit report by the Strategic Lead - Resources presenting Audit Scotland's Annual Audit Plan for the audit of financial year 2019/20 to Committee for information.

9 INTERNAL AUDIT ANNUAL REPORT TO 31 MARCH 2020 105 - 115

Submit report by the Strategic Lead - Resources advising of the work undertaken by Internal Audit in respect of the Annual Audit Plan 2019/20 and advising of the contents of the Assurance Statement given to Members of West Dunbartonshire Council, the Chief Executive and the Section 95 Officer (Strategic Lead – Resources) in support of the Annual Governance Statement.

10 REVIEW OF LOCAL CODE OF GOVERNANCE AND ANNUAL GOVERNANCE STATEMENT – 2019/20 To follow

Submit report by the Strategic Lead - Resources on the above.

AUDIT COMMITTEE

At a Meeting of the Audit Committee held in the Council Chamber, Clydebank Town Hall, Dumbarton Road, Clydebank on Wednesday, 20 November 2019 at 2.00 p.m.

Present: Councillors Jim Brown, Karen Conaghan, Jonathan McColl, Martin Rooney and Brian Walker.

Attending: Joyce White, Chief Executive; Angela Wilson, Strategic Director – Transformation & Public Service Reform; Stephen West, Strategic Lead – Resources; Victoria Rodger, Strategic Lead – People & Technology; Malcolm Bennie, Strategic Lead – Communications, Culture, Communities & Facilities ;Colin McDougall, Audit & Risk Manager; Andi Priestman, Chief Internal Officer, Inverclyde Council; Amanda Coulthard, Performance & Strategy Manager; Gillian McNeilly, Finance Manager; Julie Slavin, Chief Financial Officer, West Dunbartonshire Health & Social Care Partnership; Stephen Daly. Citizen & Digital Services Manager and Craig Stewart, Committee Officer.

Also Attending: Ms Zahrah Mahmood, Senior Auditor and Ms Kirsten Sharp, Trainee Auditor, Audit Scotland.

Apologies: Apologies for absence were intimated on behalf of Councillors Daniel Lennie and John Millar, and Lay Member Mr Chris Johnstone.

Councillor John Mooney 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.

MINUTES OF PREVIOUS MEETING

The Minutes of Meeting of the Audit Committee held 25 September 2019 were submitted and approved as a correct record.

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OPEN FORUM

The Committee noted that no open forum questions had been submitted by members of the public.

NOTES OF MEETINGS OF MEMBER/OFFICER WORKINGGROUP ON NATIONAL NON-DOMESTIC RATES

The Notes of Meetings of the Member/Officer Working Group on National Non-Domestic Rates held on 12 June and 25 September 2019 were submitted for information and noted.

TREASURY MANAGEMENT MID-YEAR REPORT 2019/20

A report was submitted by the Strategic Lead – Resources providing Members with the further opportunity to scrutinise the Treasury Management Mid-Year report which was previously reported to Council on 30 October 2019.

The Committee agreed to note the contents of the report.

AUDIT ACTION PLANS

A report was submitted by the Strategic Lead – Resources advising of:-

(a) recently issued Internal Audit action plans; and

(b) progress made against action plans previously issued contained within Internal Audit and External Audit reports.

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

INTERNAL AUDIT PLAN 2019/20 – HALF-YEAR PROGRESS REPORT

A report was submitted by the Strategic Lead – Resources advising on progress at the half-year against the Audit Plan 2019/20.

After discussion and having heard the Audit & Risk Manager and the Strategic Lead in further explanation and in answer to Members' questions, the Committee agreed to note the contents of the report.

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AUDIT COMMITTEE ANNUAL SELF-ASSESSMENT

A report was submitted by the Strategic Lead – Resources advising on the results of the annual self-assessment exercise carried out recently by the Chair of the Audit Committee and the Audit & Risk Manager.

After discussion and having heard the Audit & Risk Manager, Chief Executive, and the Senior Auditor, Audit Scotland, in further explanation and in answer to Members' questions, the Committee agreed:-

(1) to note the progress of the agreed actions arising from the first self-assessment exercise carried out in 2018;

(2) to note the self-assessment which formed Appendix 2 to the report and which showed that the Council's Audit Committee largely complied with Cipfa good practice and thereby could assess its performance as generally meeting the Cipfa requirements;

(3) to approve the actions identified from this latest self-assessment and request that these are now progressed;

(4) to note that progress on the completion of the agreed actions would be reported annually to the Audit Committee;

(5) that subsequent reviews should take place every three years; and

(6) to note the knowledge and skills framework for potential areas for development within the Elected Member development programme.

WEST DUNBARTONSHIRE BEST VALUE ASSURANCE REPORT

A report was submitted by the Strategic Lead – Communications, Culture, Communities & Facilities providing an update on progress towards delivery of the improvement plan agreed with the Accounts Commission following the 2018 Best Value Assurance process of West Dunbartonshire Council.

After discussion and having heard the Performance & Strategy Manager and Chief Executive in further explanation of the report and in answer to Members' questions, the Committee agreed to note the contents of the report.

SCOTTISH PUBLIC SERVICES OMBUDSMAN COMPLAINTS REPORT 2018/19

A report was submitted by the Strategic Lead – Communications, Culture, Communities & Facilities presenting the Scottish Public Services Ombudsman (SPSO) report on complaints handling by West Dunbartonshire Council for the year 1 April 2018 to 31 March 2019.

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After discussion and having heard the Citizen & Digital Services Manager and the Chief Executive in further explanation of the report and in answer to Members' questions, the Committee agreed:-

(1) to note the information contained within the report;

(2) to note a commitment to improve response times for complaints to ensure compliance with Scottish Public Services Ombudsman (SPSO) timelines;

(3) to encourage an improvement culture that welcomed complaints in any form so that the Council could capture all expressions of dissatisfaction and use this information to drive future improvements; and

(4) to ensure each service uses the data provided to identify and progress improvement activity.

VALEDICTORY – COLIN McDOUGALL

Councillor Mooney, Chair, informed the Committee that this was the last meeting which Mr Colin McDougall, Audit & Risk Manager, would attend as he was retiring from Council Service at the end of December. On behalf of the Committee, Councillor Mooney thanked Mr McDougall for his hard work, dedication and commitment for over 30 years in local government and wished him a long and happy retirement. All of the other Members present concurred with the Chair's remarks and similarly took the opportunity to wish Mr McDougall well in retirement. In response, Mr McDougall thanked everyone for their kind words and advised that he had enjoyed his time working for West Dunbartonshire Council.

The meeting closed at 2.50 p.m.

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WEST DUNBARTONSHIRE COUNCIL

Report by the Strategic Lead - Resources

Audit Committee: 17 June 2020

Subject: Prudential Indicators 2019/20 to 2029/30 and Treasury Management Strategy 2020/21 to 2029/20

1. Purpose

1.1 Following approval at Council on 4 March 2020, the purpose of this report is to provide Members with the opportunity to further scrutinise the Prudential Indicators for 2019/20 to 2022/23 and Treasury Management Strategy (including the Investment Strategy) for 2020/21 to 2022/23, and the indicative indicators for the period from 2023/24 to 2029/30.

2. Recommendations

2.1 Members are requested to consider the report and note that on 4 March 2020 Council:

(a) Agreed the following Prudential Indicators and Limits discussed in Appendix 1 and set out within Appendix 6 for the period 2020/21 to 2022/23:

- Capital Expenditure and Capital Financing Requirements (Tables A and B);
- Forecast and estimates of the ratio of financing costs to Net Revenue Stream (Table D);

(b) Approved the policy for loans fund advances discussed in Appendix 1 in section 3;

(c) Approved the Treasury Management Strategy for 2020/21 to 2022/23 (including the Investment Strategy) contained within Appendices 2 to 6;

(d) Agreed the following Treasury Prudential Indicators and Limits discussed in Appendix 2 and set out within Appendix 6 for the period 2020/21 to 2022/23:

- Operational Boundaries (Table F);
- Authorised Limits (Table G);
- Counterparty Limits (Table J); and
- Treasury Management Limits on Activity (Table L);

(e) Noted the draft Prudential and Treasury Management Indicators for the period 2023/24 to 2029/30 discussed in Appendices 1 and 2 and set out within Appendix 6; and

(f) Approved the statement by the Section 95 Officer regarding the gross debt level in comparison to the Capital Financing Requirement (Appendix 2 - Point 2.3).

2.2 Members are asked to note the comments provided within this report which highlight changes that have happened since the original report was issued to Council around the impact of Covid-19 and note that a Members Briefing has been provided to all Members on the specific change in relation to the accounting treatment of leasing costs.

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 CIPFA defines treasury management as:

'The management of the local authority's borrowing, investments and cashflows, its banking, money market and capital investment transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

3.3 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.

3.4 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.

3.5 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 each financial year.

3.6 The CIPFA Treasury Management Code of Practice requires greater Member scrutiny of the treasury polices, increased Member training and awareness and greater frequency of information.

3.7 One of the key clauses is that a responsible body is required to ensure effective scrutiny of the treasury management strategy and polices. Within West Dunbartonshire Council the body identified to fulfil this role is the Audit Committee.

3.8 From 25 February 2020 the Public Works Loan Board (PWLB) function has been taken over by HM Treasury. The Council's current loan arrangements with PWLB do not change and the process for application of new loans is not anticipated to change.

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 6 of this report details the Council's expected year end indicators for 2019/20, revises the indicators for 2020/21 to 2022/23 and projects the indicators to 2029/30, with those for the period 2023/24 to 2029/30 being indicative at this time.

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 2020/21 to 2029/30 is included in Appendix 6 (with the period 2023/24 to 2029/30 being indicative at this time) 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.

<u>COVID-19</u>

4.4 The approval of the Strategy and its Indicators was prior to the COVID-19 global pandemic which is expected to have a significant effect on indicators (such as the timing and cost of capital spend/ projects during 2020/21 (and beyond); interest rates; inflation; borrowing levels; investments; etc.). For the purpose of this report, the appendices (including the Strategy document and any references to the change in accounting for leases) remain as they were agreed by Council in March and make no adjustments for this. The Mid Year Treasury Update will amend the current indicators and projections based upon the information available at that time.

Covid-19: Changes to Accounting Code - Leasing

4.4.1 It was reported within the Strategy to Council in March that changes within the Financial Standards and Accounting Policies planned to bring the assets and future liabilities for all leases onto the Council's Balance Sheet from 1 April 2020. The effect of this change would increase the 'level of debt' identified by the Council; the Capital Financing Requirement; Operational Boundary; and Authorised Limit, by the future liability of the leased assets. Forecast and estimates of the ratio of financing costs to Net Revenue Stream were likely to also be affected in future years. This change was due to affect all Councils, though this Council has a low number of leased assets. The Indicators within the Strategy had taken account of this expected change.

4.4.2 However, due to Covid-19 and the expected impact of other priorities of staff involved with the implementation of this change, the governing body for public bodies Accounting Code has decided to postpone the introduction of this change for one year – i.e. now due to commence from 1 April 2021. The effects of this being postponed will be to reduce some of the expected prudential indicators and limits (as noted in 4.4). Where required, revised indicators will be reported to Members in the Mid Year Treasury update for 2020/21 later in the financial year. For the purpose of this report, the appendices (including the Strategy document and any references to the change in accounting for leases) remain as they were agreed by Council in March.

Capital Strategy

4.5 For information, in December 2017, CIPFA issued a revised Prudential Code. As a result, from 2019/20, all local authorities were required to prepare a Capital Strategy report, which is intended to provide the following:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

4.5.1 The aim of the Capital Strategy report is to ensure that all elected members fully understand the overall strategy, governance procedures and risk appetite entailed by the Strategy.

4.5.2 The Capital Strategy (included elsewhere on the agenda for this meeting) includes capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all Members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

Loans Fund Review

4.6 The attached Treasury Strategy includes information as to the implementation of the loans fund review (as agreed at Council meetings in March 2019 and January 2020) and amends the relevant indicators in line with the agreed changes.

5. Option Appraisal

5.1 No option appraisal was required for this report.

6. People Implications

6.1 There are no people implications arising from this report.

7. Financial and Procurement Implications

7.1 The prudential indicators detailed in Appendix 6 show the Council's likely and indicative capital financing for the period 2019/20 to 2029/30 while the treasury management indicators detailed in Appendix 6 show the likely borrowing requirement for the same period. As stated above this is likely to be subject to review and will be updated in the 6-monthly Strategy Update.

7.2 Table E in Appendix 6 indicates that in each year the gross borrowing requirement (which includes short term borrowing for cashflow purposes) is below the capital financing requirement and does not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and following two financial years (Appendix 2 – section 2.1 and 2.2). As stated above this is likely to be subject to review and will be updated in the 6-monthly Strategy Update.

7.3 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.

7.4 There are no procurement issues arising from this report.

8. Risk Analysis

8.1 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.

9. Equalities Impact Assessment

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

10. Environmental Sustainability

10.1 No assessment of environmental sustainability was required in relation to this report.

11. Consultation

11.1 Legal and Resources have been consulted in relation to this report and appendices.

12. Strategic Assessment

12.1 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.

Stephen West
Strategic Lead - Resources
Date: 1 May 2020

Person to Contact: Gillian McNeilly, Finance Manager Church Street, Dumbarton, Telephone (01389) 737194
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Appendices:

1. Prudential Indicators 2019/20 to 2029/30
2. Treasury Management Strategy 2020/21 to 2029/30
3. West Dunbartonshire Council and Common Good Funds Permitted Investments, Associated Controls and Limits
4. Counterparty Rating Explanations
5. Approved Countries for Investment
6. Prudential and Treasury Indicators

Background Papers: Treasury Management Strategy – Council 27 March 2019
Treasury Mid-year update – Council 30 October 2019
Budget Update – Council 27 March 2019
Budget Update – Council 27 January 2020

Budget Update – Council 4 March 2020
Treasury Management Strategy – Council 4 March 2020

Wards Affected: All wards affected.

Appendix 1

Capital Prudential Indicators 2019/20 to 2029/30

1. The Capital Expenditure Plans

1.1 The Council's gross capital expenditure plans are summarised in Table A within Appendix 6 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 update reported to Council 4 March 2020 for HRA and General Services respectively, is shown in the table A in Appendix 6. The HRA capital plan refresh extends to 2024/25 with the period from 2025/26 to 2029/30 extracted from the HRA Business Plan for the purposes of Prudential Indicator calculations.

1.5 Under section 22 of Schedule 3 of the Local Government (Scotland) Act 1975 a local authority may establish a capital fund to be used for "defraying any expenditure of the authority to which capital is properly applicable, or in providing money for repayment of the principal of loans (but not any payment of interest on loans)", further confirmed in paragraph 14 of Finance Circular 7/2016. Furthermore paragraph 24 of Finance Circular 7/2018 confirms that capital receipts may also be used to "fund the cost of premiums, either as they are incurred, or as they are recharged back to the General Fund/ HRA".

1.6 The capital plan update for General Services reported to Council on 4 March 2020 assumes £4.384m of capital receipts used to fund the principal element of loan charges between 2019/20 and 2022/23 (with use of a further £7.167m, from the sale of OLSP and Garshake, to be used during this period as reported to Council in January 2020).

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 in Appendix 6) impacts directly on the CFR.

2.2 Due to accounting requirements, the CFR currently 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 £103.101m for PPP schemes within the CFR. From 1 April 2020, further accounting changes sees operational leases (where the Council is a lessee) also being brought onto Balance Sheet, which will further increase CFR through other long term liabilities (value to be confirmed and the figures within the mid-year Treasury Management will be updated for this change).

2.3 The CFR projections for both General Services and HRA are shown in table B in Appendix 6 and show that the CFR for the HRA is projected to increase each year from 2019/20 to 2029/30 with the CFR for General Services being anticipated to increase each year from 2019/20 to 2029/30, with the exception of 2026/27 due to the levels of projected capital spend in comparison to income anticipated in that year.

2.4 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. Loans Fund Review and the Statutory repayment of loans fund advances

3.1 A Loans Fund Review exercise was undertaken during 2018/19 which allowed a cash flow benefit to be applied over a number of years. This was in line with the position taken by Audit Scotland as to the extent of review that was allowed by Scottish Government Guidance and Legislation around the Local Authority Loans Fund. The Audit Scotland position has since changed and, as reported to Council in January 2020, officers have undertake a further review of the Council's loans fund, looking retrospectively at loans from 1996/97 onwards. Following agreement by Council in January 2020, this results in increased debt of £28.925m (split General Services £19.763m and HRA £9.162m), to be written off in future years.

The Council is required to set out its policy for the statutory repayment of loans fund advances. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

3.2 A variety of options are provided to Councils so long as a prudent provision is made each year as detailed below:

Option	Method	Detail
1	Statutory	Loans fund advances will be repaid by the annuity method. The Council is permitted to use this option for a transitional period only, until 31 March 2021, at which time it must change its policy to use alternative approaches based on depreciation, asset life periods or a funding/income profile as detailed below.
2	Depreciation	Annual repayment of loans fund advances will follow standard depreciation accounting procedures.
3	Asset Life	Loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method.
4	Funding/ Income Profile	Loans fund advances will be repaid by reference to an associated income stream

3.3 Council is recommended to approve the following policy for loans fund advances:

- For loans fund advances made before 1 April 2016, the policy will be to apply the **Statutory Method**, with all loans fund advances being repaid by the annuity method, by the appropriate write off period following the agreed Council policy.

- Recognising that the Council has forward capital expenditure plans, has already committed to that plan and the revenue implications of that plan, the policy for loans fund advances made from 1 April 2016 to 31 March 2021 the policy will be to mainly apply the **Statutory Method**, with all loans fund advances being repaid by the annuity method unless an alternative method is more appropriate. Advances will be considered on a case by case basis to determine the method to be used.

- For loans fund advances made after 1 April 2021, the policy for the repayment of loans advances will be to apply the following options, selecting the most suitable method from the list below for each individual advance.

    - **Asset life method** – loans fund advances will be repaid with reference to the life of an asset using either the equal instalment or annuity method. It is likely that the equal instalment method will be used;

    - **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream.

3.4 The annuity rate applied to the loans fund repayments is based on historic interest rates and is currently 9%.

3.5 Table C in Appendix 6 details the loans fund repayment profile for 2019/20 onwards based on the balance outstanding at 1 April 2019 (adjusted for the agreed loans fund review amendments) and capital expenditure plans 2019/20 to 2028/29 as per Table A.

4. Affordability Prudential Indicators

4.1 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:

4.2 Actual and Estimates of the ratio of financing costs to net revenue stream
This indicator is detailed in Table D in Appendix 6, and identifies the trend in financing cost of capital (loan charges and long term liability financing) against the net revenue stream (funding sources e.g. Scottish Government revenue support grant, council tax and HRA rental income).

The estimates of financing costs include current commitments and the impact of capital expenditure as per Table A and this indicator shows the percentage of total council revenue expenditure that is spent on repayment of loan charges and long term liability capital and interest repayments.

5. Financial reporting changes in relation to leases

5.1 From 1 April 2020 there is a significant change to the Accounting Code of Practice for 2020/21 which the Council follows for their Financial Statements, which will impact on

debt levels and prudential indicators in the future. This change is in relation to assets the Council leases in.

5.2 Currently there are 2 types of leases which are treated differently through the Financial Statements at present. From April 2020, all leases (where the Council is lease and with a few exceptions) will require to be accounted for on the Council Balance Sheet as assets. For illustrative purposes, leases currently held by the Council (but not owned and therefore not currently on the Council's Balance Sheet) include leases for properties (such as Aurora/ Clydebank Town Centre Office/ Bridge Street), photocopiers, and vehicles. The treatment of these leases will become similar to the current accounting reporting for PPP assets.

5.3 Accounting for these leases on the Balance Sheet will result in increases to assets and long term liabilities, affecting a number of the prudential and treasury management indicators – increasing: the 'level of debt' identified by the Council; the Capital Financing Requirement; Operational Boundary; and Authorised Limit, by the value of the leases. Forecast and estimates of the ratio of financing costs to Net Revenue Stream may also be affected.

5.4 Currently an exercise is underway to identify all leases and value both the asset value and the liability. The mid-year Treasury Management Report indicators will be updated to account for this change. The liability of the leases, which will be added to the long term liability value within the Council's debt levels) will be contained within the Authorised Limit.

Appendix 2

Treasury Management Strategy 2020/21 – 2029/20

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 December 2017).

1.3 As a requirement of the Code, the Council is required to adopt a Treasury Management Policy Statement and four Treasury Management clauses. These form part of the Council's financial regulations and the following documents were adopted on 5 March 2018, with no changes required:

- Treasury Management Policy Statement
- Treasury Management Clauses
- The Treasury Management Role of the Section 95 Officer

1.4 The policy requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years, however in line with the longer capital planning process treasury management indicators have been provided (where appropriate) covering the period to 2029/30. 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;
- Specific limits on treasury activities; and
- Policy on ethical investments

2. The Council's debt and investment projections

2.1 The Council's forecast treasury portfolio position at 31 March 2020 with forward projections are summarised in Table E in Appendix 6 and 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.

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 2020/21 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 2020 with the CFR as at 31 March 2023.

2.3 The Section 95 Officer (Strategic Lead - 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 the capital plan refresh reports for General Services and HRA.

3. Limits to Borrowing Activity

3.1 The Operational Boundary is detailed in Table F in Appendix 6 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.

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 G in Appendix 6. The limit within the appendix has been increased to allow for an estimated increase in debt due to the Accounting requirement change in relation to leasing from 1 April 2020.

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 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 Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Table H in Appendix 6 gives the current Link Asset Services central view. The forecasts within the table have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020.

4.2 On this basis, whilst GDP growth is likely to be subdued in 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years.. This could increase inflationary pressures in the economy and cause the Bank of England to resume a series of gentle increases in the Bank Base Rate. The current forecasts assume a modest increase in the rate.

4.2.1 In the event of an orderly non-agreement exit in December 2020, it is likely that the Bank of England would take action to cut Bank Base Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.

4.2.2 If there was a disorderly Brexit, then any cut in Bank Base Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

4.3 **Balance of risks to the UK** - The overall balance of risks to economic growth in the UK is probably neutral due to the uncertainties over post-Brexit trade arrangements and the iimpact of an expansionary government spending policy (as expected in the Westminster Budget in March 2020). The balance of risks to increases or decreases in Bank Base Rate and shorter term HM Treasury rates, are probably also even.

4.3.1 One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

4.3.2 Downside risks to current forecasts for UK gilt yields and HM Treasury rates currently includes:

- Post Brexit trade negotiations – if it were to cause significant economic disruption and a major downturn in the rate of growth.

- Bank of England takes action too quickly, or too far, over the next three years to raise Bank Base Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- A resurgence of the Eurozone sovereign debt crisis. In 2018, Italy was a major concern due to having a government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition will endure.

- Weak capitalisation of some European banks particularly Italian banks.

- German minority government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.

- Other minority EU governments. Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.

- Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.

- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was potential for a rerun of the 2008 financial crisis, but this time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on some $19trn of corporate debt in major western economies, if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.

- Geopolitical risks,for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

4.3.3 Upside risks to current forecasts for UK gilt yields and HM Treasury rates includes:

- Brexit – if a comprehensive agreement on a trade deal was reached that ermoved all threads of economic and political distruption between the EU and the UK.

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy,

which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

5. Borrowing and Debt Strategy 2020/21 – 2029/30

5.1 At the end of 2018/19 the Council was slightly under-borrowed. Table E in Appendix 6 forecasts that the Council will return to a broadly neutral borrowing position at the end of 2026/27 and will maintain this going forward. This indicates that the capital borrowing need (the Capital Financing Requirement) will be fully funded with external borrowing which is a mixture of short term and long term debt.

5.2 Against this background and the risk within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Section 95 Officer 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 HM Treasury increased its interest rates by 1% on 9 October 2019 with many local authorities now viewing HM Treasury as a lender of last resort. It is likely that alternative providers of finance will step into the market for lending to local authorities and the Council will make full use of available financing to ensure the optimum borrowing strategy.

5.6 Any decisions will be reported to Members via the Members Bulletin at the next available opportunity.

5.7 Sources of borrowing for the Council include:

- HM Treasury;
- Local Authorities;
- Banks;
- Pension Funds;
- Insurance Companies;
- Market – long term;
- Market – short term;
- Market – LOBOs;
- Overdraft;
- Internal (capital receipts / revenue balances); and
- Finance Leases.

6. Investment Strategy

6.1 The Council's investment policy has regard to the Local Government Investment (Scotland) Regulations (and accompanying finance circular). Council had also adopted both the Treasury Management Code of Practice and the Prudential Code and is required to adopt the revised editions. 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 Link 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, Link Asset Services 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 I in Appendix 6 shows average defaults for differing periods of investment grade products for each Fitch/ Moody's Standard and Poors long term rating category.

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 0.05% of the total investment (e.g. for a £1m investment the average loss would be £500). 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
    - Constant Net Asset Value
    - Low Volatility Net Asset Value;
  - 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 will 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;
  - District Heating Schemes; 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.

6.5.3 There is a potential impact of a 'no deal' Brexit on the credit ratings for UK financial institutions if the UK sovereign rating was to be downgraded. This will be monitored and appropriate action taken as necessary.

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 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 Credit rating type and definitions are attached as Appendix 6.

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 K in Appendix 6.

- **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 either CNAV or LVNAV 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 J in Appendix 6.

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 Strategic Lead - 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 J 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 requires 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 – Current forecasts on shorter-term interest rates, on which investment decisions are based, show a potential for the current 0.75% Bank Base Rate increasing to 1% in June 2021. 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 (Strategic Lead - 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 K in Appendix 6 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.

6.8 Ethical Investments - This is the placing of funds and selecting investments in a manner that reflects an authority's ethical values. Generally, two sets of criteria are drawn up – negative and positive values whereby investments are to be avoided or encouraged.

6.8.1 The following policy statement was approved on 25 October 2017:

6.8.2 The Council will not knowingly invest directly in organisations (including financial institutions and money market funds) whose activities and practices pose a risk of serious harm to individuals and/or groups, or whose activities are inconsistent with the Council's vision, values and priorities. This could include avoiding direct investment in organisations with material links to:

- Human rights abuse (e.g. child labour);
- Environmentally harmful activities (e.g. destruction of habitat); and
- Socially harmful activities (e.g. gambling)

6.8.3 In order to give effect to its commitment to this policy the Strategic Lead (Resources) contacted all investment counterparties on 9 January 2018 advising of our policy.

6.8.4 In accordance with the further commitments that were given in October 2017 it is considered that this policy statement remains relevant and does not require to be amended at this time.

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 & 365 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 L in Appendix 6.

7.2 The upper limit applies to the maturity structure of fixed interest rate borrowing in Table M. 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 2019/20.

9. Treasury Management Advisors

9.1 The Council uses Link 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 current treasury advisor contract was awarded to Link Asset Services following a quick quote exercise and commenced on 1 May 2018 for a period of two years till 30 April 2020 with an option to extend for a further one year until 30 April 2021. This option has been taken, therefore Link Asset Services have been appointed until 30 April 2021.

9.3 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.

9.4 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.

9.5 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 Link 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 Strategic Lead - Resources and, if required, new counterparties which meet the criteria will be added to the list.

Appendix 3

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 Table J.
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 Table J.
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 either Constant Net Asset Value (CNAV) or Low Volatility Net Asset Value (LVNAV), and the fund has a "AAA" rated status from either Fitch, Moody's or Standard & Poors.	As shown in Table J.
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. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.

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. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.
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 Table J.
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. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
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. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Table J.
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. 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 Table J.
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.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
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.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
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.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
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.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments, 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.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
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. .	Any investment in hub West Scotland requires approval from the Section 95 Officer (Strategic Lead - 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 will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
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 with each application supported by rational behind the investment and the likelihood of loss.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
Investment in Projects procured and managed by third parties e.g. District Heating Schemes	Investments undertaken to assist in facilitating third party projects where the Council has an interest in the successful outcome of the project. Expectation of a financial return for the Council.	Any investment in such projects requires Member approval and each application will be supported by a business case for the investment and the expectation of a financial benefit to the Council.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.
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.	The Section 95 Officer will determine monetary and time limits managing risk accordingly, to the maximum total as noted in Table L of £7m.

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

Appendix 5

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

Based on lowest available rating

AAA

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

AA+

- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Hong Kong
- France
- U.K.

AA-

- Belgium
- Qatar

West Dunbartonshire Council Prudential and Treasury Indicators **Appendix 6**

Table A - Net Capital Financing Need

General Services and HRA Shown Separately

£000	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30
General Services	**57,281**	**67,437**	**47,943**	**51,978**	**32,745**	**23,467**	**19,559**	**13,288**	**13,290**	**13,232**	**13,232**
Financed by:											
Capital receipts	0	14,218	4,435	3,777	3,931	2,370	3,140	4,437	2,339	1,000	1,000
Capital grants	16,258	21,109	19,751	9,625	13,909	14,359	14,809	8,850	6,679	6,679	6,679
Revenue	38	0	0	0	0	0	0	0	0	0	0
Other funding	278	0	0	0	0	0	0	0	0	0	0
Net financing need for the year	**40,707**	**32,109**	**23,757**	**38,576**	**14,905**	**6,738**	**1,610**	**0**	**4,272**	**5,553**	**5,553**

£000	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30
HRA	**51,266**	**60,006**	**32,479**	**27,295**	**27,269**	**27,179**	**26,044**	**21,714**	**13,865**	**14,197**	**15,887**
Financed by:											
Capital receipts	0	0	0	0	0	0	0	0	0	0	0
Capital grants	13,163	5,006	4,792	3,190	1,770	3,319	0	0	0	0	0
Revenue	7,478	7,478	6,003	4,813	4,216	3,263	3,263	2,915	2,798	2,542	2,219
Other funding	0	96	0	0	0	0	0	0	0	0	0
Net financing need for the year	**30,625**	**47,425**	**21,684**	**19,292**	**21,283**	**20,598**	**22,781**	**18,799**	**11,067**	**11,655**	**13,668**

General Services and HRA Combined

£000	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30
General Services	57,281	67,437	47,943	51,978	32,745	23,467	19,559	13,288	13,290	13,232	13,232
HRA	51,266	60,006	32,479	27,295	27,269	27,179	26,044	21,714	13,865	14,197	15,887
Capital Expenditure	**108,547**	**127,442**	**80,422**	**79,273**	**60,014**	**50,647**	**45,603**	**35,002**	**27,155**	**27,429**	**29,119**
Financed by:											
Capital receipts	0	14,218	4,435	3,777	3,931	2,370	3,140	4,437	2,339	1,000	1,000
Capital grants	29,421	26,115	24,543	12,815	15,679	17,678	14,809	8,850	6,679	6,679	6,679
Revenue	7,516	7,478	6,003	4,813	4,216	3,263	3,263	2,915	2,798	2,542	2,219
Other funding	278	96	0	0	0	0	0	0	0	0	0
Net financing need for the year	**71,332**	**79,535**	**45,441**	**57,868**	**36,188**	**27,336**	**24,391**	**18,799**	**15,339**	**17,208**	**19,221**

Table B - Capital Financing Requirement

£000	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30
Capital Financing Requirement											
CFR – General Services	375,852	401,221	418,596	450,974	458,886	457,606	450,381	440,843	435,708	432,223	428,580
CFR – HRA	250,981	292,343	307,465	319,607	332,771	344,376	357,703	366,672	367,275	367,850	369,978
Total CFR	**626,832**	**693,564**	**726,061**	**770,582**	**791,658**	**801,982**	**808,084**	**807,515**	**802,984**	**800,073**	**798,558**
Movement in CFR	88,700	66,731	32,497	44,521	21,076	10,324	6,102	(569)	(4,532)	(2,911)	(1,515)

Movement in CFR represented by											
Net financing need for the year (above)	71,332	79,535	45,441	57,868	36,188	27,336	24,391	18,799	15,339	17,208	19,221
Loans Fund Review	28,925	-	-	-	-	-	-	-	-	-	-
Less scheduled debt amortisation and other financing movements	(11,556)	(12,804)	(12,944)	(13,348)	(15,111)	(17,012)	(18,289)	(19,368)	(19,870)	(20,119)	(20,736)
Movement in CFR	**88,700**	**66,731**	**32,497**	**44,521**	**21,076**	**10,324**	**6,102**	**(569)**	**(4,532)**	**(2,911)**	**(1,515)**

Table C - Loan Fund Repayment Profile

	General Services	HRA	Total
	£000	£000	£000
Under 12 months	2,849	5,608	8,456
2 years to 5 years	12,473	27,894	40,367
6 years to 10 years	23,724	49,821	73,546
11 years to 15 years	32,474	54,940	87,413
16 years to 20 years	32,293	52,733	85,026
21 years to 25 years	31,292	62,348	93,640
26 years to 30 years	31,712	57,137	88,848
31 years to 35 years	35,471	51,962	87,433
36 years to 40 years	46,955	43,765	90,719
41 years to 45 years	29,357	14,376	43,733
46 years to 50 years	17,924	242	18,166
51 years to 55 years	19,338	346	19,685
56 years to 60 years	19,111	526	19,637
60 years plus	108,929	3,146	112,075

West Dunbartonshire Council Prudential and Treasury Indicators **Appendix 6**

Table D - Ratio of Financing Costs to Net Revenue Stream

	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30
General Services	9.35%	9.62%	9.53%	9.73%	10.32%	11.07%	11.63%	11.86%	11.86%	11.61%	11.65%
HRA	23.48%	25.91%	28.76%	30.33%	32.51%	34.44%	35.98%	36.62%	37.65%	38.19%	38.37%

Table E - Gross Debt compared to the Underlying Need to Borrow (CFR)

£000	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30
External Debt											
Debt at 1 April	426,051	517,851	588,193	624,381	672,287	696,517	710,446	720,880	725,036	725,177	726,043
New Borrowing - CFR	91,800	70,342	36,188	47,906	24,229	13,929	10,435	4,155	141	866	2,294
Debt at 31 March	**517,851**	**588,193**	**624,381**	**672,287**	**696,517**	**710,446**	**720,880**	**725,036**	**725,177**	**726,043**	**728,337**
Long Term Liabilities at 1 April	103,101	100,002	96,391	92,701	89,315	86,162	82,558	78,225	73,500	68,827	65,050
Change in Long Term Liabilities	(3,099)	(3,611)	(3,691)	(3,385)	(3,153)	(3,605)	(4,333)	(4,724)	(4,673)	(3,777)	(3,809)
Long Term Liabilities at 31 March	**100,002**	**96,391**	**92,701**	**89,315**	**86,162**	**82,558**	**78,225**	**73,500**	**68,827**	**65,050**	**61,242**
Gross Debt at 31 March	617,853	684,585	717,082	761,603	782,679	793,003	799,105	798,536	794,004	791,094	789,579
Capital Financing Requirement	626,832	693,564	726,061	770,582	791,658	801,982	808,084	807,515	802,984	800,073	798,558
Under / (Over) Borrowing	**8,979**	**8,979**	**8,979**	**8,979**	**8,979**	**8,979**	**8,979**	**8,979**	**8,979**	**8,979**	**8,979**

Table F - Operational Boundary

£000	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30
External Debt	569,636	647,012	686,820	739,516	766,168	781,490	792,969	797,539	797,695	798,648	801,171
Long Term Liability	110,003	106,031	101,971	98,247	94,778	90,813	86,047	80,850	75,710	71,555	67,366
Total	**679,639**	**753,043**	**788,790**	**837,763**	**860,947**	**872,303**	**879,016**	**878,390**	**873,405**	**870,203**	**868,536**

West Dunbartonshire Council Prudential and Treasury Indicators **Appendix 6**

Table G - Authorised Limit

£000	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28	Forecast 2028/29	Forecast 2029/30
External Debt	621,421	705,832	749,258	806,745	835,820	852,535	865,057	870,043	870,213	871,252	874,004
Long Term Liability	120,003	125,670	121,241	117,178	113,394	109,069	103,870	98,201	92,593	88,060	83,490
Total	**741,424**	**831,501**	**870,498**	**923,923**	**949,214**	**961,604**	**968,926**	**968,244**	**962,805**	**959,312**	**957,494**

Table H - Interest Rate Forecast

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Oct-22	Jan-23	Mar-23
Bank Rate	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
5yr PWLB Rate	2.30%	2.30%	2.40%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%
25yr PWLB Rate	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%
50yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.80%

Table I - Historic Risk of Default

Long term rating	1 year	2 years	3 years	4 years	5 years
AAA	0.04%	0.10%	0.18%	0.27%	0.36%
AA	0.02%	0.04%	0.10%	0.17%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
BB	0.71%	2.00%	3.47%	4.92%	6.22%
B	2.90%	7.00%	10.67%	13.74%	16.12%
CCC	18.74%	26.47%	31.60%	35.37%	38.17%

Note - The AAA default risk is actually higher than the AA default risk due the number of AAA rated institutions left

Table J - Counterparty Limits

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	£10million and £5million	364 days
6	Sector Limit	£25 million	Very liquid no time limit applies
	Fund Limit	£5 million	
7		No limit	6 months
8	Sector imit	£25 million	364 days
	Fund Limit	£5 million	

Table K - Sensitivity to Interest Rate Movements

£000	2020/21 Estimate	1%	-1%
Variable Rate Debt Payments	N/A	N/A	N/A
Variable Rate Investment income	75	150	(75)

Table L- Treasury Management Limits on Activity

	2020/21 Upper	2021/22 Upper	2022/23 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 & 365 days	£nil	£7m	£nil	£7m	£nil	£7m

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead – Resources

Audit Committee: 17 June 2020

Subject: Internal Audit Plan 2019/20 – Progress to 20 May 2020

1. Purpose

1.1 The purpose of this report is to advise Members of progress at 20 May 2020 against the Audit Plan 2019/20.

1.2 The report also advises Members 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 note the contents of this report.

3. Background

3.1 The annual audit plan for 2019/20 was approved by the Audit Committee on 20 March 2019. This report provides information on the progress in implementing the plan to date.

3.2 When audit reports are issued by Internal Audit and External Audit, an action plan is agreed with management in relation to issues highlighted by the audit report. Progress on implementing the actions is monitored by Internal Audit on a monthly basis and regularly reported to the Audit Committee.

4. Main Issues

Audit Plan 2019/20

4.1. The annual audit plan sets out the audit coverage for the year utilising available staff resources to enable the Audit Manager to provide the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.

4.2 Since the Audit Committee meeting in November 2019, 5 audits have been finalised as follows:

- Members' Expenses (December 2019);
- CM2000 Functionality (February 2020);
- Cash and Banking (February 2020);
- Agresso - Logical Access Controls (May 2020); and
- Rents – Calculation and Collection (May 2020).

These reports identified a total of 11 issues categorised as below:

High	Medium	Low
0	8	3

Members' Expenses (December 2019)
The audit covered the following areas:

- Compliance with Policy & Procedures relating to Members' Expenses;
- Examination of Reimbursement Claims and Payments for Travel Expenses; and
- Examination of Procedures for Use of the Council Car.

Overall the systems in place are generally satisfactory however one Medium issue was identified as follows:

- Currently there is no specific guidance in place for Elected Members relating to Travel and Subsistence. The lack of clear guidance has led to some inconsistencies in claims submitted.

An action plan was agreed by management to ensure that a clear set of Rules and Guidance was drafted by 1 April 2020 for Council approval thereafter. This action is now complete.

CM2000 Functionality (February 2020)
The CM2000 system is used within Homecare to schedule resources to meet service demands. The audit covered:

- Available functionality compared to actual usage;
- Compliance Levels with agreed clocking in and out performance measures;
- Management Information available from the CM2000 system for the efficient running of the Home Care service; and
- Development Plan for the additional CM2000 functionality.

Overall, the systems examined are generally working effectively and the review highlighted the following areas of good practice:

- CM2000 system takes into consideration a number of factors in order to prepare scheduling which ensures a very efficient service delivery for the Homecare Team;
- The system allocates any unscheduled absences e.g. sick leave by best matching various factors to the carers so that overtime costs are kept to a minimum; and
- A new App is being piloted in the Vale of Leven area which, once rolled out, should help with clocking in and clocking out by Homecare staff. This will enhance the Team's ability to meet the overall compliance level target of 90% set by management.

However, the review also highlighted 3 Medium rated findings as follows:

- Currently, compliance with target levels of clocking in and out are not being achieved. Audit testing identified missed clock in or out recordings on CM2000 for a number of Homecare staff. Management have implemented checks on levels of compliance by the Administrative team however due to capacity issues during 2019, these checks were not being performed;
- From a review of a sample of timesheets processed in September 2019, we identified 12 instances where staff were paid for overtime but the corresponding clock bookings had not been registered in the CM2000 system. The total overtime hours claimed were 194.25 totalling £2,423.50; and
- Additional functionality is available on CM2000 in relation to mileage and financial modules. Management have advised that the Mileage module is to be piloted in Dumbarton in March 2020 but no dates have yet been set for rollout to other areas. In relation to the Financial module, management have a plan to introduce this functionality in the future but this has not yet been fully costed.

We have made a number of recommendations and an action plan is in place to address all issues by 31 January 2021.

Cash and Banking (February 2020)
The audit highlighted the following areas of good practice:

- adequate separation of duties;
- daily income management procedures; and
- general cheque control processes.

The review highlighted one Low Risk finding as follows:

- Currently the section maintains a stock of receipt books and these are issued to services as required, a record is maintained of all books issued. However, records are not being maintained of all stock held. The current stock was checked and it was noted that all of the numbers ran sequentially and no stock was missing. An action plan was agreed to maintain a record of all stock held and issued by 29 February 2020. This action is now complete.

Agresso – Logical Access Controls (May 2020)
The audit covered testing of new user requests, amendments to user access, termination of users and review of super user access. The review highlighted one areas of good practice in relation to the processing of requests and terminations in a timely manner.

However, the review also identified one Medium Risk finding and two Low Risk findings as follows:

- Three Super Users to the Agresso system have access mainly to allow them to maintain and update the system as required and process transactions such as feeders and journals sent in by others. However, there are currently no periodic reviews by management of updates/amendments relating to access undertaken by super users (Medium Risk).

Two procedural documents exist pertaining to access controls, however some of the content is out of date and procedures were found to be incomplete in relation to Agresso access control tasks including: creation and amendment of new users and super user access (Low Risk).

- Testing of new user access requests was carried out to ensure that access granted was valid, accurate and complete. However, user requests are retained within outlook in chronological order which meant that searching for specific individual requests of users could be time consuming (Low Risk).

We have made a number of recommendations and an action plan is in place to address all issues by 31 July 2020.

Housing Rent – Calculation and Collection (May 2020)
The following areas were included in the scope of the audit:

- Establish that there is a Rent Collection Policy and that procedures/processes are in place and are subject to regular review and updating;
- Confirm that there is segregation of duties for staff working on rent level reviews, calculation of rent charges, rent collection and the debtors section;
- Confirm annual Rent Reviews are carried out in compliance with Council policy and Procedures and are approved by the Council;
- Confirm with the use of sampling that individual property rents are calculated correctly and all master files are updated with the correct figures; and
- Confirm that the Councils Policies and Procedures have been followed to achieve maximum rents collection.

Excluded from the scope of the review was Rent Arrears as this will be subject to a separate Internal Audit review in 2020/21 due to the introduction of the new Housing Management System.

The review highlighted the following areas of good practice:

- The Council has in place detailed and transparent procedures for the setting of the annual rent levels. This includes the preparation of a number of rent level options which are presented to tenants for consultation before the final rent level is set by the Council; and
- Housing operations operate a soft touch approach with tenants to reduce rent arrears. This includes establishing a good working relationship with tenants in order to assist them in maintaining a sustainable tenancy. The Housing Officers provide advice and assistance to the tenant from the pre-allocation of the property to the end of any tenancy agreement. This includes assisting the tenant to apply for social welfare assistance where appropriate.

However the review also highlighted three Medium Risk findings as follows:

- Monitoring the work of the housing team - the performance of individual Housing Officers is discussed with their Team Leaders at 1 to 1 meetings. However, the meetings are informal and no record is maintained of matters discussed and actions to be taken.

- Accurate and timely identification of rent payment source - Housing staff are finding it difficult and time consuming to identify the source of payments recorded as cash receipts in the QL Integrated Housing Management System (IHMS). Combined under the heading “Cash” are a number of different payment sources including Universal Credit and salary deductions. Additional interrogation of the system is required to fully identify the source of the payment and the period covered by the payment. This makes it difficult and time consuming for Housing Officers to confirm the underlying source of payments and the dates these payments are made.
- Management of Potential Conflicts of Interest - testing identified that not all users of IHMS have completed a Family & Friends declaration. In addition, no list is maintained of employees who have declared an interest in Council properties. Management have still to establish whether functionality exists within IHMS to block access to accounts where a potential conflict of interest may arise. There is a risk therefore that potential conflicts of interest are not adequately managed.

We have made a number of recommendations and an action plan is in place to address all issues by 31 August 2020.

4.2 The current status of the 2019/20 Annual Audit Plan is as follows:

Stage	**Number of Audits**
Final Report	9
Draft Report	4
Fieldwork Complete	1
Fieldwork	1
Planning	0
Not Started	0
Deferred to 2020/21	1
Total	**16**

4.3 The detailed Annual Audit Plan progress to 20 May 2020 is set out at Appendix 1.

In relation to the audit of Pupil Equity Funding, this audit has been carried forward to the 2020/21 Annual Audit Plan due to an unforeseen vacancy arising in the audit team. However, it is anticipated that the fieldwork for the remainder of the plan will be complete by 30 June 2020.

4.4 <u>Internal and External Audit Action Plans</u>
In relation to audit action plans, these are monitored by Internal Audit on a monthly basis and good progress continues to be made by officers in implementing agreed actions.

The current status is set out at Appendix 2 which includes the following:

1. Recently Issued Internal Audit Action Plans;
2. Incomplete Internal Audit Action Plans;
3. Incomplete Other Internal Audit Action Plans; and
4. Incomplete External Audit Action Plans.

In addition, in relation to the Procurement Follow Up audit carried out in June 2019, 7 further recommendations were agreed by management for implementation by 30 November 2019. Internal Audit carried out a follow up exercise in relation to these 7 actions in December 2019 which confirmed that 4 actions were complete and partially complete for 3 actions. New completion deadlines were set for these 3 actions and Internal Audit has followed up these actions at the agreed action date.

The status of the 3 actions is set out in the undernoted table:

Recommendation/Agreed Action	**Internal Audit Opinion**
1. Roads - Formalising Reconciliation of Capital Works The existing process for reconciling the records maintained for capital works to the ledger should be formalised and carried out on a regular basis. (Medium Risk) Format will be developed with colleagues in Resources section to improve processes.	A reconciliation is now being performed by the roads service. However, Internal Audit would recommend the frequency of the reconciliation increases to monthly. Currently the reconciliation is handwritten. Internal Audit recommends that it is carried out in excel. Internal Audit has offered support to the team in order to develop a robust reconciliation process. Revised deadline: 31 March 2020 Status at 20 May 2020 – complete.
2. Roads & Greenspace - Revenue Works Records A more comprehensive approach to recording of revenue works should be introduced, including reconciliations. (Medium Risk) Roads - Format to be developed with colleagues in Resources section to ensure full compliance. Greenspace – will replicate capital approach for revenue projects.	Roads – There is not a complete list of revenue works maintained by the team and there are limitations to the reports that can be run from Profess. Rather the team needs to run a report for each contractor including Road Ops in order to get the information required. The reconciliation will only be performed at year end. However, if reconciliations are only performed annually any errors found will not be corrected in a timely basis. We would recommend that the reconciliation for the external contractors should be performed at least monthly. Internal Audit has offered support to the team to develop a reconciliation process. Greenspace – A list of all revenue works within Greenspace has been developed in line with the list of capital works. The reconciliation process mainly looks at individual jobs to ensure the ledger matches the invoices and should be developed further to include all the cost centres within Greenspace to pick up any miscoding errors and should include a sign off by management. Revised completion date: 31 March 2020. Status at 20 May 2020 – complete.

4. Roads - Evidenced Monitoring of Works Introduce a proforma document for both capital and revenue works in order to formally evidence the completion of works and also the decision to release retentions. (Medium Risk) Proforma will be held within each project file and completed following inspection at completion of works. At present payment not made until works inspected.	A new monitoring form was introduced in September 2019 which is to be used for all site visits and includes detail on the work performed and the status of the contract including the value of works undertaken. Roads are still also relying on external firms to carry out some of the monitoring/ surveying for them, although the use of such contactors is reducing. The team have recruited new employees to carry out this role as at November 2019. Internal Audit testing was not able to confirm the use of the monitoring form due to the timing of the form being introduced. Revised completion date: 31 March 2020. Status at 20 May 2020 - complete

4.5 The Council's Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective April 2013 (updated April 2017) which includes:

- Definition of Internal Auditing;
- Code of Ethics;
- Attribute Standards (responsibility, independence, proficiency, quality); and
- Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).

4.6 An annual internal self-assessment against the PSIAS of the Internal Audit function has recently been completed in May 2020, which shows a current compliance level for WDC Internal Audit of 92.3%. It is anticipated that the next external PSIAS review, required every five years, will take place during 2020/21.

Ongoing Corporate Fraud Team Work

4.7 From 1 April 2019 to 31 March 2020, the Corporate Fraud team's day to day work has resulted in actual recoveries, charges and re-billings as detailed below, against an annual target of £225,000.

Description	**Amount (£)**
Council Tax Reduction	54,952
Council Tax Single Person's Discount	39,874
Scottish Welfare Fund Grant	28,464
National Fraud Initiative	47,562
J/W Housing Benefit / Council Tax Benefit	65,795
Non DWP HB	212,734
Non DWP CTB	5,152
Administrative Penalties	4,273
Landlord Fraud	3,267
Total	**£462,073**

4.9 The Internal Audit Team and the Corporate Fraud Team continue to work together as appropriate in order to ensure a joined-up approach to fraud investigation and detection.

National Fraud Initiative

4.10 The National Fraud Initiative (NFI) is a series of bi-annual exercises run by the Cabinet Office and Audit Scotland to identify or prevent fraud and error by matching electronic data held by public bodies. Participating bodies are required to investigate data discrepancies within a timescale and report back on any savings.

4.11 The most recent bi-annual exercise released data to Councils in January 2019, providing matched datasets for organisations to investigate. WDC was provided with a total of 5,955 matched datasets of which 1,242 were described as “high risk” matches and 4,713 additional matches. There is an expectation that organisations will examine all “High Risk” matches and a proportion of the other matches too.

4.12 To date a total of 89% cases have been processed, for which fraud (35 cases) and error (146 cases) amounting to £70,598 has been identified.

Benchmarking

4.13 In accordance with the Council’s Strategic Improvement Framework, services should undertake benchmarking activity with the equivalent function in other Councils. Therefore, WDC Internal Audit has entered into a benchmarking group which involves five other Councils, these being:

- Argyll and Bute;
- Clackmannanshire;
- East Dunbartonshire;
- Falkirk; and
- West Lothian.

4.14 The Chief Auditors of these five Councils have met on a regular basis during 2019 in order to discuss their respective ways of working, consider topical issues with the objective being to identify and share best practice. In addition, a set of performance indicators has been developed. Regular meetings will continue to take place during 2020 to review performance against agreed performance indicators and relevant action will then be taken where improvements are identified. The outcome of this review will be reported to Committee when completed.

Structural Changes

4.15 The shared management approach to Internal Audit with Inverclyde Council took effect from 1 January 2020 and the Shared Service Manager – Audit & Fraud is now in post.

5. People Implications

5.1 There are no people implications.

6. Financial and Procurement Implications

6.1 As a result of Corporate Fraud Team activity, actual recoveries, charges and re-billings of £462,073 from 1 April 2019 to 31 March 2020 have been identified, against an annual target of £225,000.

6.2 There are no procurement implications arising from this report.

7. Risk Analysis

7.1 There is a risk that failure to deliver 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 Impact Assessment (EIA)

8.1 There are no issues.

9. Consultation

9.1 This report has been subject to consultation with appropriate Strategic Leads.

10. Strategic Assessment

10.1 This report relates to strong corporate governance.

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Stephen West
Strategic Lead - Resources
Date: 20 May 2020

Person to Contact: Andi Priestman, Shared Service Manager – Audit & Fraud
E-mail: andi.priestman@west-dunbarton.gov.uk

Appendices 2019-20 Annual Audit Plan – Progress to 20 May 2020 (Appendix 1)
Status of Internal and External Audit Action Plans to 20 May (Appendix 2)

Background Papers: Audit Committee – 20 March 2019: Internal Audit Plan 2019/20
Audit Committee – 21 March 2018: Counter Fraud and Corruption Strategy
Internal Audit Reports - Copies available on request

Wards Affected: All wards

2019-2020 Internal Audit Annual Audit Plan – Progress to 20 May 2020 **Appendix 1**

Audit/Status	Not Started	Planning/ TOR	Fieldwork	Fieldwork Complete	Draft Report	Final Report	Reported to Audit Committee
Cash and Banking		✓	✓	✓	✓	✓	June 2020
Taxi Licensing		✓	✓	✓	✓		September 2020
Housing Rents – Calculation and Collection		✓	✓	✓	✓	✓	June 2020
Pupil Equity Fund	✓	Carried forward to 2020-21 Annual Audit Plan					
Third Party Providers		✓	✓	✓	✓		September 2020
Procurement Follow Up		✓	✓	✓	✓	✓	September 2019
CM2000 Functionality		✓	✓	✓	✓	✓	June 2020
Members Expenses		✓	✓	✓	✓	✓	June 2020
Debt Recovery		✓	✓	✓	✓	✓	November 2019
Housing Voids		✓	✓	✓			September 2020
Social Care – Attendance Management		✓	✓	✓	✓		September 2020
Social Care – Case Management		✓	✓	✓	✓		September 2020
Cyber Security		✓	✓				September 2020
Logical Access Controls		✓	✓	✓	✓	✓	June 2020
Valuation Joint Board – Review of Risk Management Arrangements		✓	✓	✓	✓	✓	Reported to VJB Audit Committee - June 2020
Leisure Trust – Review of Risk Management Arrangements		✓	✓	✓	✓	✓	Reported to LT Audit Committee February 2020
National Park Authority Annual Audit Plan	5 out of 5 audits are now complete.						
WD IJB	Audit plan is now complete.						
National Fraud Initiative	All high risk matches from the 2018 Exercise have been completed. A significant number of other matches have also been investigated. To date 89% of all matches received have been investigated resulting in 35 frauds, 146 errors being identified totalling £70,598.						

Internal Audit Report 2019-20 - Recently Issued

Generated on: 20 May 2020

1. Recently Issued Internal Audit Action Plans

1. Procurement Follow Up (Report Issued June 2019) Updated actions

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
IAAP/031	1. Roads - Formalising Reconciliation of Capital Works The existing process for reconciling the records maintained for capital works to the ledger should be formalised and carried out on a regular basis. (Medium Risk)	Format will be developed with colleagues in Resources section to improve processes.		31-Mar-2020	31-Mar-2020	Complete	Gail Macfarlane	Gail Macfarlane
IAAP/032	2. Roads & Greenspace - Revenue Works Records A more comprehensive approach to recording of revenue works should be introduced, including reconciliations. (Medium Risk)	Roads - Format to be developed with colleagues in Resources section to ensure full compliance. Greenspace – will replicate capital approach for revenue projects.		31-Mar-2020	31-Mar-2020	Complete	Ian Bain; Gail Macfarlane	Ian Bain; Gail Macfarlane
IAAP/033	4. Roads - Evidenced Monitoring of Works Introduce a proforma document for both capital and revenue works in order to formally evidence the completion of works and also the	Proforma will be held within each project file and completed following inspection at completion of works. At present payment not made until works inspected.		31-Mar-2020	31-Mar-2020	Complete	Gail Macfarlane	Gail Macfarlane

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
	decision to release retentions. (Medium Risk)							

2. CM2000 Functionality (Report Issued February 2020)

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
IAAP/026	**Compliance with Clocking in and out in the CM2000 system** It is recommended that Management formalise checks/follow up for the clocking in and out on a regular basis. Results should be cascaded to Team Leaders/Supervisors to discuss missed clocking in and out with relevant staff to help achieve the target with the compliance level. (Medium Risk)	We have committed that back office staff will undertake live monitoring. We have written a "Reconciliation Standards" document for the admin team. It explains how they are to handle each Reconciliation scenario, We will work with HR to undertake formal action under the performance management policy for those staff who failed to log in and out of visits.		30-Apr-2020	30-Nov-2020	Two employees have been identified to support the administration team in following up on compliance. The planned review of care at home services has been delayed due to Covid-19 Pandemic, however, CM2000 compliance actions will be covered in service delivery plans currently in draft. Staff have been formally notified by letter on requirements to comply with CM2000 procedures.	Richard Heard	Lynne McKnight
IAAP/027	**Compliance with Clocking in and out in the CM2000 system** b) It is recommended that Management roll out this new App as soon as the pilot is completed in order to assist with increasing the compliance level. (Medium Risk)	New app will be rolled out in next three months as tags for all clients will need to be re-programmed and training provided for front line Home Carers.		30-Apr-2020	30-Nov-2020	As action IAAP/026 above.	Richard Heard	Lynne McKnight
IAAP/028	**Overtime Payment** It is recommended that: • all timesheets are checked and agreed to CM2000 system before being authorised for payment; • where there are instances of non-	We are working with CM2000 to develop a payroll report which will be used to pay staff. This report will be implemented by September 2020. In the meantime Admin will do cross checks against clocking in		30-Nov-2020	30-Nov-2020	Further information is required to confirm if this date is still realistic.	Richard Heard	Lynne McKnight

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
	compliant clock in overtime, appropriate additional authorisation should be obtained. (Medium Risk)	and out. A communication will be issued to all home care staff re compliance and claims for overtime.						
IAAP/029	<u>Implementation of additional CM2000 Functionality</u> a) It is recommended that Management pilot and fully implement the Mileage functionality across the Homecare team within the planned time frame. (Medium Risk)	Mileage Wizard will be rolled out in next six months. This will depend on high compliance.		30-Jun-2020	30-Nov-2020	Further information is required to confirm if this date is still realistic.	Richard Heard	Lynne McKnight
IAAP/030	<u>Implementation of additional CM2000 Functionality</u> b) It is recommended that Management develop a plan in collaboration with WDC ICT and Payroll to implement the Financial module. (Medium Risk)	We are working will CM2000 to develop a payroll report which will pay staff directly from the system. This report will be implemented for testing by September 2020		30-Nov-2020	31-Jan-2021	Further information is required to confirm if this date is realistic.	Richard Heard	Lynne McKnight

P	**Members Expenses**

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
IAAP/019	1. Guidance for Elected Members It is recommended that a clear set of guidance is developed for Members' Travel & Subsistence to ensure consistency of approach for all Elected Members. (Medium Risk)	Produce a clear set of Rules and Guidance for Council approval.		01-Apr-2020	01-Apr-2020	Complete	George Hawthorn	Peter Hessett

Cash and Banking

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
IAAP/034	Stock of Controlled Stationery A record of all controlled stationery (receipt books) should be maintained which includes stock on hand and stock issued. (Low Risk)	Stock on hand and stock issued will be maintained for controlled stationery (receipt books)		29-Feb-2020	29-Feb-2020	Complete	Karen Shannon	Gillian McNeilly

168. Access Controls (Report Issued May 2020)

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
IAAP/035	1. Lack of Review of Super User Access Management should ensure that periodic checks are undertaken of tasks carried out by super users to ensure that all access is valid and	Management will introduce suitable periodic checks of the number of Super Users. Management to approve the creation of new Super Users.		31-Jul-2020	31-Jul-2020		Gillian McNeilly	Stephen West

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
	authorised. In addition, management should monitor the number of super users to keep these to a minimum and approve the creation of any new super user accounts. (Medium Risk)							
IAAP/036	<u>2. Adequacy of Procedural Documentation</u> A comprehensive procedural document should be established which should include all key processes involved in access controls for the Agresso system. In addition, the document should be periodically reviewed particularly where any updates/amendments to the system are made and the procedures should be updated as appropriate. Low Risk	Existing procedures will be merged into a single document and remaining areas not already covered will be added. A suitable review process will be introduced.		31-Jul-2020	31-Jul-2020		Adrian Gray	Gillian McNeilly
IAAP/037	3. Retention of User Requests All new user requests should be retained in the Document Archive part of the Agresso System in order to ensure ease of reference. In addition, the Business Partner should sample check new user requests to ensure that what is being processed is accurate. (Low Risk)	New user access requests will in future be stored within Agresso's built-in Document Archive. A suitable review process will be introduced.		31-Jul-2020	31-Jul-2020		Adrian Gray	Gillian McNeilly

169. Housing Rent – Calculation and Collection (Report Issued May 2020)

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
IAAP/038	1. Monitoring the work of the Housing Team Team meetings should be formalised and note taken detailing issues discussed and actions to be taken. Meetings should be held at regular intervals. There is a need to prioritise the implementation of the Arrears module to enhance the 1-1s and facilitate the on going monitoring of the performance of Housing Officers. (Medium Risk)	Weekly service performance meetings, alternating between Alexandria/Dumbarton & Clydebank, have been in place for several years and action notes are recorded, however these were adjourned at the time of our new system being implemented and would have been reinstated by now but for the recent disruption arising from the coronavirus pandemic. The less formal approach described was a temporary acknowledgement of the scale of service change arising from the system rollout and dynamic changes to process and a resumption of the substantive process meets the objectives identified. In doing so, we will ensure the new system is used in an optimal way. This process may however be in an alternative format given the ongoing restrictions which are likely to remain once lockdown has eased.		31-Aug-2020	31-Aug-2020		Edward Thomas	Peter Barry
IAAP/039	2. Accurate and timely identification of rent payments The QL integrated Housing Management System (IHMS) team should provide additional guidance and training to assist officers in identifying the source of payments received. (Medium Risk)	The QL system does differentiate between different payment sources and records payment dates; whilst user guides are sufficiently detailed to access this information from relevant fields, however we acknowledge that in some areas such as rent statements, this could be clearer for officers and work will be undertaken to ensure this is improved.		31-Aug-2020	31-Aug-2020		Edward Thomas	Peter Barry

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
IAAP/040`	3. Management of potential conflict of interests The team responsible for implementing IHMS should investigate the feasibility of a blocking process being incorporated through system functionality where available. In the meantime, all users should complete the Friends and Family declaration as soon as possible. A listing of all Housing employees that have declared an interest in Council properties should be maintained and reviewed on a regular basis at least annually. (Medium Risk)	We will review the present process for declaring potential conflict of interest, both to tighten up the identified issues and ensure configuration within the new system.		31-Aug-2020	31-Aug-2020		Edward Thomas	Peter Barry

Internal Audit Report 2019-20 - Outstanding Actions

Generated on: 20 May 2020

2. Incomplete Internal Audit Action Plans

145. Building Standards (Report Issued March 2019)

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
T&PSR/IA AP/694	8. Use of Comino When an application is open all information should be stored in the one place and thought should be given to moving older parts of the application into Comino. (Low Risk)	The remaining paper based files between 2010 - 2016 will be electronically back scanned and imported into the electronic document management system.		30-Sep-2019	31-May-2020	Successful scanning company assigned and hardcopy files uplifted from WDC. Scanning completed however company reported a delay indexing the scanned files reason given COVID-19. New estimated delivery of electronic files late April 2020. Quality control and CIVICA linking to application case still to be carried out by WDC but only after quality control is completed.	Irene McKechnie	Pamela Clifford

151. Performance Indicator Review – Library Visits (Report Issued May 2019)

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
T&PSR/IAAP/719	1. Information obtained from the electronic counters is not user friendly and is time consuming to analyseManagement should consider how the data provided by the electronic counters can be improved either by upgrading or replacing the current system to ensure useful management information is available. (Low risk)	We will look at alternative solutions and make an assessment on suitability in the 2019/20 financial year.		31-Mar-2020	31-Dec-2020	Global events overtook the finalising of this action, with all Libraries closed to the public in accordance with government guidelines. A Business Case has now been prepared to consider alternative systems at a time the libraries re-open.	David Main	Stephen Daly

154. Charging Policy - Non Residential Services (Report Issued May 2019)

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
T&PSR/IA AP/732	1. Financial Assessments Not Located/Provided Service areas should ensure that it is built into their processes that Financial Assessment reviews are undertaken on an annual basis as this does not appear to happening as standard. In addition, record keeping needs to be improved. (High Risk)	The Head of Service will issue an instruction to Integrated operational Managers on the requirement to undertake a Financial Assessment as part of the initial assessment of care and also that this should be reviewed annually. Evidence should also be retained to verify that this has been done. The HSCP SMT has agreed that an Extended Management Team session will be held around the operational responsibilities of social care staff.		30-Jun-2019	30-Sep-2020	The request to commission a care package for any client group will only be considered by the Area Resource Groups when accompanied by a Financial Assessment with evidence of Income Maximisation being offered to the individual. This process is clearly set out in the Draft Charging Policy currently being finalised with a focus on Equalities Impact Assessment. The Coronavirus Act has allowed for a relaxation of a full social care assessment being undertaken (including financial assessment) as staff resource is under strain. It is requested that the completion date is extended to 30 September 2020 to allow for the draft Charging Policy to be consulted upon and the Self Directed Support actions to be completed. Internal Audit will review the Financial Assessment process in 2020/21 as part of their planned programme of audits.	Fraser Downie; Jo Gibson; Jonathan Hinds	Beth Culshaw
T&PSR/IA AP/734	3. Evidence of Benefits When carrying out Financial Assessments, verification of the clients Benefits/Income/Capital should be carried out, this verification should be retained as evidence to the assessment. Alternatively, consideration should be given to accessing/sharing information from the IWorld Benefits system as this is	The revised Charging Policy will stress that evidence must be provided and retained to allow for a robust financial assessment to be undertaken. If service user refuses then the full charge will be applied. This will be detailed within the financial assessment. IWorld access to be given to members of staff currently carrying out Financial Assessments for		30-Aug-2019	30-Sep-2020	Linked to AP732 above: It is requested that the completion date is extended to 30 September 2020 to be consulted upon and the Self Directed Support actions to be completed. Internal Audit will review the Financial Assessment process in 2020/21 as part of their planned programme of audits. The draft Charging Policy has placed more emphasis on the responsibility of the	Jonathan Hinds	Beth Culshaw

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
	verified/evidenced information which would also ensure that the client is only being asked once for the information. (Medium Risk)	Residential Placements. Extending this will be considered where appropriate.				Service User/Representative that without evidence of income/benefits the full charge will be applied.		
T&PSR/IA AP/735	<u>4. Charging Policy</u> As the Community Based Care Charging Policy - Non Residential Services has not been reviewed for at least eight years and as some parts of the policy requires to be more generic and other parts require to be more specific, it is recommended that the policy be fully reviewed and revised. This will therefore provide more clarity, eliminate ambiguity and make it fit for purpose. It is also recommended that all services be included in the review to ensure input from all areas. In addition, once reviewed, the date of the revision should be recorded on the policy to ensure that there is proper version control. (Medium Risk)	A Charging Policy Review Group has been established on 7th Jan with meetings scheduled for every 2 weeks until end of June. The group includes all Heads of Service, the CFO, some Integrated Ops Managers and social care accountant. The draft Terms of Reference were considered at the 2nd meeting and agreement was reached between HoS about seconding a social worker to support the process. The review will consider the impacts of new Carers Act and Free Personal Care for Under 65 as well as Self Directed Support duties. It will also address the current anomalies/inequities between service users and opportunities to maximise charging in the context of the council's Commercialisation Policy – but within COSLA Guidance. Personal care is defined in legislation. A simple "service user guide" to non-residential charges can be added to the website/leaflet for distribution.		31-Aug-2019	30-Sep-2020	The impact of responding to the Covid-19 Pandemic has directed all levels of staff in Health and Social Care to support front line service delivery. This has resulted in a delay in finalising a number of outstanding actions including revised guidance on eligibility and self directed support assessments which impact on the review of the Charging Policy. The draft Charging Policy has taken account of policy, COSLA guidance and legislation changes and is currently with the SMT for comment, revisions and agreement. This will be followed by a process of consultation with the wider community. This stems from some opposition to the introduction of the £10/day Day Opportunities charge incorporating transport and meals and the Chief Office committed to a survey of Service Users and dependent on outcome a report may be required to be considered by WDC. The work of the SDS Programme Board will also be reflected.	Jonathan Hinds	Beth Culshaw

157: Social Work Tendering & Commissioning (Report Issued 7 June 2019)

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
T&PSR/IAAP/760	2. Resources Allocation Meetings (a) It may be helpful for the CPU attend some of the resource allocation meetings to establish ways they could work more collaboratively and if tools such as frameworks could be used. (b) Minutes should be taken at all such meetings in order to show the rationale of procurement decisions. In addition these notes should be included in service users' files. (Medium Risk)	(a) It would be beneficial for the CPU to have insight into the Resource Allocation Meetings process, but only with regard to the type of provider and service type required. (b) Rather than a full minute there will be a Decisions Summary produced after every meeting which will be distributed to both CPU and HSCP Finance Team.		30-Sep-2019	30-Sep-2020	On going work through SDS review. Short term working group established to review financial processes and agree across teams, procurement to be invited to be part of process. The SMT are considering the current ARG process.	Fraser Downie; Hazel Kelly; Robert MacFarlane; Lynne McKnight; Annie Ritchie; Bernadette Smith	Jo Gibson; Jonathan Hinds; Julie Lusk; Annabel Travers
T&PSR/IAAP/762	4. Monitoring Providers All monitoring should follow the procedures and be consistent across the partnership. (Medium Risk)	Our review of commissioning and quality within the HSCP will ensure that a consistent monitoring approach will be developed across services. This will include a review of the functions within the Quality Assurance Team, in tandem with a review of the HSCP SMT structure.		31-Dec-2019	31-Oct-2020	The review of the organisational structure has not fully commenced due to the timing of the 3 new Heads of Service taking up post. The Head of People & Change took up post on 1 May and will work with the new Head of Strategy & Transformation on taking this forward within existing budget limits.	Margaret-Jane Cardno	Beth Culshaw

163. Debt Recovery (Report Issued November 2019)

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
IAAP/018	1. Policy Renewals The Council should update its Rent Collection Policy to ensure it is up to date with current legislation and work practices.	The Rent Collection policy is to go to the West Dunbartonshire Tenants & Residents Organisation for consultation. Following the consultation the renewed Rent		31-Mar-2020	31-Aug-2020	Public consultation on Rent Collection Policy ended on 13th April, this was extended from mid March to tie in with Housing News being issued to all tenants to maximise participation on survey. Draft policy will be	Ryan Chalmers	Arun Menon

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
	(Low Risk)	Collection Policy will be presented to the Housing & Communities Committee for approval.				going to next Housing Committee for approval.		

3. Other Internal Audit Action Plans

Code of Good Governance - Improvement Actions for 2019-20

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
GOV-19-004	6. Sensitivity Analysis Embed sensitivity analysis in service level budget and service planning	This will form part of the Service Delivery Plans for 20/21.		31-Mar-2020	30-Sep-2020	The action will to be completed by adding a section to the Service Delivery Plans which were due to go to Committee in April/May however due to Covid-19 Pandemic the plans are not going to be approved until later in the year therefore this deadline has been extended.	Gillian McNeilly	Stephen West

4. Incomplete External Audit Action Plans

27. Audited Annual Accounts 2018/2019 – Annual Audit Report to Members and Controller of Audit

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
EAAP/002	2. Group accounting errors Multiple errors were identified in the group account statements in the unaudited accounts. *There is a risk that errors in the*	An improved year-end process will be implemented to avoid future errors.		31-Mar-2020	31-Mar-2020	training has been completed & revised template developed final review will be during the drafting of the financial statements in june 2020	Gillian McNeilly	Stephen West

Code	Recommendation	Agreed Action	Status	Original Due Date	Due Date	Note	Assigned To	Managed By
	group accounts consolidation process result in a material misstatement in the annual accounts. Procedures should be put in place to ensure that the unaudited group accounts statements are free from misstatement and reflect the component group bodies accounts.							

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

PI Status	
	Alert
	Warning
	OK
	Unknown
	Data Only

Long Term Trends	
	Improving
	No Change
	Getting Worse

Short Term Trends	
	Improving
	No Change
	Getting Worse

Risk Status

	Alert
	High Risk
	Warning
	OK
	Unknown

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead - Resources

Audit Committee: 17 June 2020

Subject: Internal Audit Plan 2020/21

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 2020/21.

2. Recommendations

2.1 It is recommended that the Committee approve the Audit Plan for 2020/21.

3. Background

3.1 The Public Sector Internal Audit Standards include the requirement for the Chief Internal Auditor to prepared a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.

4. Main Issues

4.1 The audit universe contains all areas that have been identified for review and an assessment has been undertaken of the risk relating to each area based on a number of criteria. Account has also been taken of the risks identified in the Council's risk registers ad risk identified by external scrutiny bodies through the Local Scrutiny Plan.

4.2 It is intended that audit work will be focused on areas of greatest risk taking into account management's own view of risk and meetings have been held with Strategic Directors and Strategic Leads as appropriate. Each area has been assessed against a broad range of risk criteria and a risk score has been generated based on probability factors such as current control environment, results of last audit and time since last audit.

4.3 The Audit Plan also includes the activity of the Corporate Fraud team and includes an allocation of days to provide the Internal Audit Service to the WD Integration Joint Board, the WD Leisure Trust and the Valuation Joint Board. The contract for the provision of the Internal Audit Service to the National Park Authority was re-tendered from1 April 2020 and was awarded to Audit Glasgow.

4.4 Internal Audit monitors delivery of the plan continuously during the year using a number of performance indicators. Progress is reported to members twice a year.

4.5 Outlined below are the current risk factors influencing our proposed audit coverage for 2020-21:

- Learning Disabilities Services provide a range of support services to adults with learning disabilities. A number of contracts are in place to implement these services and Internal Audit will review the adequacy and effectiveness of the financial monitoring of these contracts.
- The new integrated housing management system has a number of modules including inventory management. Internal Audit will review the procedures which are in place to ensure that inventory management is adequate and effective.
- As part of the annual audit planning process, corporate procurement is a key risk area that is reviewed each year. For 2020-21 Internal Audit will carry out an audit of procurement spend up to £50k across the Council to ensure compliance with relevant regulations, policies and procedures.
- Social Work provide a range of services to adults living in care homes who require assistance with shopping, budgeting and benefits. Internal Audit will review the adequacy and effectiveness of client account administration arrangements.
- Clients who require Council funding of their costs within care homes are required to complete financial assessments. It is therefore important to gather accurate and up to date information when calculating the contributions due from clients and the Council. Internal Audit will review the adequacy and effectiveness of the financial assessment process.
- Core functions of the Homelessness Service include homelessness prevention, client assessment and managing accommodation options. The audit will review the adequacy and effectiveness of the governance, risk management and controls surrounding the key risks in relation to this service.
- Occupational Therapy is an important service provided by the HSCP and targets have been set in relation to waiting times for referrals. Internal Audit will review the adequacy and effectiveness of arrangements in place to ensure targets are achieved.
- Rent from council houses provides a significant income stream for the Council. There are a number of factors which can lead to rent arrears including tenants' income levels, how quickly arrears action is taken and the level of advice offered to tenants and it is therefore important that an effective process is in place in relation to the management of rent arrears. A number of policies and procedures have been implemented to more effectively manage rent arrears and Internal Audit will review the adequacy and effectiveness of these procedures.
- The roads costing system allows officers to monitor the costs incurred in relation to the management and maintenance of the roads network. Internal Audit will review the processes which are in place to analyse and report on costs to ensure that processes are adequacy and effective.
- As a result of the COVID-19 Pandemic, we will carry out relevant post-event assurance exercises including specific work through the National Fraud initiative relating to the payment of business grants. Time has been set aside in the plan to allow sufficient work to be undertaken.

4.6 The draft Audit Strategy and Plan for 2020-21 is included at Appendix 1. There are sufficient resources to deliver the planned programme of audit assignments detailed and there are no significant threats to the independence of the internal audit activity, such as inappropriate scope or resource limitations. The Plan contains contingency provision that will be utilised during the year in response to unforeseen work demands that may arise e.g. special investigations and provision of ad hoc advice.

4.7 The risk scoring system is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk.

5. Personnel Implications

5.1 There are no personnel issues with this report.

6. Financial and Procurement Implications

6.1 There are neither financial nor procurement implications arising directly from 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.

9. Consultation

9.1 This report has been subject to consultation with appropriate Strategic Leads.

10. Strategic Assessment

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

Stephen West
Strategic Lead - Resources
Date: 17 June 2020

Person to contact	Andi Priestman, Shared Service Manager – Audit & Fraud Telephone: 01389-737436 Email: andi.priestman@west-dunbarton.gov.uk
Appendix 1:	Draft Internal Audit Strategy and Plan 2020/21
Background Papers:	None
Wards Affected:	All wards

Appendix 1

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2020-2021

1. Introduction

1.1 The Public Sector Internal Audit Standards (PSIAS) set out the requirement for the Shared Service Manager – Audit & Fraud to prepare a risk-based audit plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.

1.2 The Shared Service Manager – Audit & Fraud must review and adjust the plan as necessary in response to changes in the organisation's business, risks, operations and priorities.

1.3 The audit plan must incorporate or be linked to a strategic or high-level statement of how the Internal Audit Service will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities.

1.4 The strategy shall be reviewed on an annual basis as part of the audit planning process.

2. Internal Audit Objectives

2.1 The definition of internal auditing is contained within the PSIAS 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."

2.2 The primary aim of the internal audit service is to provide assurance services which requires the Chief Internal Auditor to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

2.3 The internal audit service also provides advisory services, generally at the request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.

2.4 The internal audit service supports the Chief Financial Officer in his role as Section 95 Officer.

3. Risk Assessment and Audit Planning

3.1 The internal audit approach to annual audit planning is risk-based and all areas which may be subject to audit review are contained within an Audit Universe which is subject to formal review, at least annually.

3.2 The risk scoring system is maintained on a real-time basis and is altered as circumstances change. Regular reviews of the risk scores allow Internal Audit to address the changing risk exposure of the organisation more effectively and ensure audit effort is focused on those areas identified as higher risk.

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2020-2021

3.3 The Audit Universe is risk assessed each year to determine the Annual Audit Plan and ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk. Each area within the Audit Universe is assessed for impact against a number of broad risk categories as follows:

• Strategy	Risks associated with the setting and achievement of strategic objectives.
• Economy	Risks associated with the economy in which West Dunbartonshire Council operates.
• Reputation	Risks associated with threats to West Dunbartonshire Council's name and standing in the sector.
• Customer	Risks associated with customer relationships.
• Legal/Regulatory	Risks associated with the requirement to comply with a wide range of statute.
• Financial	Risks associated with financial loss or inefficiency.
• Technology	Risks associated with application systems, their integrity, security and development.
• Management Information	Risks associated with the provision of information for decision-making purposes.
• Human Resources	Risks associated with people, eg recruitment, succession, development, motivation and morale etc.
• Operations	Risks associated with the business operating process.
• Business Continuity/Resilience	Risks associated with disaster scenarios which would threaten the continuing operation of West Dunbartonshire Council.
• Security	Risks associated with security over customer and West Dunbartonshire Council's assets.
• Stakeholder	Risks associated with management of stakeholder expectations (eg Government or local communities)
• Fraud	Risks associated with asset misappropriation, corruption and financial statement fraud.

3.4 Account has also been taken of the risks identified in the Council's Risk Registers and risks identified by external scrutiny bodies through the Local Scrutiny Plan.

3.5 There will be regular ongoing discussion with External Audit to ensure respective audit plans are reviewed as circumstances change in order to minimise duplication of effort and maximise audit coverage for the Council.

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2020-2021

4 Service Delivery

4.1 The provision of the internal audit service is through a directly employed in-house team. The Shared Service Manager – Audit & Fraud is provided through a shared service arrangement with Inverclyde Council.

4.2 In relation to the total staff days allocated to the 2020-2021 plan, each member of staff completes a resource allocation spreadsheet for the year which is split between annual leave, public holidays, training days, general administration and operational plan days. This spreadsheet is reviewed and updated each period by each member of staff against time charged to timesheets. From 1 April to 30 June, resources have been redeployed to assist in other Council duties or provision of ad hoc advice as a result of the Covid-19 Pandemic.

For the purposes of the annual audit plan 2020-2021, the combined operational plan is 917 days which will be resourced as follows:

Team Member	Plan Days
Auditor	143
Auditor (0.6 FTE)*	60
Auditor (0.5 FTE)	72
Auditor (0.4 FTE)	57
Audit Assistant	120
Section Lead – Corporate Fraud	113
Corporate Fraud Officer	143
Corporate Fraud Officer (vacant)*	95
Intelligence Officer	114
Total Plan Days	**917**

* We are working on the assumption that the Auditor post will become vacant from July/August 2020. It is anticipated that this post and the vacant Corporate Fraud Officer post will be filled by October 2020 and the resource allocation has been adjusted accordingly.

The Shared Service Manager – Audit & Fraud does not directly carry out the assignments included in the annual audit plan but provides the quality review and delivery oversight of the overall plan. As such, no direct time is included within the plan. Where there are any resource issues which may impact on delivery of the plan, this will be reported to Audit Committee at the earliest opportunity.

4.3 Given the range and complexity of areas to be reviewed it is important that suitable, qualified, experienced and trained individuals are appointed to internal audit positions. The PSIAS requires that the Chief Internal Auditor must hold a professional qualification such as CMIIA (Chartered Internal Auditor), CCAB or equivalent and be suitably experienced. The internal auditor posts must also be CMIIA/CCAB or equivalent with previous audit experience.

4.4 Internal audit staff members identify training needs as part of an appraisal process and are encouraged to undertake appropriate training, including in-house courses and external seminars as relevant to support their development. All training undertaken is recorded in a personal training record for CPD purposes.

4.5 Internal audit staff members require to conform to the Code of Ethics of the professional body of which they are members and to the Code of Ethics included within the PSIAS. An annual declaration is undertaken by staff in relation to specific aspects of the Code.

4.6 Following each review, audit reports are issued in draft format to agree the accuracy of findings and agree risk mitigations. Copies of final audit reports are issued to the Strategic Director, Strategic Lead and Service Manager responsible for implementing the agreed action plan. A copy of each final audit report is also provided to External Audit.

4.7 The overall opinion of each audit report feeds into the Internal Audit Annual Report and Assurance Statement which is presented to the Audit Committee and is used by the Chief Financial Officer in the preparation of the Annual Governance Statement.

Appendix 1

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2020-2021

5 Proposed Audit Coverage 2020-2021

5.1 The proposed audit coverage is set out in the table below. This includes a range of risk based reviews, limited scope financial reviews and regularity audits.

5.2 The Plan contains a contingency provision that will be utilised during the year in response to unforeseen work demands that arise eg special investigations and provision of ad hoc advice.

Audit Area	Service	Risk Score	Staff Days
Risk-Based Audit Reviews			
LD Services – Financial Monitoring of Contracts	HSCP	8240	30
IHMS – Inventory Management	Corporate	8240	30
Homelessness	Housing	8024	30
Management of Rent Arrears	Housing	7788	30
OT Waiting Times	HSCP	7788	20
Client Accounts Administration Process	HSCP	7552	30
Financial Assessment Process	HSCP	7552	30
Corporate Procurement – up to £50k spend	Corporate	6844	30
Roads Costing System Process	Roads and Transportation	5900	30
Pupil Equity Funding	Education	5000	25
Total			**285**
Limited Scope Financial System Reviews			
Council Tax – Discounts and Exemptions	Finance	7316	25
Total			**25**
Corporate Governance Reviews			
Annual Governance Statement (2019/2020)	Corporate	-	5
Total			**5**
Other Work			
Audit follow up	Corporate	-	20
National Fraud Initiative	Corporate	-	70
Fraud Referrals including Joint Working	Corporate	-	335
SPOC Liaison with DWP	-	-	10
Fraud Awareness Training	Corporate	-	10
IJB – Internal Audit Service	-	-	40
VJB – Internal Audit Service	-	-	20
Leisure Trust – Internal Audit Service	-	-	30
Covid-19 – Post Assurance Review			40
Contingency	-	-	20
C/f from 2019-2020 Audit Plan	-	-	7
Total			**602**
Total Staff Days			**917**

INTERNAL AUDIT ANNUAL STRATEGY AND PLAN 2020-2021

6 Quality and Performance

6.1 The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment.

6.2 In addition, the performance of Internal Audit continues to be measured against key service targets focussing on quality, efficiency and effectiveness. For 2020-2021 these have been set as follows:

Measure	Description	Target
1. Final Report	Percentage of final reports issued within 2 weeks of draft report.	100%
2. Draft Report	Percentage of draft reports issued within 3 weeks of completion of fieldwork.	80%
3. Audit Plan Delivery	Percentage of audits completed v planned.	85%
4. Audit Budget	Percentage of audits completed within budgeted days.	80%
5. Audit Recommendations	Percentage of audit recommendations agreed.	90%
6. Action Plan Follow Up	Percentage of action plans followed up – Internal and External Audit.	100%
7. Customer Feedback	Percentage of respondents who rated the overall quality of internal audit as satisfactory or above.	100%
8. NFI recommended matches	Percentage of National Fraud Initiative recommended matches investigated within timescales.	100%
9. NFI other matches	Percentage of National Fraud Initiative other matches investigated within timescales.	90%
10. DWP liaison	Percentage of cases referred to/ actioned for DWP within DWP timescales.	100%
11. Staff compliance with CPD	Number of training hours undertaken to support CPD	100
12. Management engagement	Number of meetings with CMT and senior management as appropriate	1 per quarter

6.3 Actual performance against targets will be included in the Internal Audit Annual Assurance Report for 2020-2021.

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead - Resources

Audit Committee: 17 June 2020

Subject: Audit Scotland Annual Audit Plan 2019/20

1. Purpose

1.1 The purpose of this report is to present Audit Scotland's Annual Audit Plan for the audit of financial year 2019/20 to Committee for information.

2. Recommendations

2.1 Members are asked to note Audit Scotland's audit plan for their audit of West Dunbartonshire Council for financial year 2019/20.

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 key audit risks, which require specific audit testing, are detailed in Exhibit 1 of the appended plan.

4.2 Audit outputs are detailed within Exhibit 2 and the financial statement timetable is shown at Exhibit 5.

4.3 Details of the audit of trusts registered as Scottish charities are provided at paragraphs 10 and 11, including risks detailed at Exhibit 3.

4.4 The fee for the local audit is £269,590 (2018/19: £264,810), including the audit of the charitable trust funds. The audit fee of £2,100 for the audit of trust funds is unchanged from 2018/19 - the Council will cover these costs.

4.5 As stated at paragraph 29, to support their audit opinion on the financial statements, Audit Scotland will place reliance on planned internal audit reviews in relation to:

- Cash and Banking; and
- Housing Rents – Calculation and Collection.

Other areas of internal audit work will also be considered as stated at paragraph 30, including:

- Procurement Follow Up; and
- Members Expenses.

4.6 Audit Scotland's approach to Best Value/Value for Money is detailed in paragraphs 35 to 40.

4.7 Our audit planning work was undertaken prior to the coronavirus outbreak, and the risks in exhibit 1 reflect the financial statement and wider dimension risks identified up until that point. Covid-19 is impacting on many of the Council's activities and we will reflect the impact of this as appropriate in our audit work. On 21 May 2020, the Scottish Government issued Local Government Finance Circular 10/2020, covering the format and publication timetables for the 2019/20 accounts. This extended the deadline for the certification of the 2019/20 accounts to 30 November 2020. Given the potential impact of Covid-19 on the completion of the 2019/20 audit, Audit Scotland has taken the decision to work towards sign off and publication of the Council's accounts by 30 November 2020 in line with the new deadline. Further information on the factors informing this decision are set out in the letter from the Engagement Lead for the audit included as an appendix to our plan in these papers.

5. Personnel Implications

5.1 There are no people implications.

6. Financial and Procurement Implications

6.1 The total fee quoted at paragraph 12 of £269,590 compares to £264,810 for 2018/19.

6.2 There are no procurement implications.

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 There are no issues.

9. Consultation

9.1 This report has been subject to consultation with appropriate Strategic Leads.

10. Strategic Assessment

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

.....
Stephen West
Strategic Lead - Resources
Date: 17 June 2020

Person to contact	Stephen West, Head of Finance and Resources, Telephone (01389) 737191 Email – Stephen.west@west-dunbarton.gov.uk
Appendices:	Audit Scotland Annual Audit Plan 2019/20 – Appendix 1 Audit Scotland Engagement Lead Letter – Appendix 2
Background Papers:	None
Wards Affected:	All wards

West Dunbartonshire Council

Annual Audit Plan 2019/20

AUDIT SCOTLAND

Prepared for by West Dunbartonshire CouncilWest Dunbartonshire Council

February 2020

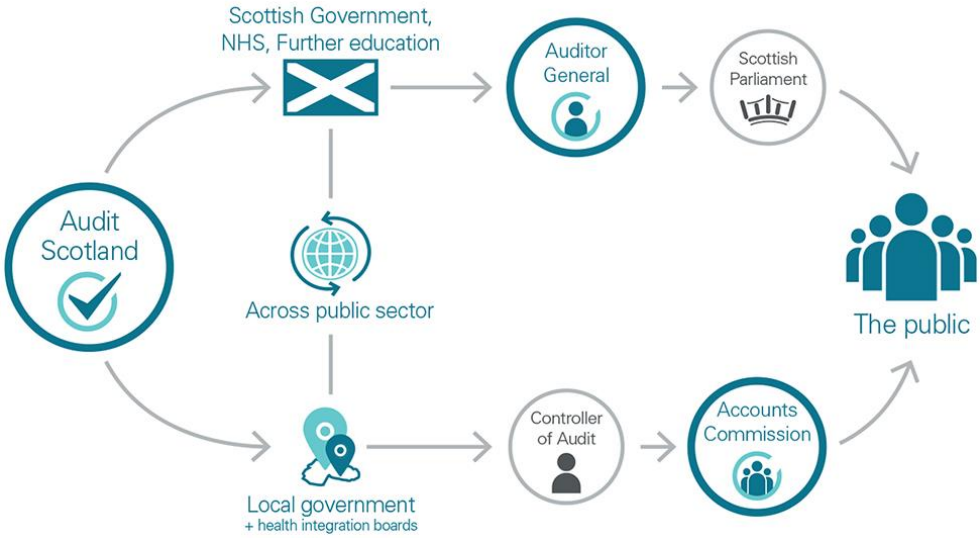
Who we are

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

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

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

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

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the Code of Audit Practice, and guidance on planning the audit. This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit, including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to West Dunbartonshire Council (the council) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help West Dunbartonshire Council promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the significant audit risks for the council. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in exhibit 1.

Exhibit 1
Significant risks for the 2019/20 audit of West Dunbartonshire Council

	Audit Risk	Source of assurance	Planned audit work
Financial statements risks			
1	**Risk of material misstatement caused by management override of controls** ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.	• *Owing to the nature of this risk, assurances from management are not applicable in this instance.*	• Review of the Annual Governance Statement and the assurances obtained by the Section 95 officer in support of the statement. • Detailed testing of journal entries. • Review of accounting estimates. • Focussed testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.

	Audit Risk	Source of assurance	Planned audit work
2	**Risk of material misstatement caused by fraud in income recognition.** ISA 240 requires that audit work is planned to consider the risk of fraud over income, which is presumed to be a risk in any audit with significant income streams.	• Majority of income received via electronic payment. • Robust controls over income generation and receipting processes, including segregation of duties. • Independent monitoring and review of suspense codes – including bank reconciliations. • Normal budgetary control processes – reported monthly to Corporate Management Team (CMT) and departmental budget holders.	• Analytical procedures on significant income streams. • Detailed testing of revenue transactions focussing on the areas of greatest risk. • Review of budget monitoring reports focussing on significant budget variances.
3	**Risk of material misstatement caused by fraud in expenditure** The Code of Audit Practice expands the consideration of fraud under ISA 240 to include the risk of fraud over expenditure. This applies to the council due to the variety and extent of expenditure incurred.	• Robust controls over expenditure and payment processes, including segregation of duties. • Independent monitoring and review of suspense codes – including bank reconciliations. • Normal budgetary control processes – reported monthly to Corporate Management Team (CMT) and departmental budget holders. • Authorisation processes regarding transactions within the ledger – e.g. journals & creditor requests. • Fraud prevention arrangements including Involvement in the National Fraud Initiative.	• Analytical procedures on significant expenditure streams. • Detailed testing of expenditure transactions, including cut-off testing, focussing on the areas of greatest risk. • Audit testing of grants, including the sample testing of expenditure and housing benefit transactions. • Review of budget monitoring reports focussing on significant budget variances. • Audit work on the National Fraud Initiative matches.
4	**Estimation and judgements** There is a significant degree of estimation and judgement in the measurement and valuation of some material account areas, including:	• Asset valuations completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyors. • Pension Fund valuation completed by a qualified actuary with	• Review of the work of the valuer, including focused substantive testing of the classification and valuation of assets. • Confirm asset values in valuation certificates are

	Audit Risk	Source of assurance	Planned audit work
	• Non-current asset values which rely on expert valuations and management assumptions. • The value of the council's pension liability which is an estimate based on information provided by management and actuarial assumptions. • The council's provisions for doubtful debts which are based on management's assessment of the recoverability of debts. • The value of other provisions which are based on management's assessment of the value and probability of potential future outflows. This subjectivity represents an increased risk of misstatement in the financial statements.	the applicability of actuarial assumptions used reviewed by Council officers. • Provision for doubtful debts based on aged-debt approach, incorporating prior year experience. • Other provisions calculations supported by clear evidence and / or robust assumptions.	correctly reflected within the 2019/20 accounts. • Review of the work of the actuary, including consideration of the appropriateness of the actuarial assumptions used. • Review of council's procedures for ensuring actuarial valuations provided are appropriate and include assumptions relating to relevant legal rulings. • Confirm pension valuations in actuarial report are correctly reflected within the 2019/20 accounts. • Review the provision for doubtful debts calculations to assess whether they are reasonable and complete based on the risk that the debt will not be recovered. • Review the basis for other provisions recognised, including detailed testing to source documentation where required.
5	**Revaluation of non-current assets** There was a significant delay in the provision of some asset valuations at 31 March 2019 due to a change in the valuer during 2018/19. During the course of the audit we also received multiple revised reports detailing valuations adjustments to the non-current asset balances in the accounts. This resulted in additional audit work to confirm the accuracy of the non-current assets balances in the audited accounts. There is a risk that similar issues could be encountered in 2019/20 and that these could impact on the preparation or sign-off of the annual accounts.	• Valuers have been engaged early in 2020 to revalue the non-current assets due for revaluation this year. Expect report on this well ahead of schedule. • Manager of Finance in contact with relevant lead officer on this on a regular basis to ensure the process is under control and on time.	• Review year-end process for transfer of information between the council and valuers. • Review of the work of the valuer, including focused substantive testing of the classification and valuation of assets. • Confirm asset values in valuation certificates are correctly reflected within the 2019/20 accounts.
6	**Group accounting errors** During the 2018/19 audit, 15 disclosure errors, one omission and multiple financial consolidation errors in the group accounts were identified. This resulted in reviewing three sets of revised group account statements and working papers. There is a risk that similar issues may occur in 2019/20 and result in a material	• Group accounting process has been reviewed and updated. • Relevant staff have attended a CIPFA training course on Group Accounting in early 2020.	• Review quality assurance procedures put in place by officers to prepare and review 2019/20 group statements. • Review of group disclosure notes. • Review of group consolidation adjustments,

Audit Risk	Source of assurance	Planned audit work
misstatement in the group annual accounts.		including the exclusion of intra-group transactions.
Wider dimension risks		
7 2020/21 budget setting The timing of budget setting for the UK and Scottish public sector has led to increased uncertainty for councils in setting their 2020/21 budgets and council tax. There is a risk that the Council's budget does not reflect the final settlement, and further in-year savings need to be made.	• The draft Scottish Government budget will be published on 6 February 2020. • The Council meeting to set the council tax level and budget for 2020/21 is scheduled for 4 March 2020. • Officers will provide members with further saving options if the council's final settlement is lower than that advised in the draft SG budget.	• Review of the council's 2020/21 budget setting arrangements.
8 Financial sustainability As reported to the January 2020 Council meeting, a funding gap of £4.418 million for 2020/21, and a cumulative 3-year funding gap of £16.989 million to 2022/23, has been identified. Part of the council's budget pressures come from funding its high levels of borrowing. The Council approved the one-off use reserves in 2019/20 to fund the budget gap. There is a risk that the council's unearmarked reserves will fall below its target level to meet future contingencies. The financial position may not be sustainable in the long term.	• Budgetary control reporting to CMT, service committees and Council) – this includes monitoring of agreed cost reductions. • Long-Term Financial Strategy will be reviewed to highlight updated funding gaps as 2020/21 progresses. The Budget setting report to Council provides a clear linkage between revenue and capital budgets. It considers affordability by including short, medium and long-term projections and highlights the peak expected cost of borrowing based on the current 10-year plan. • Officers will provide members with options for cost reductions to allow them to make informed decisions going forward.	• Continue to monitor the financial position throughout the year and provide an update in the 2019/20 Annual Audit Report. • Consider the long-term affordability of budget decisions, including any planned use of reserves. • Ongoing assessment of the council's long-term financial strategy, including the assumptions used.
9 Procurement and tendering In 2018/19, we published a report: *Audit Review of the Investigation of Tendering and Contracting Practices*	• Internal Audit have undertaken a follow-up audit in 2019/20 to check that the stated changes have been	• Follow up of the recommendations outlined in our *Audit Review of the Investigation of Tendering*

	Audit Risk	Source of assurance	Planned audit work
	in Roads and Greenspace Services which was presented to a special meeting of the Council on 14 May 2019. The report identified significant areas for improvement. An improvement plan was agreed by the Council. There is a risk that the weaknesses reported have not been appropriately addressed.	made. Any issues will be reported to Audit Committee.	*and Contracting Practices in Roads and Greenspace Services* report. • Review of Internal Audit follow up work.
10	**Capital project management** In 2019/20, gross capital expenditure (including HRA) is projected to be underspent against the original budget by £11.897 million (16%). There are also several large-scale projects which have incurred additional cost (e.g. District Heating Network) or continue to be re-phased into future years (e.g. Exxon Site). There is a risk that the council's ability to deliver against its strategic plan is affected due to delays and additional costs for investment and improvements to the asset base.	• Major capital investments are monitored and reviewed regularly at the Strategic Asset Management Group and subsequently by the Performance and Monitoring Group. • Progress on all capital projects are reported regularly to Council and relevant Council Committees • The use of the enhanced project management approach developed by the Capital Investment Team should produce better quality project plans and lower values of slippage/delay	• On-going monitoring of capital budget plans and reports. • Follow up of the 2017/18 Best Value Assurance Report recommendations and report an update in the 2019/20 Annual Audit Report.

Source: Audit Scotland

Grant claims and returns

5. The council is required to make various grant claims and returns to UK or Scottish Government departments. Such claims and returns require to be audited prior to submission. We will perform testing and provide audit certificates in accordance with guidance issued by Audit Scotland. We have planned for the following claims and returns for 2019/20:

- Housing benefit subsidy claim
- Non-domestic rates income return
- Education maintenance allowances return
- Whole of government accounts return

6. Where unexpected claims or returns are received, or supporting working papers are not adequate, a supplementary fee may be requested.

Reporting arrangements

7. This audit plan, the outputs set out at exhibit 2, and any other outputs on matters of public interest will be published on Audit Scotland's website: www.audit-scotland.gov.uk.

8. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy, prior to the issue and publication of final reports.

9. We will provide an independent auditor's report to West Dunbartonshire Council and Accounts Commission setting out our opinions on the annual accounts. We will provide the Strategic Lead - Resources and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2
2019/20 Audit outputs

Audit Output	Committee Date
Interim Management Report	17 June 2020
Independent Auditor's Report	To be confirmed*
Annual Audit Report	To be confirmed*

** The date of issue for the independent auditor's report and annual audit report are still to be agreed but these will both be issued during September to enable the certification of the 2019/20 annual accounts by the 30 September 2020 deadline.*

The audit of trusts registered as Scottish charities

10. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006. The 2006 regulations require charities to prepare annual accounts and require an accompanying auditor's report. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees.

11. Members of West Dunbartonshire Council are sole trustees for six trusts, registered as Scottish charities, with combined assets of £0.283 million. Based on our discussions with staff and initial planning work undertaken we have identified the audit risks detailed in exhibit 3.

Exhibit 3
Significant risks for the 2019/20 audit of trusts registered as Scottish charities

	Audit Risk	Source of assurance	Planned audit work
1	**Governance and investment documentation** The Deed of Trust for the Dunbartonshire Educational Trust Scheme 1962 and UIE Award require to be updated. The governing documentation for the McAuley Prize for Mathematics is not	• Legal officers continue to seek a solution to updating the Deeds of these charitable trusts	• Continue to liaise with officers to establish progress with updating and replacing Deeds of Trust. • Review updated Deeds of Trust. • Provide an update on progress in 2019/20 Annual Audit Report.

	Audit Risk	Source of assurance	Planned audit work
	available and a new trust deed required.		
2	**Dormant Trusts** Some of the trusts have been dormant for a number of years, with annual activity on all trusts minimal. There is a risk that the trusts are not meeting the requirement of public benefit.	• Continue to liaise with Legal officers to establish progress with updating and replacing Deeds of Trust.	• Continue to liaise with officers and monitor the activity on trust funds. • Provide an update on activity in 2019/20 Annual Audit Report.

Audit fee

12. The agreed fee for the 2019/20 audit of West Dunbartonshire Council is £269,590 (£262,710 in 2018/19). The audit fee is £1,690 (1%) above the expected fee advised by Audit Scotland and reflects the additional audit work required to cover issues identified with previous financial statements, such as those covered by risks 5 and 6 above. It also covers the additional audit work required to follow-up on the recommendations made in our *Audit review of the investigation of tendering and contracting practices in Roads and Greenspace services (April 2019)* report.

13. The agreed fee for the audit of the trusts registered as Scottish charities is £2,100 (audit fee also set at £2,100 in 2018/19).

14. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts 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.

Responsibilities

Audit Committee and Strategic Lead - Resources

15. Audited bodies are responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. In West Dunbartonshire Council the Strategic Lead – Resources is the proper officer (section 95 officer), with responsibility for the administration of financial affairs. The council has delegated responsibility for the oversight of internal and external audit to its Audit Committee.

16. The audit of the annual accounts does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

17. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance), and are guided by the auditing professions ethical guidance.

18. Auditors in the public sector give independent opinions on the financial statements and other information within the annual accounts.

Audit scope and timing

Annual accounts

19. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of West Dunbartonshire Council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how West Dunbartonshire Council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements and determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

20. We will give an opinion on whether:

- the annual accounts give a true and fair view of the state of affairs of the council and the income and expenditure of the year
- the annual accounts have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
- the annual accounts have been prepared in accordance with relevant legislation.

Other information in the annual accounts

21. We also review and report on the other information published within the annual accounts including the management commentary, annual governance statement and remuneration report. We give an opinion on whether these have been prepared in accordance with the appropriate regulations and guidance. We also read and consider the other information in the annual accounts and report any material inconsistencies.

Materiality

Materiality levels for the 2019/20 audit of West Dunbartonshire Council

22. We apply the concept of materiality in planning and performing the audit. Materiality defines the maximum error that we are prepared to accept and still conclude that the financial statements present a true and fair view. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements.

23. We calculate materiality at different levels as described below. The calculated materiality values for West Dunbartonshire Councilare set out in exhibit 4.

Exhibit 4
Materiality levels for the 2019/20 audit of West Dunbartonshire Council

Materiality	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure based on the audited accounts for the year ended 31 March 2019.	£4.792 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 50% of planning materiality.	£2.396 million
Reporting threshold– We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£0.050 million

Source: Audit Scotland

Materiality levels for the 2019/20 audit of trusts registered as Scottish charities

24. Planning materiality for the combined trust accounts has been set at £678 based on 2% of gross expenditure in the audited accounts for the year ended 31 March 2019. We will also consider the impact on individual trusts when assessing the materiality of any errors identified as even where an error is not material to the combined trust accounts as a whole it may still be material to an individual trust.

Timetable

25. The timetable for the production and audit of the annual accounts, including the key stages set out in exhibit 5, has still to be agreed but this will be scheduled to enable the certification of the 2019/20 annual accounts by the 30 September 2020 deadline.

Exhibit 5
Annual accounts timetable

Key stage	Date
Consideration of unaudited annual accounts by the Audit Committee	24 June 2020
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2020
Latest date for final clearance meeting with Strategic Lead – Resources	To be agreed*
Issue of Letter of Representation and proposed independent auditor's report	To be agreed*
Agreement of audited unsigned annual accounts	To be agreed*
Independent auditor's report signed	To be agreed*
Issue of Annual Audit Report to those charged with governance	To be agreed*
Latest date for signing of WGA assurance statement and return	28 September 2020

** The timing of these stages has still to be agreed but these will be scheduled to enable the certification of the 2019/20 annual accounts by the 30 September 2020 deadline.*

Internal audit

26. 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 annual assessment of the internal audit function at audited bodies.

27. The internal audit function at West Dunbartonshire Council is provided by its in-house internal audit team. There has been a change in the internal audit management arrangements during 2019/20. The Head of Internal Audit retired at the end of 2019 and was replaced by the Internal Audit Manager from Inverclyde Council who is now performing this role for both councils as part of shared management arrangement.

28. Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

Using the work of internal audit

29. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Cash and bank (including cash receipting)
- Housing rents calculation and collection

30. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work, including:

- Procurement follow-up
- Members expenses and allowances

Audit dimensions

31. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in Exhibit 6. Our conclusions on the four dimensions will contribute to an overall assessment and assurance on best value.

Exhibit 6
Audit dimensions

Source: Code of Audit Practice

Financial management

32. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- whether financial capacity and skills are adequate
- whether appropriate and effective arrangements for internal control and the prevention and detection of fraud and corruption have been established
- consideration of the effectiveness of the council's controls and policies in preventing procurement fraud.

Financial sustainability

33. We consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the council's financial sustainability. We will carry out work and conclude on the following areas:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- monitoring the arrangements put in place by the council to minimise any disruption occasioned by the UK' s withdrawal from the European Union.

Governance and transparency

34. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will assess:

- whether governance arrangements are appropriate and operating effectively
- the quality and timeliness of financial and performance reporting
- whether there is effective scrutiny, challenge and transparency of decision-making, and finance and performance reports.

Value for money

35. Value for money refers to using resources efficiently and effectively and continually improving services. We will review, conclude and report on whether the council can demonstrate value for money in the use of resources and improved outcomes for residents.

36. In addition, we will liaise with officers to contribute to national performance audits during the coming year.

Best Value

37. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. A Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in a five-year period.

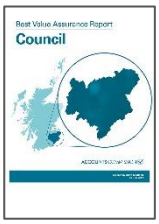
38. During 2017/18 a Best Value review of the council was completed. The West Dunbartonshire Council BVAR was published in June 2018.

39. Our best value work this year will focus on the council's arrangements for demonstrating continuous improvement through analysis of their performance in priority areas, and reviewing progress made against the recommendations within

the Best Value Assurance Report. The results of this work will be reported in our 2019/20 Annual Audit Report.

40. The seven councils on which a BVAR will be published during the fourth year of the new approach are listed in exhibit 7. Reports will be considered by the Accounts Commission during the period April to November 2020.

Exhibit 7
2019/20 Best Value Assurance Reports



Aberdeenshire Council	Dundee Council
Argyle and Bute Council	Falkirk Council
City of Edinburgh Council	Moray Council
North Ayrshire Council	

Source: Audit Scotland

Independence and objectivity

41. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

42. The appointed auditor for West Dunbartonshire Council is Fiona Mitchell-Knight, Audit Director. The appointed auditor for the charitable trusts is Richard Smith, Senior Audit Manager. 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 West Dunbartonshire Council or the charitable trusts.

Quality control

43. International Standard on Quality Control (UK and Ireland) 1 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.

44. 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 (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

45. 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 welcome feedback at any time and this may be directed to the appointed auditor or to Audit Scotland’s Audit Quality and Appointments group.

West Dunbartonshire Council

Annual Audit Plan 2019/20

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AUDIT SCOTLAND

28 May 2020

Stephen West
Strategic Lead – Resources
West Dunbartonshire Council
16 Church Street
Dumbarton
G82 1QL

Dear Stephen

West Dunbartonshire Council 2019/20 Annual Audit

1. Further to my recent email, I am writing to confirm the implications of the COVID-19 crisis on the audit of the 2019/20 accounts.

2. On 21 May 2020, The Scottish Government issued Local Government Finance Circular 10/2020, covering the format and publication timetables for the 2019/20 accounts, that apply to this year only. I know that you are still planning to issue the unaudited accounts for audit and public inspection by 30 June. If you subsequently find you are unable to meet this deadline, and plan to take advantage of the timetable extension in the circular we will work with you on a flexible approach to the audit.

3. The circular includes the following reference to timelines relating to the publication of audited accounts:

   Timelines

   5. Local authorities, in their discussions with auditors around such timescales, should strive to work to as early a date as practicable for both parties.

   6. Scottish Ministers consider it reasonable that a local authority publishes its audited Annual Accounts no later than 30 November 2020.

4. The impact of the COVID-19 crisis on the work of Audit Scotland is now becoming clearer. Audit Scotland staff are not considered essential workers in the current COVID-19 lockdown and our offices remain closed and all staff are required to work from home. We know that the council is taking action to protect the health of staff and Audit Scotland is also prioritising the health of our staff in the current crisis. Audit Scotland has published 'COVID-19: the impact on public audit in Scotland', which explains that our approach to audit during these circumstances will be pragmatic, flexible and consistent.

5. The Scottish Government COVID-19 Routemap indicates that it will be some time until we can resume office based audit work. Under these restrictions, our teams have been progressing the audits, looking for opportunities to revise the scope of our work and to realise any efficiencies we can, whilst responding to the changing audit risks. Our original hope was that audits could be

concluded on time, however our experience to date is that remote audit tasks are often taking longer than when our staff are on site. Some of our staff are also facing illness and caring responsibilities alongside their work, which impacts on the time taken to complete work.

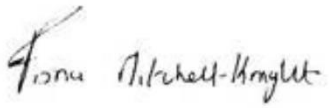
6. Audit Scotland normally recruit additional temporary auditors over the summer months to support our permanent audit teams when we are auditing local authority accounts. We have not recruited these extra staff in 2020 as we do not feel we can appropriately supervise temporary staff remotely, to assure the audit quality required. This is impacting on the audit resources available to work on all of our audits.

7. We intend to start the audit of your accounts when they are submitted to us with the working papers, and to conclude our work as quickly as possible. However due to the above issues we are unable to guarantee completing the audit to the timetable described our 2019/20 Annual Audit Plan, of 30 September 2020.

8. We appreciate that any delay in the sign off has wide implications for you alongside your COVID-19 response, due to the committee timetable, the availability of your finance staff due to holidays and work on the 2021/22 budget. However we feel delays in the audit are unavoidable, and the most realistic approach will be to work with you towards sign off and publication of the council's accounts by 30 November 2020. Audits in all sectors are subject to delays, and Audit Scotland teams are taking this approach with all councils. If once we start the audit we find progress is being made more quickly than anticipated we will work with you on earlier sign off, if it is practical to do so.

9. We will work with you to update the audit timetable to minimise the impact on you, your staff and the council. Please call me if you wish to discuss any aspects of the audit.

Yours sincerely



Fiona Mitchell-Knight

Audit Director

WEST DUNBARTONSHIRE COUNCIL

Report by Strategic Lead – Resources

Audit Committee: 17 June 2020

Subject: Internal Audit Annual Report to 31 March 2020

1. Purpose

1.1 The purpose of this report is to advise Members of the work undertaken by Internal Audit in respect of the Annual Audit Plan 2019/20 and to advise Members of the contents of the Assurance Statement given to Members of West Dunbartonshire Council, the Chief Executive and the Section 95 Officer (Strategic Lead - Resources) in support of the Annual Governance Statement. This report outlines how audit assurances are obtained.

2. Recommendations

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

3. Background

3.1 The Public Sector Internal Audit Standards (PSIAS) became effective on 1st April 2013 (revised in 2017) and require that:

"The chief audit executive [WDC: Audit Manager] *must deliver an annual internal audit opinion and report that can be used by the organisation to inform 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.

The annual report must incorporate:

- *The opinion;*
- *A summary of the work that supports the opinion; and*
- *A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme".*

3.2 Attached at Appendix A is information on completion of the annual audit plan for 2019/20. The Assurance Statement is included at Appendix B and a suite of Key Performance Indicators is detailed at Appendix C.

3.3 A six monthly progress report was provided to the Audit Committee during the course of 2019/20.

4. Main Issues

4.1 The risk-based systems audits and ICT audits contained within the Audit Plan for 2019/20 are shown in the tables included at Appendix A, showing the number of agreed actions for each of these reports. The numbers in brackets denotes the number of outstanding actions as at 31 May 2020 and the information in the "Comments Column" provides further information on the status of outstanding actions.

4.2 Internal Audit recommendations, as detailed in Appendix A, have timescales for completion in line with the following categories:

Category	**Expected implementation timescale**
High Risk: 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
Medium risk: Significant observations requiring reasonably urgent action.	Generally, complete implementation of recommendations within six months of action plan being agreed
Low risk: 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

4.3 On the basis of the key Internal Audit work performed in 2019/20 as summarised in Appendix A, it can be concluded that the Council's control procedures in key areas are operating as expected during the period under review, although it is recognised that:

- For risk-based audits, 22 recommendations were made by Internal Audit to improve controls of which 10 have now been implemented and 12 are not yet due; and
- For investigations, 7 recommendations were made by Internal Audit to improve controls and all actions have now been implemented.

4.4 The Shared Service Manager - Audit & Fraud is pleased to report good progress across the Council on audit recommendations and is of the opinion that reasonable assurance can be placed upon the adequacy and effectiveness of West Dunbartonshire Council's systems of governance, risk management and internal control in the year to 31 March 2020.

4.5 The work of Internal Audit, External Audit and external inspection agencies who reported on the Council's work has been reviewed. Assurances were sought from Strategic Directors and Strategic Leads (HSCP – Heads of Service) on the implementation of action plans and recommendations and the Chief Executive, Strategic Directors and Strategic Leads have been asked to provide self-assessment returns to the Shared Service Manager – Audit & Fraud, including their opinion of the control environment operating within their own service areas.

4.6 The Internal Audit Annual Report for 2019/20 included at Appendix B includes the Shared Service Manager – Audit & Fraud's independent and objective opinion as to the adequacy and effectiveness of internal controls within the Council and has informed the Council's Annual Governance Statement.

4.7 A suite of Key Performance Indicators is detailed at Appendix C.

5. People Implications

5.1 There are no people implications.

6. Financial and Procurement Implications

6.1 As a result of Corporate Fraud Team activity, actual recoveries, charges and re-billings of £462,073 have been identified during 2019/20, against a target of £225,000.

6.2 There are no procurement implications arising from this report.

7. Risk Analysis

7.1 There is a risk that failure to deliver 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.

8. Equalities Impact Assessment (EIA)

8.1 There are no issues.

9. Consultation

9.1 This report has been subject to consultation with appropriate Strategic Leads.

10. Strategic Assessment

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

.....
Stephen West
Strategic Lead - Resources
Date: 27 May 2020

Person to Contact:	Andi Priestman, Shared Service Manager – Audit and Fraud Telephone (01389) 737436 E-mail: andi.priestman@west-dunbarton.gov.uk
Appendices:	A - Audit Plan 2019/20: Completed Audits; B – Internal Audit Assurance Statement for the year ended 31 March 2020; and C - Key Performance Indicators
Background Papers:	Audit Committee – 20 March 2019: Internal Audit Plan 2019/20
Wards Affected:	All wards

APPENDIX A

Audit Plan 2019/20: Completed Audits

Number of Agreed Actions				
Report Title	**High**	**Medium**	**Low**	**Comments**
Systems Audits:				
Cash and Bank/Cheque Control	0 (0)	0 (0)	1 (0)	The one action has been completed.
CM2000 functionality	0 (0)	5 (5)	0 (0)	All five outstanding actions are not yet due.
Debt Recovery	0 (0)	0 (0)	2 (1)	The one outstanding action is not yet due.
Member Expenses & Allowances	0 (0)	1 (0)	0 (0)	The one action has been completed.
Procurement follow up	0 (0)	7 (0)	0 (0)	All actions have been completed.
Housing Rents – Calculation and Collection	0 (0)	3 (3)	0 (0)	All three actions are not yet due.
Agresso – Access Controls	0 (0)	1 (1)	2 (2)	All three actions are not yet due.
Total	**0 (0)**	**17 (9)**	**5 (3)**	
Investigations				
Investigation: Disposal of Garshake Generator	0 (0)	1 (0)	0 (0)	The one action has been completed.
Investigation: Risk Street Improvement Project	0 (0)	0 (0)	0 (0)	No action was recommended from this investigation.
Investigation – Titan Crane	0 (0)	4 (0)	0 (0)	All actions have been completed.
Investigation – Edmundson Electrical Ltd (Cable Overcharge)	1 (0)	1 (0)	0(0)	Both actions have been completed.
Total	**1 (0)**	**6 (0)**	**0 (0)**	
OVERALL TOTAL	**1 (0)**	**23 (9)**	**5 (3)**	

Note: Figures in ( ) denote actions which remain outstanding as at 31 May 2020

APPENDIX B

Assurance Statement for the year ended 31 March 2020
From the Shared Service Manager – Audit & Fraud

To the Members of West Dunbartonshire Council, the Chief Executive and the Section 95 Officer (Strategic Lead - Resources)
As Shared Service Manager - Audit & Fraud of West Dunbartonshire Council, I am pleased to present my annual statement on the adequacy and effectiveness of the internal financial control system of the Group Accounts prepared by the Council for the year ended 31 March 2020.

Respective responsibilities of management and internal auditors in relation to internal control
It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal financial control and to monitor the continuing effectiveness of that system. It is the responsibility of the Shared Service Manager – Audit & Fraud to provide an annual overall assessment of the robustness of the internal financial control system.

The Council's framework of governance, risk management and internal control
The Council has a responsibility to ensure that its business is conducted in accordance with legislation and proper standards.

The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and how it accounts to communities. It enables the Council to monitor the achievement of its strategic priorities and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The main objectives of the Council's internal control systems are to ensure:

- Adherence to management policies and directives in order to achieve the organisation's objectives;
- Economic, efficient, effective and safe use of resources and assets;
- The relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- Compliance with statutory requirements.

The system of internal control is a significant element of the governance framework. Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of internal control in order to identify and prioritise the risks that would prevent the achievement of the Council's strategic objectives

The work 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.

The Council's Internal Audit Section operates in accordance with the *Public Sector Internal Audit Standards* (PSIAS) which have been agreed to be adopted from 1st April 2013 (revised in 2017) by the relevant public sector Internal Audit Standard setters. PSIAS applies the Institute of Internal Auditors International Standards to the UK Public Sector.

PSIAS requires that a Quality Assurance and Improvement Programme (QAIP) is developed in order to provide assurance that internal audit activity:

- Is conducted in accordance with an Internal Audit Charter;
- Operates in an efficient and effective manner; and
- Is perceived to be adding value and improving operations.

An internal self-assessment of internal audit practices has been carried out by Internal Audit every year since PSIAS became effective on 1st April 2013, with improvements identified and implemented as appropriate. PSIAS also requires, as outlined in Standard 1300 "QAIP", that:

"External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment or a self-assessment with independent external validation".

An initial external review was carried out during 2015/16 and the next external review is due to be carried out by 31 March 2021.

The Internal Audit Section undertakes an annual programme of work based on a risk assessment process which is revised on an ongoing basis to reflect evolving risks and changes within the Council. All Internal Audit reports identifying system weaknesses and / or non-compliance with expected controls are brought to the attention of management and the Audit Committee together with appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken on audit recommendations. The internal auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. A programme of follow-up on assignment findings and recommendations provides assurance on the complete and timeous implementation of both internal Audit and External Audit recommendations.

Internal Audit and Corporate Fraud staff regularly attended the following external user group meetings:

- SLACIAG, the purpose of which is to develop and improve the practice of internal audit activity with Scottish local authorities. It achieves this by meeting to discuss issues of common concern, commissioning work to develop ideas, sharing good practice, working in partnership with other professional / governing bodies and promoting SLACIAG as the representative body for internal audit in local authorities; and

- The Scottish Local Authority Investigators Group (SLAIG): This group consists of fraud practitioners from local authorities in Scotland, with the objectives of:

  - Raising the profile of the counter fraud agenda;
  - Sharing good practice;
  - Raising awareness of the risk of fraud; and
  - Ensuring that fraud is investigated in a professional manner.

COVID-19

The significant incident in late March 2020 and the Council's responses as a Category 1 responder during the COVID-19 Pandemic tested how well the Council's risk management, governance and internal control framework is operating. There were examples of innovations, new business processes and solutions and new technology being embraced in order to deliver services to the community in its role as a Category 1 responder to carry out the following three essential functions: Caring for the Vulnerable; Liaising with Resilience Partners; and Supporting Economic Recovery. This was achieved using amended governance arrangements, new ways of decision-making, leadership and implementation including virtual meetings, conference calls and systems remote access. It will be important for the Council, at the appropriate time, to carry out a post-incident review and highlight any lessons learned.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- The audit work undertaken by Internal Audit during the year to 31 March 2020, including risk based systems audits, ICT audits, investigations, follow-up reviews and one-off exercises;
- The assessment of risk completed during reviews of the annual audit plan;
- The Code of Governance self-assessment process undertaken by the Strategic Directors and Strategic Leads for the services for which they were responsible during the year to 31 March 2020;
- The assurance statement signed by the Chief Executive for the overall Council for the year ended 31 March 2020;

- Reports issued by the Council's External Auditors, Audit Scotland, and other review agencies;
- My knowledge of the Council's governance, risk management and performance management and monitoring arrangements.

Limitation to Resources or Scope of Internal Audit Work

There were sufficient resources available to deliver the programme of audit assignments contained within the 2019/20 Audit Plan and no significant threats emerged to the independence of the internal audit activity such as inappropriate scope or resource limitations.

Opinion
It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of West Dunbartonshire Council's systems of governance, risk management and internal control in the year to 31 March 2020.

Signature: Andi Priestman

Title: Shared Service Manager – Audit & Fraud

Date: 27 May 2020

Appendix C

Key Performance Indicators

Actual for 2018/19	Performance Indicator	Actual for 2019/20	Target for 2019/20
97.9%	Efficiency of Adherence to Audit Plan	96.6%	90%
97%	Percentage of planned risk based audits completed by 31 May (following year end)	87.5%	100%
3.8	Training days per Auditor	2.6	4
66.7%	Audits completed within budgeted days	53.3%	80%
100%	Draft reports issued within 21 days of fieldwork completion	94.7%	80%
100%	Final reports issued within 14 days of agreement of action plan	63.2%	80%
89.7%	Level of full compliance with the Public Sector Internal Audit Standards (PSIAS)	92.3%	100%
£661,000	Corporate Fraud Team – financial value of fraud detected and being recovered	£462,000	£225,000