

Agenda

Audit Committee

Date: Wednesday, 15 June 2022

Time: 10:00

Format: Hybrid

Contact: Ashley MacIntyre, Committee Officer
ashley.macintyre@west-dunbarton.gov.uk

Dear Member

Please attend a meeting of the **Audit Committee** as detailed above.

The Convener has directed that the powers contained in Section 43 of the Local Government in Scotland Act 2003 will be used and Members will have the option to attend the meeting remotely or in person at the Civic Space, Church Street, Dumbarton.

Yours faithfully

JOYCE WHITE

Chief Executive

Distribution:

Councillor Karen Conaghan (Chair)
Councillor Ian Dickson
Councillor Craig Edward
Councillor Jonathan McColl (Vice Chair)
Councillor James McElhill
Councillor Michelle McGinty
Councillor John Millar
Councillor Martin Rooney
Mr C Johnstone

All other Councillors for information

Chief Executive
Chief Officers

Date of issue: 1 June 2022

AUDIT COMMITTEE
WEDNESDAY, 15 JUNE 2022

AGENDA

1 STATEMENT BY CHAIR

2 APOLOGIES

3 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.

4 RECORDING OF VOTES

The Committee is asked to agree that all votes taken during the meeting be done by roll call vote to ensure an accurate record.

5 OPEN FORUM

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

6 ANNUAL REPORT ON THE AUDIT COMMITTEE 7 - 11

Submit report by the Chief Officer – Resources providing the Audit Committee Chair’s 2021/22 Annual Report on the Audit Committee.

7 INTERNAL AUDIT PLANS 2020/21 AND 2021/22 - PROGRESS TO 15 JUNE 2022 13 - 30

Submit report by the Chief Officer – Resources advising of progress at 31 May 2022 against the Internal Audit Plans for 2020/21 and 2021/22.

8/

8 INTERNAL AUDIT ANNUAL REPORT TO 31 MARCH 2022 31 - 45

Submit report by the Chief Officer – Resources advising of the work undertaken by Internal Audit in respect of the 2021/22 Annual Audit Plan and advising of the contents of the Assurance Statement given to Members of West Dunbartonshire Council, the Chief Executive and the Section 95 Officer (Chief Officer - Resources) in support of the Annual Governance Statement.

9 2022/23 INTERNAL AUDIT PLAN 47 - 55

Submit report by the Chief Officer – Resources advising of the planned programme of work for the Internal Audit Section for the year 2022/23.

10 CODE OF GOOD GOVERNANCE AND ANNUAL GOVERNANCE STATEMENT 2021-22 To Follow

Submit report by the Chief Officer – Resources on the above.

11 AUDIT SCOTLAND MANAGEMENT LETTER: WEST DUNBARTONSHIRE COUNCIL – INTERIM AUDIT TESTING 2021/22 57 – 61

Submit report by the Chief Officer – Resources advising of the Council's 2021/22 midyear management letter issued by our external auditors, Audit Scotland and the management actions agreed in relation to the issues identified in the letter.

12 APPOINTMENT OF LAY MEMBERS To Follow

Submit report by the Chief Officer – Resources providing an update on the current status of Lay Member appointments to the Audit Committee.

13 PRUDENTIAL INDICATORS 2021/22 TO 2031/32 AND TREASURY MANAGEMENT STRATEGY 2022/23 TO 2031/32 63 - 99

Submit report by the Chief Officer – Resources providing the opportunity to further scrutinise the Prudential Indicators for 2021/22 to 2031/32 and the Treasury Management Strategy (including the Investment Strategy) for 2022/23 to 2031/32 and the indicative indicators for 2024/25 to 2030/31.

14/

**14 SCOTTISH PUBLIC SERVICES OMBUDSMAN
COMPLAINTS REPORT 2020-21**

To Follow

Submit report by the Chief Officer – Citizen, Culture and Facilities presenting the Scottish Public Services Ombudsman (SPSO) report on complaints handling by West Dunbartonshire Council for the year 1 April 2020 – 31 March 2021.

WEST DUNBARTONSHIRE COUNCIL**Report by Chief Officer - Resources****Audit Committee: 15 June 2022**

Subject: Annual Report on the Audit Committee – 2021/22**1. Purpose**

- 1.1 The purpose of this report is to provide members with the Audit Committee Chair's 2021/22 Annual Report on the Audit Committee.

2. Recommendations

- 2.1 It is recommended that members:
- i) Review and endorse the Chair's Annual Report on the Audit Committee for 2021/22.
 - ii) Agree that the report should be presented to a future meeting of the Council in line with best practice guidance.

3. Background

- 3.1 It is important that the Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a foundation for sound corporate governance for the Council. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued an updated guidance note Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition which incorporates CIPFA's Position Statement: Audit Committees in Local Authorities and Police. This sets out CIPFA's view of the role and functions of an Audit Committee. The CIPFA Audit Committees Guidance includes the production of an annual report on the performance of the Audit Committee against its remit for submission to the Council.
- 3.2 The Audit Committee Chair's 2021/22 Annual Report, attached at Appendix 1, provides assurance to the Council over the activity of the Audit Committee.

4. Main Issues

- 4.1 The Audit Committee Chair's 2021/22 Annual Report is appended with the main issues identified being:
- The Audit Committee has met four times during the financial year with every meeting being quorate.
 - The Audit Committee sought assurance on the adequacy and effectiveness of the Council's systems of corporate governance and internal control for efficient operations and for the highest standards of probity and accountability. This was achieved through reports received

from internal audit, other Council functions and external audit with focus in particular on internal control and governance.

- The Audit Committee has provided assurance to the Council as detailed in the appendix.

5. People 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 There is a risk that the Audit Committee does not comply with best practice guidance in relation to demonstrating its effectiveness in providing a foundation for sound corporate governance. The annual report provides this assurance to the Council on the activity of the Committee.

8. Equalities Impact Assessment (EIA)

8.1 There is no requirement for an EIA.

9. Consultation

9.1 This report has been subject to consultation with appropriate Strategic Leads. In addition, services have been consulted in the update of action plans.

10. Strategic Assessment

10.1 This report relates to strong corporate governance.

.....
Laurence Slavin
Chief Officer - Resources
Date: 15 June 2022

Person to Contact: Andi Priestman, Shared Service Manager – Audit & Fraud
Telephone (01389) 737436
E-mail: andi.priestman@west-dunbarton.gov.uk

Appendix: Annual Report on the Audit Committee 2021/22

Background Papers: N/A

Wards Affected: All Wards

West Dunbartonshire Council
Audit Committee
2021/22 Annual Report from the Chair

Introduction

This annual report has been prepared to inform West Dunbartonshire Council of the work carried out by the Council's Audit Committee during the financial year 2021/22.

Meetings

The Audit Committee met four times during 2021/22 comprising meetings on 16 June 2021, 15 September 2021, 17 November 2021 and 2 March 2022 to consider reports relevant to the Audit cycle and other matters as deemed appropriate. Pre-Agenda meetings were also held ahead of Committee involving the Chair and appropriate officers. All four meetings were held remotely via Zoom and audio recordings of meetings are available on the Council's website.

The purpose and remit of Audit Committee as detailed in the Council's Standing Orders is to:

- Monitor, and make recommendations on the development of the Audit activity of the Council.
- Scrutinise the monitoring and review activity of the thematic and regulatory committees.

To fulfil this remit, the Audit Committee sought assurance on the adequacy and effectiveness of the Council's systems of governance, risk management and internal control to ensure efficient operations and the highest standards of probity and accountability. This was achieved through reports received from Internal Audit, other Council functions and External Audit with focus in particular on internal control and governance.

At each meeting of the Audit Committee it considered significant findings from Internal Audit reports together with monitoring the progress made by management in completing agreed actions to improve the Council's control environment. It also considered the annual audit plan and reports from Audit Scotland, the Council's External Auditors. In addition, a number of national reports prepared by Audit Scotland on behalf of the Accounts Commission were also considered.

The Audit Committee also received reports on:

- Prudential Indicators and Treasury Management.
- Risk Management.
- National Fraud Initiative.

The minutes of Audit Committee meetings are first confirmed as a correct record at the next Audit Committee before being remitted to Council for approval.

Membership of the Audit Committee

In accordance with West Dunbartonshire Council's Standing Orders membership of the Audit Committee comprises eight Elected Members and two Lay Members with Lay Members not being members of any political party. The quorum of the Audit Committee is three Elected Members.

The Chair of the Audit Committee is from the Opposition (as is the Vice Chair). The committee has two Lay Members. The Administration has a minority of members on the Audit Committee. One Lay Member, Christopher Todd, has tendered his resignation from the Audit Committee and I wish to thank him for his service.

Attendance by members of the Committee at Audit Committee meetings in 2021/22 was as follows:

Member	Date of Meeting			
	16/06/21	15/09/21	17/11/21	2/03/22
Cllr John Mooney (Chair)	Present	Present	Present	Present
Cllr Jim Brown	Present	Present	Present	Present
Cllr Karen Conaghan	Present	Present	Present	Present
Cllr Daniel Lennie	Apologies	Present	Present	Present
Cllr Jonathan McColl	Present	Present	Present	Present
Cllr John Millar	Apologies	Present	Present	Apologies
Cllr Martin Rooney	Present	Present	Present	Present
Cllr Brian Walker	Apologies	Absent	Apologies	Present
Lay Member Chris Johnstone (from 12/12/18)	Present	Apologies	Present	Present
Lay Member Christopher Todd (from 16/09/20)	Apologies	Present	Present	Present

Every meeting of the Audit Committee during 2021/22 was quorate.

Attendance by Officers

All meetings were attended by the Chief Executive, Chief Officer – Resources and the Shared Service Manager - Audit & Fraud.

Other senior officers also attended meetings as appropriate for items on the Agenda for which their presence was relevant. Representatives from the Council's external auditors - Audit Scotland - were present at every meeting.

Assurance Statement to the Council

The Audit Committee provides the following assurance to the Council:

- The Council has received the Minutes of the Audit Committee meetings throughout the year.
- The Audit Committee has operated in accordance with its agreed terms of reference, and accordingly with the audit committee principles in the CIPFA Position Statement relating to its Audit functions.
- It did this through reports received from Internal Audit, External Audit, and assurances from Management. It focussed on matters of governance, risk management and internal control; giving advice to the Council on the value of the audit process; on the integrity of financial reporting; and on governance arrangements.
- For all audit reports, the Audit Committee considered whether it was satisfied that an adequate management response was in place to ensure action would be taken to manage risk and address concerns on governance, risk management and internal control arrangements. The Committee acknowledges that all the audit recommendations are input to Pentana, the Council's performance management system, and that there is a system in place of ongoing follow-up by Internal Audit and reporting thereon.
- The Audit Committee has received and considered material to fulfil its scrutiny role on treasury management activity.
- The Audit Committee reviewed the audited Annual Accounts for 2020/21 alongside External Audit's report on their annual audit for 2020/21.

Conclusion

Based on the reports received and reviewed by the Committee they are in agreement with the Shared Service Manager – Audit & Fraud's annual audit report which confirms that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in 2021/22. I am satisfied that active monitoring and follow up of recommendations is in place in respect of agreed management action.

Councillor Conaghan
Chair of the Audit Committee
15 June 2022

WEST DUNBARTONSHIRE COUNCIL

Report by Chief Officer – Resources

Audit Committee: 15 June 2022

Subject: Internal Audit Plans 2020/21 and 2021/22 – Progress to 15 June 2022

1. Purpose

- 1.1** The purpose of this report is to advise Members of progress at 31 May 2022 against the Internal Audit Plans for 2020/21 and 2021/22.
- 1.2** The report also advises Members of:
- Recently issued Internal Audit reports and action plans; and
 - Status of implementation progress relating to action plans from previously issued Internal Audit reports.

2. Recommendations

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

3. Background

- 3.1** The annual audit plans for 2020/21 and 2021/22 were approved by the Audit Committee on 17 June 2020 and 10 March 2021 respectively. This report provides information on the progress in implementing the plans.
- 3.2** When audit reports are issued by Internal 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

- 4.1.** The annual audit plan sets out the audit coverage for the year utilising available staff resources to enable the Shared Service Manager – Audit & Fraud to provide the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.
- 4.2** A new risk-based audit methodology was implemented during 2020/21. For each audit, one of 4 audit opinions is expressed:

Strong	In our opinion there is a sound system of internal controls designed to ensure that the organisation is able to achieve its objectives.
Satisfactory	In our opinion isolated areas of control weakness were identified which, whilst not systemic, put some organisation objectives at risk.

Requires Improvement	In our opinion systemic and/or material control weaknesses were identified such that some organisation objectives are put at significant risk.
Unsatisfactory	In our opinion the control environment was considered inadequate to ensure that the organisation is able to achieve its objectives.

4.3 Detailed findings and recommendations reported to management are graded using the following criteria:

Red	In our opinion the control environment is insufficient to address the risk and this could impact the Council as a whole. Corrective action must be taken and should start immediately. Overseen to completion by Corporate Management Team.
Amber	In our opinion there are areas of control weakness which we consider to be individually significant but which are unlikely to affect the Council as a whole. Corrective action must be taken (some exceptions may be agreed with Internal Audit) within reasonable timeframe. Overseen to completion by Chief Officer/Head of Service.
Green	In our opinion the risk area is well controlled or our audit highlighted areas for minor control improvement and/or areas of minor control weakness. Process improvements/efficiencies may be actioned at management discretion in consultation with Internal Audit. Managed by service owner. Not reported in Audit Committee papers.

4.4 Two audit reviews have been finalised since the Audit Committee meeting in March 2022 as follows:

- Employee Expenses
- Procurement Under £50,000

Employee Expenses

4.5 Employees who use their own vehicle to carry out essential Council business in the course of their work are entitled to claim, and will be reimbursed, expenses subject to appropriate approval by a nominated Authorising Officer. In the main, claims for reimbursement are made through the HR21 self-service system, paper based forms are only used by employees who do not have access to HR21. For the test period of November 2020 to November 2021 the total mileage claimed was 560,866 miles with a total cost of £251,294. It was identified by the Sustainability Officer that from 2019/20 to 2020/21 there was a reduction of approximately £197,881 in employee mileage due to home working.

4.6 The objective of this audit was to provide management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls over the key risks faced by West Dunbartonshire Council in relation to Employee Expenses.

4.7 The audit approach was planned to fall in line with the agreed Terms of Reference and included:

- Review and analysis of expenses processed through HR21 for the period November 2020 to November 2021.
- Issue and analysis of internal control questionnaires in order to confirm that controls and procedures were being followed within services including vehicle documentation checks, targeting service areas with high mileage claims.
- Discussions with authorising officers where required.
- Audit testing of employee claims processed to confirm that controls and procedures were being followed and highlight where controls were weak. The audit did not include the review of expense claims for Care at Home employees made via CM2000 which will be subject to a separate audit review.

4.8 The overall control environment opinion was **Satisfactory**. In terms of good practice, through discussion with the Sustainability Officer it was identified that from 2019/20 to 2020/21 there was a reduction of approximately £197,881 in employee mileage. However, three amber issues were identified as follows:

Lack of Co-ordination and Management of Pool Vehicles (Amber)

The list of pool vehicle users for vehicles managed by the Transport Section has not been reviewed and updated since 2019. In addition, cost savings analysis has not been undertaken for 2020/21.

Failure to maintain up to date records and carry out cost saving analysis and reporting of this could result in employees continuing to use their own vehicle resulting in additional expenditure to the Council where employee expenses are paid.

Non Compliance with Pool Car Guidance (Amber)

The audit review identified that 30% of employees recorded on the list of Pool Car Users had used their own personal vehicle claiming a total of 15,132 miles at a cost of £6,810 during the period November 2020 to November 2021. Pool Car Users should only claim mileage in emergency or exceptional circumstances.

Failure to adhere to the pool car guidance does not represent best value in terms of loss of financial benefit to the Council where employees continue to claim mileage but have been also been allocated a pool vehicle.

Identification of High Levels of Claims by Teams & Individuals for Recommendation of Pool Car Use (Amber)

The audit review identified that there are specific teams of employees that are claiming high levels of mileage. In addition, data is not currently being obtained and analysed to identify such teams or individuals where high mileage is being claimed.

The high mileage claims in private vehicles of some teams and individuals within the Council does not represent value for money and the Council is incurring additional costs where a pool car is a viable alternative. In addition, the high mileage incurred does not positively contribute to the Council's Climate Change Strategy.

- 4.9 The audit identified six issues, three of which we consider to be individually significant and an action plan is in place to address all issues by 31 October 2022.

Procurement – Under £50,000

- 4.10 Specific Guidance is in place to ensure all of the Council's procurement of goods and services under £50,000 is undertaken in accordance with the Council's Financial Regulations and Standing Orders. Quick Quote is an online quotation facility hosted on Public Contracts Scotland, which is expected to be used for all Council procurement from £10,000 to £49,999.
- 4.11 The objective of this audit was to provide management and the Audit Committee with an assessment of the adequacy and effectiveness of the governance, risk management and controls surrounding the key risks in relation to the use of Quick Quote by Services for procurement under £50,000.
- 4.12 The audit approach was planned to fall in line with the agreed Terms of Reference and included:
- Control Risk Self-Assessment exercise and discussions with management and staff within the Corporate Procurement Unit (CPU) with the particular aim of identifying and agreeing risk areas.
 - Examination and evaluation of appropriate documentation, including guidance, reports, procedures and system manuals.
 - Audit testing, particularly walkthrough tests, to confirm that controls and procedures were being followed and highlight where controls were weak.
- 4.13 The overall control environment opinion was **Satisfactory**. We were pleased to note as examples of good practice the current controls in place resulting in the Council's procurement spend compliance being above 97% and the comprehensive guidance available on the intranet for staff for Procurement Below £50k. However, two amber issues were identified as follows:

Fraud Awareness Training (Amber)

There is no mandatory Council wide Fraud Awareness training for staff in relation to procurement. Fraud training is covered more generally at induction however this has not taken place since March 2020. A new Fraud Awareness E-learning is being developed and is expected to be in place by 30 June 2022.

Data Protection Issue (Amber)

The audit identified six supplier invoices where details included full names or surnames and an initial which were available to view by any officer with access to Agresso. Under GDPR and Data Protection Act 2018, names are regarded as personal data and should not be processed at this level.

4.14 The audit identified five issues, two of which we consider to be individually significant and an action plan is in place to address all issues identified by 30 June 2022.

4.15 The 2021/22 Annual Audit Plan is underway and current status is as follows:

Stage	Number of Audits
Final Report	2
Draft Report	3
Fieldwork Complete	2
Fieldwork	0
Planning	0
Deferred to 22/23	4
B/f 20/21 Audits completed in 21/22	5
Total	16

4.16 Full delivery of the 2021/22 audit plan has been delayed due to unanticipated staff turnover, staff absence and completion of 2020/21 audit plan. The team is now back to full complement and completion of the plan has regained momentum over the last few months with a target completion date of June 2022. As such, the audit plan for 2022/23 is also on the agenda for the June 2022 Audit Committee to take account of any carry forward required at that stage including the 4 audits which are deferred. These have been subject to a further risk assessment and will be undertaken as part of the 2022/23 audit plan.

4.17 In relation to audit work for IJB, two planned audits are being finalised and reports will be provided to management and reported to HSCP Board Audit and Performance Committee.

4.18 In relation to the Valuation Joint Board, fieldwork for the planned audit is almost complete.

4.19 In relation to the Leisure Trust, one planned audit has been finalised.

4.20 Internal and External Audit Action Plans

In relation to audit action plans, these are monitored by Internal Audit on a monthly basis. There were two actions due for completion by the end of April, one of which have been implemented and the completion date in relation to the other action has been revised.

Work is ongoing with services to ensure action plan dates agreed are realistic. The status report at 30 April 2022 is provided at Appendix 2.

Ongoing Corporate Fraud Team Work

- 4.21 From 1 April 2022 to 31 March 2022, 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 £250,000.

Description	Amount (£)
Council Tax Reduction	46,205
Council Tax Single Person's Discount	23,365
National Fraud Initiative (HB)	5,731
National Fraud Initiative (CT/CTR)	18,682
National Fraud Initiative (SBBS)	57,278
J/W Housing Benefit/Council Tax Reduction	0
Non DWP Housing Benefit	127,302
Non DWP Council Tax Reduction	420
SBBS Fraud	5,900
Administrative Penalty	1,260
Total	£284,883

- 4.22 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

- 4.23 The National Fraud Initiative (NFI) is a series of biennial 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.

- 4.24 The most recent biennial exercise for 2020/21 released data to councils in January 2021 providing matched datasets for organisations to investigate. There is an expectation that organisations would examine all "High Risk" matches and a proportion of the other matches too. WDC applies a risk-based approach to the NFI matches in the medium and low risk categories.

- 4.26 Audit Scotland are preparing a report on the outcomes relating to the 2020/21 exercise and this will be presented to the next meeting of the Audit Committee in September 2022.

Benchmarking

- 4.27 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 seven other Councils, these being:

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

4.28 Regular meetings will continue to take place during 2022 to review performance against agreed performance indicators and identify other areas for sharing of best practice. Relevant action will be taken where improvements are identified. The outcome of this review will be reported to Committee when completed.

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 £284,883 from 1 April 2021 to 31 March 2022 have been identified, against an annual target of £250,000.

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 a reasonable level of assurance 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 audits. Every endeavour is made to ensure that no material slippage occurs in risk-based 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 Chief Officers.

10. Strategic Assessment

10.1 This report relates to strong corporate governance.

.....
Laurence Slavin
Chief Officer - Resources
Date: 15 June 2022

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

Appendices: 2021/22 Annual Audit Plan – Progress to 18 May 2022
(Appendix 1)
Status of Internal Audit Action Plans at 30 April 2022 (Appendix 2)

Background Papers: Audit Committee – 10 March 2021: Internal Audit Annual
Plan 2021/22
Audit Committee – 21 March 2018: Counter Fraud and
Corruption Strategy
Internal Audit Reports - Copies available on request

Wards Affected: All wards

2021-2022 Internal Audit Annual Audit Plan – Progress to 18 May 2022

Audit/Status	Not Started	Planning/ TOR	Fieldwork	Fieldwork Complete	Draft Report	Final Report	Date Reported to Audit Committee
Risk –Based Reviews							
IHMS – Stock Control		✓	✓	✓	✓	✓	March 2022
LD Services – Financial Monitoring of Contracts	✓	C/f to 2022/23 Audit Plan					
Building Services – Work In Progress	Advisory work was carried out with the Service on interim process during Q1 2022. A full review of this work will be included in the review of Building Services during 2022-23.						
Building Services – Price Checks	Advisory work was carried out with the Service on interim process during Q1 2022. A full review of this work will be included in the review of Building Services during 2022-23.						
OT Waiting Times	✓	C/f to 2022/23 Audit Plan					
Financial Assessment Process	✓	C/f to 2022/23 Audit Plan					
Corporate Procurement – Supplier Management	✓	C/f to 2022/23 Audit Plan					
Overtime		✓	✓				September 2022
Vehicle Tracking System		✓	✓	✓			September 2022
Project Management Arrangements		✓	✓	✓			September 2022
Employee Expenses		✓	✓	✓	✓	✓	June 2022
Limited Scope Financial System Reviews							
Debtors		✓	✓	✓	✓		September 2022
Other Work							
Integration Joint Board – Internal Audit Service	The IJB internal audit annual plan for 2021/22 was approved in April 2021. Two audits are currently being finalised and will be reported to the HSCP Board Audit and Performance Committee.						
Valuation Joint Board – Internal Audit Service	The VJB internal audit annual plan for 2021/22 is now underway and fieldwork is almost complete.						
Leisure Trust – Internal Audit Service	The LT internal audit annual plan for 2021/22 is now complete.						
Covid-19 Recovery Assurance Work	Ad hoc advice was provided on an ongoing basis.						
National Fraud Initiative	Matches for the 2020-21 exercise continue to be investigated. Audit Scotland will produce a report on the NFI 2020-21 Exercise which will be reported to the September 2022 meeting.						
B/f 2020/2021 Audit Plan Completion	Five audit reports from the 2020/21 audit plan were finalised during 2021/22 including: Rent Arrears, Pupil Equity Funding, Homelessness, Client Accounts Administration Process and Corporate Procurement – Under £50k.						



**REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLANS
AT 30 APRIL 2022**

Summary: Section 1 Summary of Management Actions due for completion by 30/04/2022

There were 2 actions due for completion by 30 April 2022, one of which has been reported as completed by management and the completion date in relation to one action has been revised.

Section 2 Summary of Current Management Actions Plans at 30/04/2022

At 30 April 2022 there were no audit reports delayed due to management not finalising the action plan within agreed timescales.

Section 3 Current Management Actions at 30/04/2022

At 30 April 2022 there were 10 current audit action points.

Section 4 Analysis of Missed Deadlines

At 30 April 2022 there were 2 audit action points where the agreed deadline had been missed.

Section 5 Summary of Action Plan Points by Audit Year

**REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS
SUMMARY OF ACTION PLANS DUE FOR COMPLETION BY 30.04.2022**

SECTION 1

Strategic Area	No. of Actions Due	No. of Actions Completed	Deadline missed Revised date set*	Deadline missed Revised date to be set*
Supply, Distribution and Property	1	0	1	0
Education, Learning and Attainment	1	1	0	0
Total	2	1	1	0

* These actions are included in the Analysis of Missed Deadlines – Section 4

In addition one action with a completion date of 31 May has been completed ahead of the deadline:

Agreed Action	Update
171. Social Work - Case Management (Report Issued August 2020)	
<p>Children's Services - Peer review of case files (Medium Risk) Management Team are reviewing peer review processes as part of case file audit and monitoring and how this can inform service redesign. Work has commenced as part of the PACE workstream in respect of children looked after at home. Intention to scale up when capacity is increased.</p>	<p>An audit framework has been developed across the children and adult service with planned schooled audit activity sampling 10 cases x4 times a year with clear reporting governance. An 0.5 fte post has now been recruited to , in order to progress independent audit activity within children's services.</p>

**REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS
SUMMARY OF CURRENT ACTION PLANS AT 30.04.2022**

SECTION 2

CURRENT ACTIONS BY STRATEGIC AREA


Children's Health Care and Criminal Justice	
Due for completion May 2022	1
Total Actions	1
Regulatory and Regeneration	
Due for completion May 2022	1
Total Actions	1
Housing and Employability	
Due for completion May 2022	1
Due for completion September 2022	1
Total Actions	2
Supply, Distribution and Property	
Due for completion August 2022	1
Due for completion December 2022	1
Due for completion March 2023	1
Total Actions	3
Resources	
Due for completion June 2022	1
Total Actions	1
Roads and Neighbourhood	
Due for completion October 2022	2
Total Actions	2
Total current actions:	10

**REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS
CURRENT ACTION PLANS AT 30.04.2022**




SECTION 3

Current Internal Audit Action Plans



P 173. Housing Voids (Report Issued October 2020)

Code	Agreed Action	Status	Original Due Date	Due Date	Assigned To	Managed By
IAAP/079	The previous policy had fallen into abeyance, with the strategic direction for voids led by the Housing Improvement Board. Whereas this has led to significant improvements against the key tenets of the historic policy, given the extent of systemic and structural changes it would be beneficial to codify this within a revised policy. This will be developed with new tenant feedback and wider tenant consultation.		31-May-2021 28-Feb-2022	30-Sep-2022*	Housing Operations Manager	Chief Officer – Housing and Employability

P IHMS Stores and Stock Management (Report issued January 2022)

Code	Agreed Action	Status	Original Due Date	Due Date	Assigned To	Managed By
IAAP/103	Lack of Stock Control Process for Direct Purchases of UPVC Units (Red) Longer term Building Services will ensure just in time delivery of uPVC windows and door units recommence in line with the Councils' renewal programme.		01-Aug-2022	01-Aug-2022	Building Services Manager	Chief Officer – Supply, Distribution and Property
IAAP/104	Lack of Stock Control Process for Direct Purchases of UPVC Units (Red) An inventory of sizes/ types/hands/styles of uPVC windows and doors will be developed for inactive orders. A plan will be put in place to install all units where feasible. Any unusable units will be dealt within in line with the Council's management of obsolete stock procedures.		31-Mar-2023	31-Mar-2023	Building Services Manager	Chief Officer – Supply, Distribution and Property
IAAP/106	Full implementation of Minimum/Maximum Levels and automatic reordering of stock items (Amber) These actions form part of stores catalogue review which is ongoing and scheduled to be completed early in the financial year 2022/2023.		30-Apr-2022	31-Dec-2022*	Building Services Manager	Chief Officer – Supply, Distribution and Property




Status Key



	On track
	Overdue – update required

**REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS
CURRENT ACTION PLANS AT 30.04.2022**

SECTION 3

P	Employee Expenses (Report issued May 2022)
----------	---


Code	Agreed Action	Status	Original Due Date	Due Date	Assigned To	Managed By
IAAP/109	<p>Lack of Co-ordination and Management of Pool Vehicles (Amber) A working group has been established to review pool car procedures which is being chaired by the Chief Officer Shared Services Roads & Neighbourhood.</p> <p>The CAS team will be responsible for maintaining pool vehicle records. A review is currently being carried out of procedures to make this process more efficient.</p> <p>Cost Savings Analysis will be carried on an annual basis and reported as appropriate.</p>		01-Oct-2022	01-Oct-2022	Shared Fleet and Waste Services Manager	Chief Officer – Roads and Neighbourhood
IAAP/110	<p>Non-Compliance with Pool Car Guidance (Amber) Management will advise appropriate Line Managers that they should inform those employees who have been identified as a pool car user that where possible that the employee only use a pool car when carrying out Council Business and that they should not claim mileage except in emergency or exceptional circumstances.</p>		31-May-2022	31-May-2022	Building Standards & Environmental Health Manager Housing Development & Homelessness Manager Manager Fieldwork Services HSCP	Chief Officer – Regulatory and Regeneration Chief Officer – Housing and Employability Head of Children’s Health Care and Community Justice
IAAP/111	<p>Identification of High Levels of Claims by Teams & Individuals for Recommendation of Pool Car Use (Amber) A working group has been established to review pool car procedures which is being chaired by the Chief Officer Shared Services Roads & Neighbourhood.</p> <p>A list of high mileage claimants has been collated and the working group will assess the users in relation to allocation of pool cars and identify if additional vehicles are required.</p>		01-Oct-2022	01-Oct-2022	Shared Fleet and Waste Services Manager	Chief Officer – Roads and Neighbourhood

	On track
	Overdue – update required



**REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLAN POINTS
CURRENT ACTION PLANS AT 30.04.2022**

SECTION 3

	Procurement Under £50k (Report issued May 2022)
--	--

Code	Agreed Action	Status	Original Due Date	Due Date	Assigned To	Managed By
IAAP/122	Fraud Awareness Training (Amber) Management will develop and implement an on-line fraud awareness module to include procurement as a fraud risk area. This will be done in conjunction with the Organisational Development team and launched in line with their overall timescales.		30-June-2022	30-June-2022	Shared Service Manager – Audit & Fraud	Chief Officer - Resources

Status Key

	On track
	Overdue – update required

**REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLANS
ANALYSIS OF MISSED DEADLINES**

SECTION 4

Report	Agreed Action	Original Due Date	Revised Date	Management Comments
Housing Voids (October 2020)	<p>Void Management Policy Review & Update (Medium Risk) The previous policy had fallen into abeyance, with the strategic direction for voids led by the Housing Improvement Board. Whereas this has led to significant improvements against the key tenets of the historic policy, given the extent of systemic and structural changes it would be beneficial to codify this within a revised policy. This will be developed with new tenant feedback and wider tenant consultation.</p>	31-May-2021 28-Feb-2022	30-Sep-2022	Progress on this action has been significantly impacted due to Covid and was not able to be completed by original deadline. However, the review of the void processes, including revision of the void re-let standard and development of a void policy has been discussed at the Housing Improvement Board and Building Services Board and it was agreed that a focused void working group would be established to take this work forward and representation consists of a range of colleagues from Housing Operations, Building Services and Housing Development. The working group is now up and running and will focus on a range of aspects for the void process and progress the work in relation to the audit action.
IHMS Stores and Stock Management (January 2022)	<p>Full implementation of Minimum/Maximum Levels and automatic reordering of stock items (Amber) These actions form part of stores catalogue review which is ongoing and scheduled to be completed early in the financial year 2022/2023.</p>	30-Apr-2022	31-Dec-2022	The review of stock catalogue is continuing and progress has been impacted due to staff shortages and other priorities. Minimum and maximum stock levels have been updated within each store and automatic reordering will be implemented when the work on the stock catalogue has been completed.

**REPORT TO AUDIT COMMITTEE ON
STATUS OF INTERNAL AUDIT ACTION PLANS
SUMMARY OF ACTIONS BY AUDIT YEAR**

SECTION 5

Status at 30 April 2022

Audit Year	No of Agreed Actions	No of actions complete	Current actions by Grade		
			H	M	L
2018/2019	79	79	0	0	0
2019/2020	67	67	0	0	0
Total	146	146	0	0	0

Audit Year	No of Agreed Actions	No of actions complete	Current actions by Grade		
			Red	Amber	Green*
2020/2021	25	17	0	1	7
2021/2022	31	10	2	7	12
Total	56	27	2	8	19

* Green actions are within the Council's risk appetite and are therefore not included in Audit Committee reports.

WEST DUNBARTONSHIRE COUNCIL**Report by Chief Officer – Resources****Audit Committee: 15 June 2022**

Subject: Internal Audit Annual Report to 31 March 2022**1. Purpose**

- 1.1** The purpose of this report is to advise Members of the work undertaken by Internal Audit in respect of the 2021/22 Annual Audit Plan 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 (Chief Officer - 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: Shared Service Manager Audit & Fraud] 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** Progress reports were provided to the Audit Committee at each meeting during 2021/22 on Internal Audit activity and progress against the annual audit plan.

4. Main Issues

- 4.1 During 2020/21 Internal Audit implemented a new risk-based audit methodology which means that for each audit, one of the following opinions is expressed:

Strong	In our opinion there is a sound system of internal controls designed to ensure that the organisation is able to achieve its objectives.
Satisfactory	In our opinion isolated areas of control weakness were identified which, whilst not systemic, put some organisation objectives at risk.
Requires Improvement	In our opinion systemic and/or material control weaknesses were identified such that some organisation objectives are put at significant risk.
Unsatisfactory	In our opinion the control environment was considered inadequate to ensure that the organisation is able to achieve its objectives.

- 4.2 Detailed findings and recommendations reported to management are graded using the following criteria:

Red	In our opinion the control environment is insufficient to address the risk and this could impact the Council as a whole. Corrective action must be taken and should start immediately. Overseen to completion by Corporate Management Team.
Amber	In our opinion there are areas of control weakness which we consider to be individually significant but which are unlikely to affect the Council as a whole. Corrective action must be taken (some exceptions may be agreed with Internal Audit) within reasonable timeframe. Overseen to completion by Chief Officer/Head of Service.
Green	In our opinion the risk area is well controlled or our audit highlighted areas for minor control improvement and/or areas of minor control weakness. Process improvements/efficiencies may be actioned at management discretion in consultation with Internal Audit. Managed by service manager. Not reported in Audit Committee papers.

- 4.3 The status of the Audit Plan for 2021/22 is set out at Appendix 1. Completion of the audit plan was hampered by staff illness and unforeseen vacancies arising during 2020/21 which took some time to fill during 2021/22. There are a number of audits at fieldwork stage and it is anticipated that these will be completed by end of June 2022. There are no significant issues arising through audit work to date which would impact on the overall audit opinion within the 2021/22 Annual Report and Assurance Statement.

4.4 The 2021/22 Internal Audit Annual Report and Assurance Statement is set out at Appendix 2. There are four overall Audit Opinion types as follows:

<p>Satisfactory</p>	<p>Controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A limited number of amber rated issues may have been identified, but generally only green issues have been found in individual audit assignments. • None of the individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>.
<p>Generally Satisfactory with some improvement needed</p>	<p>A few specific control weaknesses were noted: generally however, controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A number of amber rated issues identified in individual audit assignments that collectively do not significantly impact the system of internal control. • Red rated issues that are isolated to specific systems or processes. • None of the individual assignment reports have an overall opinion of <i>Unsatisfactory</i>.
<p>Major improvement needed</p>	<p>Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A high number of amber rated issues that collectively have a significant impact on some parts of the system of internal control but are not widespread. • A number of red rated issues that collectively have a significant impact on some parts of the system of internal control but are not widespread. • A small number of individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>.
<p>Unsatisfactory</p>	<p>Controls evaluated are not adequate, appropriate or effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • Amber and red rated issues identified in individual assignments that collectively are widespread to the system of internal control. • A high number of individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>.

4.5 On the basis of Internal Audit work performed in 2021/22, 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 work is ongoing with management to continue to make good progress in implementing agreed action plans arising from Internal Audit reviews. The overall audit opinion is **Satisfactory**.

4.6 Performance indicators for the Audit and Fraud service were reviewed for 2021/22 and actual performance against target is set out at Appendix 3.

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 £284,883 have been identified during 2021/22, against an annual target of £250,000.

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 a minimum level of assurance over the Council's system of internal financial control to those charged with governance.

8. Equalities Impact Assessment (EIA)

8.1 There is no requirement for an EIA.

9. Consultation

9.1 This report has been subject to consultation with appropriate Chief Officers.

10. Strategic Assessment

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

.....
Laurence Slavin
Chief Officer - Resources
Date: 17 June 2022

Person to Contact: Andi Priestman, Shared Service Manager – Audit & Fraud
Telephone (01389) 737436
E-mail: andi.priestman@west-dunbarton.gov.uk

Appendices: 1 – Status of Audit Plan 2021/22
2 - Internal Audit Annual Report and Assurance Statement for the year ended 31 March 2022
3 – Performance Indicators 2021/22

Background Papers: Audit Committee – 16 June 2021: Internal Audit Plan 2021/22

Wards Affected: All wards

Audit Plan 2021/22: Completed Audits

<u>Report Title</u>	<u>Status</u>	<u>Findings</u>			<u>Control Environment Opinion</u>
		<u>Red</u>	<u>Amber</u>	<u>Green</u>	
Risk Based Reviews					
IHMS Stores and Stock Management	Complete	1	4	2	Satisfactory
Employee Expenses	Complete	0	3	3	Satisfactory
Pupil Equity Funding	Complete	0	2	4	Satisfactory
Homelessness	Complete	0	1	0	Satisfactory
Management of Rent Arrears	Complete	0	2	2	Satisfactory
Corporate Procurement – Up to £50k spend	Complete	0	2	3	Satisfactory
Vehicle Tracking System	Draft report being prepared. Indicative overall control environment opinion is Satisfactory				
Project Management Arrangements	Draft report being prepared. Indicative overall control environment opinion is Satisfactory				
Overtime	Fieldwork underway.				
LD Services – Financial Monitoring of Contracts	C/f to 2022/23 Audit Plan				
OT Waiting Times	C/f to 2022/23 Audit Plan				
Financial Assessment Process	C/f to 2022/23 Audit Plan				
Corporate Procurement – Supplier Management	C/f to 2022/23 Audit Plan				
Advisory Reviews					
Building Services – Work In Progress	Advisory work complete. No significant issues arising.				
Building Services – Price Checks	Advisory work complete. No significant issues arising.				
Limited Scope Finance Reviews					
Debtors	Draft report being prepared. Indicative overall control environment opinion is Satisfactory				
Control Self-Assessment					
CSA Client Administration Process – Care Homes	CSA exercise complete to establish levels of compliance with agreed process. Some recommendations for improvement were made which will be followed up in 2022/23.				
Other Work					
IJB Internal Audit Service	21/22 Audit Plan – Fieldwork almost complete				
Valuation Joint Board	21/22 Audit Plan - Fieldwork almost complete				
WD Leisure Trust	21/22 Audit Plan – One planned audit is complete				

Assurance Statement for the year ended 31 March 2022
From the Shared Service Manager – Audit & Fraud

To the Members of West Dunbartonshire Council, the Chief Executive and the Section 95 Officer (Chief Officer - 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 2022.

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.
- 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 governance, risk management and internal control 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.
- 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".

The last external review was carried out during 2015/16. The next external review was due to be carried out by 31 March 2021 however this was deferred to 2022 due to the pandemic. The internal review confirms a high level of compliance and that the Internal Audit Section generally conforms with the requirements of PSIAS.

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 control weaknesses and/or areas of 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. Agreed actions arising from Internal Audit reports are followed up on a monthly basis as action dates fall due.

Regular reporting on action plan implementation is provided on a monthly basis to senior management and to each meeting of the Audit Committee.

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 continued to test how well the Council's risk management, governance and internal control framework was operating during 2021/22. Regular COVID-19 Update reports were provided to Committee as appropriate.

All members of the council's Senior Leadership Team and key stakeholders participated in a variety of Local Authority specific Covid-19/Business Continuity response groups supported by the Civil Contingencies Service. A comprehensive Covid-19 Impact Risk Register was developed covering all aspects of service delivery affected by the pandemic which has been maintained on a regular basis.

With significant disruption to how services continued during 2021/22, the CMT developed plans to ensure the council continued to meet requirements and achieve the strategic priorities set out in the Strategic Plan. This planning activity considered the reflective learning from the first phase of responding to the pandemic and ongoing engagement with key stakeholders in planning future service provision.

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 2022.
- The assessment of risk completed during reviews of the annual audit plan.

- The Code of Good Governance self-assessment process undertaken by the Chief Officers for the services for which they were responsible during the year to 31 March 2022.
- The Council's Annual Governance Statement for the year ended 31 March 2022.
- 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 resource challenges at the start of the year including staff illness and an unforeseen staff vacancy arising which hampered the team's ability to complete all fieldwork for the 2021/22 Audit Plan by 31 March 2022. Staffing numbers have now stabilised and the audit plan will be completed by end of June 2022. There were no significant threats identified to the independence of the internal audit activity such as inappropriate scope or resource limitations.

Opinion

The report concludes that the majority of West Dunbartonshire Council's established internal control procedures operated as intended to meet management's control requirements for each area reviewed by Internal Audit in 2021/22. The overall audit opinion is **Generally Satisfactory with some improvement needed**.

Signature: Andi Priestman

Title: Shared Service Manager – Audit & Fraud

Date: 18 May 2022

Opinion Types

<p>Satisfactory</p>	<p>Controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A limited number of amber rated issues may have been identified, but generally only green issues have been found in individual audit assignments. • None of the individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>.
<p>Generally Satisfactory with some improvement needed</p>	<p>A few specific control weaknesses were noted: generally however, controls evaluated are adequate, appropriate and effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A number of amber rated issues identified in individual audit assignments that collectively do not significantly impact the system of internal control. • Red rated issues that are isolated to specific systems or processes. • None of the individual assignment reports have an overall opinion of <i>Unsatisfactory</i>.
<p>Major improvement needed</p>	<p>Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • A high number of amber rated issues that collectively have a significant impact on some parts of the system of internal control but are not widespread. • A number of red rated issues that collectively have a significant impact on some parts of the system of internal control but are not widespread. • A small number of individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>.
<p>Unsatisfactory</p>	<p>Controls evaluated are not adequate, appropriate or effective to provide reasonable assurance that risks are being managed and objectives should be met.</p> <ul style="list-style-type: none"> • Amber and red rated issues identified in individual assignments that collectively are widespread to the system of internal control. • A high number of individual assignment reports have an overall opinion of <i>Requires Improvement or Unsatisfactory</i>.

Key Performance Indicators – 2021/22

Measure	Description	Actual	Target
1. Draft Report	Percentage of draft reports issued within 3 weeks of completion of fieldwork.	100%	80%
2. Final Report	Percentage of final reports issued within 2 weeks of draft report.	91%	100%
3. Audit Plan Delivery	Percentage of audits completed versus planned.	75%	85%
4. Audit Budget	Percentage of audits completed within budgeted days.	67%	80%
5. Audit Recommendations	Percentage of audit recommendations agreed.	96%	90%
6. Action Plan Follow Up	Percentage of action plans followed up – Internal and External Audit.	100%	100%
7. Customer Feedback	Percentage of respondents who rated the overall quality of internal audit as satisfactory or above.	100%	100%
8. NFI recommended matches	Percentage of National Fraud Initiative recommended matches investigated within timescales.	100%	100%
9. NFI other matches	Percentage of National Fraud Initiative other matches investigated within timescales.	100%	90%
10. DWP liaison	Percentage of cases referred to/ actioned for DWP within DWP timescales.	100%	100%
11. Staff compliance with CPD	Number of training hours undertaken to support CPD	100	100
12. Management engagement	Number of meetings with CMT and senior management as appropriate	3 per quarter	1 per quarter

WEST DUNBARTONSHIRE COUNCIL**Report by Chief Officer - Resources****Audit Committee: 15 June 2022**

Subject: 2022/23 Internal Audit Plan**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 2022/23.

2. Recommendations

- 2.1 It is recommended that the Committee approve the 2022/23 Audit Plan.

3. Background

- 3.1 The Public Sector Internal Audit Standards include the requirement for the Chief Internal Auditor to prepare 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 and risks identified by external scrutiny bodies through local scrutiny arrangements.
- 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 Chief Officers 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 carry forward of some audits from 2021/22 which were deferred due to staff turnover, staff absence and other factors.
- 4.4 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.
- 4.5 Internal Audit monitors delivery of the plan continuously during the year using a number of performance indicators. Progress is reported to members on a regular basis.

4.6 Outlined below are the current risk factors influencing our proposed audit coverage for 2022/23:

- 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.
- Building Services provide a dedicated repairs and maintenance service. Internal Audit will review procedures in place to ensure services provided are effective.
- 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. The financial assessment process was subject to a process redesign in 2020/21 to align with the new eligibility criteria. Internal Audit will therefore review the adequacy and effectiveness of the new financial assessment process.
- Occupational Therapy is an important service provided by the HSCP and targets have been set in relation to waiting times for referrals. As a result of COVID-19 this audit was deferred in 2021/22 and therefore Internal Audit will review the adequacy and effectiveness of arrangements in place to ensure targets are achieved during 2022/23.
- Roads and Neighbourhood provide and maintain the fleet across all Council services. Vehicles and equipment are a critical corporate asset used in the delivery of front line services. Internal Audit will review the adequacy and effectiveness of fleet management and vehicle maintenance arrangements.
- In relation to off payroll working (IR35), public authorities are responsible for checking whether off payroll rules apply to individuals or companies providing services to the organisation. Internal Audit will review the adequacy and effectiveness of arrangements that are in place.
- As soon as a housing application is active, the applicant will be put onto the housing waiting list for the areas and housing types that have been chosen. Internal Audit will review the adequacy and effectiveness of the waiting lists process.
- As part of the annual audit planning process, corporate procurement is a key risk area that is reviewed each year. For 2022/23 Internal Audit will carry out an audit of supplier management ensure compliance with relevant policies and procedures.
- The Parent Pay system is currently being piloted within a number of Education establishments. Internal Audit will review the adequacy and effectiveness of arrangements that are in place during the pilot phase.
- In order to facilitate payment for low value, high volume transactions, Council services use corporate purchase cards. Internal Audit will review the adequacy and effectiveness of arrangements that are in place to ensure compliance with relevant policies and procedures.

- 4.6** The draft 2022/23 Audit Strategy and Plan is included at Appendix 1. 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 relevant Chief Officers has been 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 Chief Officers.
- 10. Strategic Assessment**
- 10.1** This report relates to all five of the Council's Strategic Priorities.

Laurence Slavin
Chief Officer - Resources
Date: 15 June 2022

Person to contact Andi Priestman, Shared Service Manager – Audit & Fraud
Telephone: 01389-737436
Email: andi.priestman@west-dunbarton.gov.uk

Appendix 1: Draft 2022/23 Internal Audit Strategy and Plan

Background Papers: None

Wards Affected: All wards

2022/23 INTERNAL AUDIT ANNUAL STRATEGY AND PLAN**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 Officer Resources in his role as West Dunbartonshire Council's (the Council) 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.

2022/23 INTERNAL AUDIT ANNUAL STRATEGY AND PLAN

- 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 the Council operates.
Reputation	Risks associated with threats to the 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, e.g. 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 the Council.
Security	Risks associated with security over customer and the Council's assets.
Stakeholder	Risks associated with management of stakeholder expectations (e.g. 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 local scrutiny arrangements.

- 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.

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 2022/2023 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.

2022/23 INTERNAL AUDIT ANNUAL STRATEGY AND PLAN

The combined operational plan is 1,160 days which will be resourced as follows:

Team Member	Plan Days
Auditor	180
Lead Auditor (0.5 FTE)	70
Auditor (0.5 FTE)	90
Auditor (0.5 FTE)	90
Audit Assistant	160
Section Lead – Corporate Fraud	150
Corporate Fraud Officer	180
Corporate Fraud Officer (vacant)*	90
Intelligence Officer	150
Total Plan Days	1,160

* Due to the Covid-19 Pandemic, recruitment for the Corporate Fraud Officer post was delayed as home visits and interviews under caution were halted. It is anticipated we will start the recruitment process after the summer recess when those aspects of the team's work are restarted, subject to relevant protocols being in place.

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 relevant Chief Officer 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 S95 Officer in the preparation of the Annual Governance Statement.

2022/23 INTERNAL AUDIT ANNUAL STRATEGY AND PLAN

5 Proposed Audit Coverage 2022-2023

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 e.g. special investigations and provision of ad hoc advice.

Audit Area	Strategic Area	Risk Score	Staff Days
Risk-Based Reviews			
Learning Disability Services – Financial Monitoring of Contracts (c/f)	HSCP	9760	30
Fleet Management	Corporate	8928	30
Occupational Therapy Waiting Times (c/f)	HSCP	8184	30
Financial Assessment Process (c/f)	HSCP	7936	30
Housing Repairs and Maintenance	Supply, Distribution and Property	6882	30
Corporate Procurement – Supplier Management (c/f)	Corporate	5952	30
Vehicle Maintenance	Roads and Neighbourhood	5766	25
Void Management	Supply, Distribution and Property	5616	30
Housing Waiting Lists	Housing	4836	20
Parent Pay	Education, Learning and Attainment	4650	25
Off Payroll Working (IR35)	Corporate	4440	20
Corporate Purchase Cards	Corporate	4428	30
		Total	330
Limited Scope Financial System Reviews			
Non Domestic Rates	Resources	4662	20
Creditors	Resources	4350	20
		Total	40
Compliance Reviews			
Health and Wellbeing Policy	Corporate	N/A	20
		Total	20
Corporate Governance Reviews			
Annual Governance Statement (2021/2022)	Corporate	-	10
		Total	10
Other Work			
Audit follow up	Corporate	-	20
HR/Payroll Verification Checks	Corporate	-	15
National Fraud Initiative	Corporate	-	100
Fraud Referrals including Joint Working	Corporate	-	425
Liaison with DWP	-	-	10
Fraud Awareness Training	Corporate	-	15
IJB – Internal Audit Service	-	-	40
VJB – Internal Audit Service	-	-	15
Leisure Trust – Internal Audit Service	-	-	10
Contingency	-	-	30
Completion of 2021-2022 Audit Plan	-	-	80
		Total	760
Total Staff Days for 2022/23			1160

2022/23 INTERNAL AUDIT ANNUAL STRATEGY AND PLAN

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 2021/2022 these have been set as follows:

Measure	Description	Target
1. Draft Report	Percentage of draft reports issued within 3 weeks of completion of fieldwork.	90%
2. Draft Report	Percentage of draft reports issued within 3 weeks of completion of fieldwork.	90%
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 high risk 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 2022/23 Internal Audit Annual Assurance Report.

WEST DUNBARTONSHIRE COUNCIL**Report by Chief Officer - Resources****Audit Committee: 15 June 2022**

**Subject: Audit Scotland Management Letter: West Dunbartonshire Council
– Interim audit testing 2021/22****1. Purpose of Report**

- 1.1** The purpose of this report is to advise Members of the Council's 2021/22 mid-year management letter issued by our external auditors, Audit Scotland and the management actions agreed in relation to the issues identified in the letter.

2. Recommendations

- 2.1** The Committee is invited to note the report and the agreed management actions.

3. Background

- 3.1** Part of the planned work of Audit Scotland as the Council's external auditors, is to undertake a review of the Council's key controls and provide a report on any issues or risks arising from this review.
- 3.2** As part of the work required, the auditors undertook a high level review of the governance arrangements and the main financial systems operated by the Council. The purpose of this review was to evaluate whether the Council have sound governance arrangements in place and whether the key internal controls operating within the main financial systems are adequate and to identify any issues for further consideration in their main audit.

4. Main Issues

- 4.1** The management letter, as appended to this report, identifies two issues/risks for management to consider. For each of these items management responses and timelines have been provided. These are detailed in the letter within Exhibit 1.

5. Option Appraisal

- 5.1** No option appraisal was required for this report.

6. People Implications

- 6.1** The people issues arising from this report are in relation to implementing improved processes in a number of systems and can be implemented from within existing resources.

7. Financial and Procurement Implications

7.1 There are no financial or procurement implications.

8. Risk Analysis

8.1 Failure to address the recommendations outlined in the report could impact on the final audit opinion awarded to the Council in respect of the audit in future financial years.

9. Equalities Impact Assessment (EIA)

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 This report has been subject to consultation with appropriate

12. Strategic Assessment

12.1 Sound financial practices are cornerstones of good governance and support Council and officers to pursue the 5 strategic priorities of the Council's Strategic Plan.

Laurence Slavin
Chief Officer - Resources
Date: 26 May 2022

Person to Contact: Laurence Slavin, Chief Officer - Resources
Council Offices, Church Street, Dumbarton,
Email: Laurence.Slavin@west-dunbarton.gov.uk

Appendices: Audit Scotland - Interim Audit Testing 2021/22

Wards Affected: All

Laurence Slavin
Chief Officer – Resources
West Dunbartonshire Council
16 Church Street
Dumbarton
G82 1QL

26 May 2022

Dear Laurence,

West Dunbartonshire Council – Interim audit testing 2021/22

1. Audit Scotland's Code of Audit Practice requires us to assess the systems of internal control put in place by management. In carrying out this work, we seek to gain assurance that West Dunbartonshire Council:

- has systems for recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
- has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
- complies with established policies, procedures, laws and regulation.

Overall summary

2. Overall, we concluded that West Dunbartonshire Council has adequate systems of internal control in place for the key systems used to record, process, and report financial and other relevant data for the financial statements. However, our work identified two issues for management consideration, as detailed at appendix 1. These issues impact on our audit approach and will require us to complete targeted testing to obtain the required assurances for our audit of the 2021/22 financial statements.

System coverage

3. A key focus of our testing was the verification to source documentation of significant income and expenditure transactions (including staff costs) during 2021/22. Work is ongoing in some areas, however we have not identified any issues to report from our testing to date. As testing was performed prior to the 2021/22 financial year end, the need for additional testing will be considered as part of the financial statements audit to ensure sufficient audit coverage for the full year is achieved.

4. During the interim audit we reviewed the key controls in the following systems:

- General Ledger
- Accounts Receivable
- Accounts Payable
- Payroll
- Cash & Bank
- Non-Domestic Rates
- Council Tax
- Housing Benefit

5. This work involved carrying out walkthroughs of the key controls in each system to confirm they were operating as expected. This covered a number of areas including reviewing reconciliation, payroll exception

reporting and changes to supplier bank details. We will use the results of this testing to determine our approach during the 2021/22 financial statements audit.

Risk identification

6. Appendix 1 sets out the issues for management consideration identified from our interim audit work.

7. The issues identified in preparing this management letter are only those which have come to our attention during the course of our normal work and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate to West Dunbartonshire Council. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

Acknowledgement

8. The contents of this letter have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit from staff is gratefully acknowledged.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Gardner', written in a cursive style.

Christopher Gardner
Senior Audit Manager

Direct Tel: 0131 625 1610
Email: chgardner@audit-scotland.gov.uk

Appendix 1

Key audit findings for management consideration

Issue/risk	Management response	Responsible officer and target date
<p>1. Delays in completing and reviewing feeder system reconciliations</p> <p>Last year we reported delays to reviews of feeder system reconciliations. This exercise provides assurance that the data contained within individual accounting systems and the general ledger are in agreement.</p> <p>Our review of a sample of reconciliations for the Housing Benefits, Council Tax and Non-Domestic Rates (NDR) systems found again that some had not been completed within the expected timescale of no later than one month after the period end, or reviewed within one month of completion. We noted improvement in the timeliness of the housing benefit system reconciliations.</p> <p>We will review the year end reconciliations for assurance on the figures in the financial statements.</p> <p>Risk: Potential errors are not identified, investigated and resolved in a timely manner.</p>	<p>Finance will perform a prioritisation review of the work of the Reconciliations team to risk profile the current suite of reconciliations being carried out. This will allow the workload to be rationalised and there to be greater focus on higher risk and higher value reconciliations.</p>	<p>Chief Officer – Resources</p> <p>31 March 2023</p>
<p>2. Delays in removing user access</p> <p>Our review of user access to the general ledger and housing benefit systems found two instances of delays to removing user users once an employee had left the organisation. In one instance, user rights were removed fully almost one month after the staff member left.</p> <p>We are content there is no evidence to suggest any inappropriate user activity took place during this time.</p> <p>Risk: Inappropriate user privileges could result in error or fraud or allow access to sensitive data.</p>	<p>The process to identify and remove users will be assessed to ensure it is robust and officers will be reminded of the need to remove inactive users timeously.</p>	<p>Chief Officer – Resources</p> <p>30 June 2022</p>

WEST DUNBARTONSHIRE COUNCIL**Report by the Chief Officer - Resources****Audit Committee: 15 June 2022**

Subject: Prudential Indicators 2021/22 to 2031/32 and Treasury Management Strategy 2022/23 to 2031/32

1. Purpose

1.1 Following approval at Council on 23 March 2022 this report is to provide members with the opportunity to further scrutinise the Prudential Indicators for 2021/22 to 2031/32 and the Treasury Management Strategy (including the Investment Strategy) for 2022/23 to 2031/32 and the indicative indicators for 2024/25 to 2030/31.

2. Recommendations

2.1 Members are requested to consider the report and note that on 23 March 2022 Council:

(a) Agreed the following Prudential Indicators and Limits discussed in Appendix 1 and set out within Appendix 6 for the period to 2024/25:

- 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 2022/23 to 2024/25 (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 2022/23 to 2024/25:

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

(e) Noted the draft Prudential and Treasury Management Indicators for the period 2025/26 to 2031/32 discussed in Appendices 1 and 2 and set out within Appendix 6.

(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).

(g) Noted the report will be referred to Audit Committee for further scrutiny.

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

(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 and borrowing money 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) 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 the financial year.

- 3.6** The CIPFA Treasury Management Code of Practice requires greater Member scrutiny of the treasury policies, increased Member training and awareness and greater frequency of information.
- 3.7** One of the key clauses is that a responsible body is required to ensure effective scrutiny of the treasury management strategy and policies. Within West Dunbartonshire Council the body identified to fulfil this role is the Audit Committee.

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 2022/23, revises the indicators for 2023/24 to 2025/26 and projects the indicators to 2032/33, with those for the period 2025/26 to 2031/32 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 2022/23 to 2031/32 is included in Appendix 6 (with the period 2025/26 to 2031/32 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.

Changes to Financial Regulations - Leasing

- 4.4** The Treasury Management Strategy report to Council in March 2021 reported a change to financial regulations regarding leasing. The change was postponed and was due to be implemented on 1 April 2022 (as reported to Council on 23 March 2023). Since reported, it has been confirmed that this change has been postponed until 1 April 2023.
- 4.5** This change will bring the assets and future liabilities for all leases onto the Council's Balance Sheet from 1 April 2023. The effect of this change will 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 may also be affected in future years. This change affects all councils, though this Council has a low number of leased assets.

Capital Strategy

4.6 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
- the implications for future financial sustainability.

4.6.1 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.

4.6.2 The Capital Strategy for 2022/23 (reported to, and approved by, Council on 9 March 2022) 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.

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 2021/22 to 2031/32 while the treasury management indicators detailed in Appendix 6 show the likely borrowing requirement for the same period.

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 2022/23 and following two financial years (Appendix 2 – section 2.1 and 2.2).

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.

Laurence Slavin
Chief Officer - Resources
Date: 20 April 2022

Person to Contact: Jackie Thomson Church Street, Dumbarton
Email: Jackie.NicholThomson@west-dunbarton.gov.uk

Appendices: 1 Prudential Indicators 2021/22 to 2031/32
2 Treasury Management Strategy 2022/23 to

- 2031/32
- 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 3 March 2021
Treasury Mid-year update – Council 22 December 2021
Budget Update – Council 9 February 2022
Budget Update – Council 9 March 2022
Treasury Management Strategy Statement and Annual Investment Strategy (Link January 2022)
Scotland’s Economic and Fiscal Forecasts (Fiscal Commission Scotland December 2021)

Wards Affected: All wards affected.

Capital Prudential Indicators 2021/22 to 2031/32

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 (e.g. other grants, capital receipts, prudential borrowing).
- 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 updates reported to Council 9 March 2022 for both HRA and General Services, is shown in the table A in Appendix 6. The HRA capital plan refresh extends to 2026/27 with the period from 2026/27 to 2031/32 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)". 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" with further flexibilities given due to covid to use capital receipts for transformation until 31 March 2023.
- 1.6 The capital plan update for General Services reported to Council assumes an element of capital receipts is used to fund the principal element of loan charges and annual premium costs between 2021/22 and 2024/25; and a further element to fund transformational costs in 2022/23. This has been adjusted for within these indicators, where appropriate.

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 circa £100m for PPP schemes within the CFR. From 1 April 2022, further accounting changes see operational leases (where the Council is lessee) also being brought onto Balance Sheet, which will further increase CFR through other long term liabilities (value to be confirmed, however an estimate has been included within the appendices).
- 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 2021/22 to 2031/32 with the CFR for General Services being anticipated to increase each year until 2025/26, 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. Statutory repayment of loans fund advances

- 3.1** 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 was permitted to use this option for a transitional period only, of five years until 31 March 2021, at which time it was required to 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 for all loans fund advances to be repaid by the annuity method, by the appropriate write off period (based upon useful asset lives, following the agreed Council policy).
- Recognising that the Council had forward capital expenditure plans and was 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 was to mainly repay loans fund

advances by the annuity method (with a write off period based upon useful asset lives) unless an alternative method is more appropriate.

- For loans fund advances made after 1 April 2021 (i.e. commencing 2021/22), the policy for the repayment of loans advances is 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 2021/22 onwards based on the balance outstanding at 1 April 2021 and capital expenditure plans 2021/22 to 2031/32 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 2022 there is a significant change to the Accounting Code of Practice for 2022/23 onwards 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. From April 2022, all leases (where the Council is lessee 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 values for both the assets and the liabilities. No alterations to deal with bringing currently off-balance sheet leased assets onto the balance sheet have been made within the report as it is currently not required. However, this will be a requirement for closing of the accounts for 2022/23 and future updates to the Treasury Strategy (including the mid-year). This will include Capital Financing Requirement, External debt (Other long-term liabilities), authorised limit and operational boundary, to allow for those leases which were previously off balance sheet, being brought onto the balance sheet at 31.3.23.

Treasury Management Strategy 2022/23 – 2031/32

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). For information, CIPFA has published an updated Treasury Management and Prudential Codes in December 2021, with full implementation required for 2023/24.
- 1.3** As a requirement of the Code 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:
- 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 2031/32. 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 2022 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 within the 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 2022 with the CFR as at 31 March 2025.

2.3 The Section 95 Officer (Chief Officer - 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.

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. UK, World and Scottish Economy Update (January 2022)

4.1 UK

In the UK, forecasters estimate that the increase in utility and fuel prices, and the hike in taxes on 1 April, will reduce real household disposable income over the next two years by a cumulative £80bn. The resulting 2.0% decline in real incomes in 2022 will be the largest on record. Even with this, analysts expect a surge in inflation from 5.4% in December 2021 to peak of +7.5% in April 2022 and the risk that inflation expectations remain high are likely to prompt the Bank of England to raise bank base rates to peak at 2% next year.

4.2 US

In the US the recent surge of Omicron infections has meant more people were self isolating in January than at any time since the start of the pandemic, although the impact that it will have on employment and outputs remains uncertain. However with cases now falling as quickly as they rose any effects should quickly be reversed. In contrast to earlier waves, the rise did not prompt a significant pullback in service activity. The far bigger factor this time is staff absenteeism which analysts state caused both payroll employment and manufacturing output to decline in January but with this impact reversed by the end of March.

4.3 EU

Although coronavirus indicators suggest the number of new cases are declining, output indicators do not show signs of improving early in 2022. Consumer indicators reveal that mobility remains relatively low and conditions within the labour market remain tight. Monetary indicators show that bank lending has continued to be strong, with fiscal indicators showing that governments face additional costs due to gas and fuel price increases. Events in Ukraine continue to provide upside pressure to inflation because of increases in gas, oil and wheat prices.

4.4 China

Output and activity indicators suggest that the economic momentum was weak at the end of 2021, with business indicators suggesting that profit margins in industry are being squeezed. And indicators showing that goods surplus at a new high with CPI pulled back under 2%. Travel and other activities requiring personal contact remain depressed although China has evolved in its covid containment efforts, becoming more targeted and less disruptive – there are signs that the economy is becoming a little more resilient to virus outbreaks.

4.5 Scotland Specific -

The COVID-19 pandemic continues to affect society, the economy, and the Scottish Budget, but to a lesser extent than previously expected. The success of the vaccination programme has weakened the links between case numbers, hospitalisations and deaths, and the public health response has shifted. In addition many businesses have found ways of adapting to new ways of working. The economic recovery has been faster and smoother than originally expected.

In spite of the pace of the recovery, there is some evidence that the Scottish economy has been lagging behind the UK. Compared to pre-pandemic levels, GDP, employment and earnings have recovered more slowly than in the UK. In part, this can be explained by a divergent sectoral and regional recovery, with areas like finance growing strongly in London. However, some issues predate COVID-19: declining North Sea oil and gas activity continues to act as a dampener, and Scotland's demographics are reducing labour market participation relative to the UK. We expect slower growth in earnings and employment in Scotland to continue over the next few years.

4.6 World Outlook

World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these were expected to subside during 2022, prior to the Ukraine conflict. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

Geopolitical concerns over Ukraine will remain to the fore, with markets expected to remain volatile as they react to each new development. While fighting continues, diplomatic efforts remain ongoing in the background.

5. Prospect for Interest Rates

5.1 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.

6. Borrowing and Debt Strategy 2021/22 – 2031/32

6.1 Table E in Appendix 6 forecasts that the capital borrowing need (the Capital Financing Requirement) will be almost fully funded with external borrowing which is a mixture of short term and long term debt.

6.2 Against this background and the risk within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Section 95 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

6.3 If it was felt that there was a significant risk of fall in long and short term rates, e.g. due to a marked increase of risks around 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.

6.4 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 further increases 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.

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

6.6 Approved sources of long and short term borrowing include:

	Fixed	Variable
PWLB	X	X
Local Authorities	X	X
Banks	X	X
Pension Funds	X	X

Insurance Companies	X	X
Market – long term	X	X
Market – short term	X	X
Market – LOBOs	X	X
Overdraft	X	X
Internal (capital receipts / revenue balances)	X	X
Finance Leases	X	X

7. Investment Strategy

7.1 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 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.

7.2 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.

7.2.1 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.

7.2.2 Furthermore, 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.

7.2.3 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.

7.2.4 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.

7.3 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

7.4 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.

7.4.1 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.

7.4.2 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.

7.4.3 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.

7.4.4 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 - £1m; and
- Liquid short term deposits of at least £5m available on an overnight basis.

7.4.5 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.

7.5 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.

7.5.1 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 with financial institutions (banks and building societies); and
- Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates, etc).

- **Other Investments**

- Investment properties;
- Loans to third parties, including soft loans;
- Loans to a local authority company;

- Shareholding in a local authority company;
- Non-local authority shareholdings;
- Joint venture delivery companies such as hub West Scotland;
- Regeneration partnerships and development opportunities;
- District Heating Schemes; and
- Local Authority Mortgage Scheme (LAMS).

7.5.2 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.

7.6 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.

7.6.1 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.

7.6.2 Credit rating type and definitions are attached within Appendices 4 and 6.

7.6.3 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.

7.6.4 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**

7.6.5 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.

7.6.6 The time limits for institutions on the Council's cash type counterparty list are as noted in Table J in Appendix 6.

7.6.7 The Council's bankers are currently Virgin Money (previously known as 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 Chief Officer - 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.

7.6.8 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 carries the Government's own sovereign credit rating offering the highest available security and therefore no maximum monetary limit has been set.

7.6.9 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.

7.6.10 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.

7.6.11 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 Rate to continue to slowly increase. The Council’s investment decisions are based on comparisons between the rises priced into market rates against the Council’s and advisers own forecasts.

7.6.12 There is an operational difficulty arising from the current economic situation. 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.

7.6.13 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 (Chief Officer - 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.

7.6.14 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.

7.7 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.

7.8 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.

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

7.8.2 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)

7.8.3 In order to give effect to its commitment to this policy the Chief Officer - Resources contacted all investment counterparties on 9 January 2018 advising of our policy.

7.8.4 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.

8. Treasury Management Limits on Activity

8.1 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.

8.2 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.

9. Performance Indicators

9.1 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.

9.2 The results of these indicators will be reported in the Treasury Annual Report for 2021/22.

10. Treasury Management Advisors

10.1 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.

10.2 The current treasury advisor contract was awarded to Link Asset Services following a quick quote exercise and commencing on 1 May 2021 until 30 April 2023, with an option to extend for one year.

10.3 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.

10.4 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.

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

11. The Monitoring of Investment Counterparties

11.1 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 Chief Officer - Resources and, if required, new counterparties which meet the criteria will be added to the list.

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

Type of Investment	Treasury Risks	Mitigating Controls	Council and Common Good Limits
Cash Type Instruments			
Deposits with the Debt Management Account Facility (UK Government) (Very low risk)	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.	As shown in 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 has an "AAA" rated status from either Fitch, Moody's or Standard and Poor's.	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 Pools. 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 Pooors. 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 Pooors. 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 (Chief Officer - 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.

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

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

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- **U.K.**

Please note that this is the list will be updated as required on an ongoing basis

West Dunbartonshire Council Prudential and Treasury Indicators

Table A - Net Capital Financing Need

General Services and HRA Shown Separately

£000	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	Forecast 2030/31	Forecast 2031/32
General Services	39,046	51,506	76,526	47,104	30,083	17,097	13,461	13,402	13,308	13,103	13,103
Financed by:											
Capital receipts	10	0	0	0	0	0	0	0	0	0	0
Capital grants	9,583	17,292	27,578	14,379	13,529	9,556	6,648	6,648	6,648	6,648	6,648
Revenue	63	0	0	0	0	0	0	0	0	0	0
Other funding	1,173	42	0	0	0	0	0	0	0	0	0
Net financing need for the year	28,217	34,172	48,948	32,725	16,554	7,541	6,813	6,754	6,660	6,455	6,455

£000	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	Forecast 2030/31	Forecast 2031/32
HRA	46,907	47,233	52,047	34,424	32,531	29,926	17,115	17,087	17,429	17,778	17,314
Financed by:											
Capital receipts	0	0	0	0	0	0	0	0	0	0	0
Capital grants	3,656	17,060	9,140	2,640	3,520	3,520	0	0	0	0	0
Revenue	7,927	9,179	9,228	8,722	7,949	7,418	4,923	4,502	4,253	4,191	3,923
Other funding	91	0	0	0	0	0	0	0	0	0	0
Net financing need for the year	35,233	20,994	33,678	23,063	21,062	18,989	12,192	12,585	13,176	13,586	13,391

General Services and HRA Combined

£000	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	Forecast 2030/31	Forecast 2031/32
General Services	39,046	51,506	76,526	47,104	30,083	17,097	13,461	13,402	13,308	13,103	13,103
HRA	46,907	47,233	52,047	34,424	32,531	29,926	17,115	17,087	17,429	17,778	17,314
Capital Expenditure	85,953	98,739	128,573	81,528	62,614	47,023	30,576	30,489	30,737	30,881	30,417
Financed by:											
Capital receipts	10	0	0	0	0	0	0	0	0	0	0
Capital grants	13,239	34,352	36,718	17,019	17,049	13,076	6,648	6,648	6,648	6,648	6,648
Revenue	7,990	9,179	9,228	8,722	7,949	7,418	4,923	4,502	4,253	4,191	3,923
Other funding	1,264	42	0	0	0	0	0	0	0	0	0
Net financing need for the year	63,450	55,166	82,626	55,788	37,616	26,530	19,005	19,339	19,836	20,041	19,846

Table B - Capital Financing Requirement

£000	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	Forecast 2030/31	Forecast 2031/32
Capital Financing Requirement											
CFR – General Services	392,588	420,860	463,023	486,836	492,862	488,744	483,803	479,083	474,029	466,856	462,482
CFR – HRA	306,298	320,274	346,010	360,002	371,559	380,751	381,451	381,927	382,541	383,308	384,366
Total CFR	698,886	741,135	809,033	846,838	864,421	869,495	865,254	861,010	856,570	850,164	846,848
Movement in CFR	52,696	42,249	67,898	37,805	17,583	5,074	(4,241)	(4,244)	(4,440)	(6,406)	(3,316)

Movement in CFR represented by											
Net financing need for the year (above)	63,450	55,166	82,626	55,788	37,616	26,530	19,005	19,339	19,836	20,041	19,846
Less scheduled debt amortisation and other financing movements	(10,755)	(12,917)	(14,729)	(17,983)	(20,032)	(21,455)	(23,246)	(23,583)	(24,276)	(26,447)	(23,162)
Movement in CFR	52,696	42,249	67,898	37,805	17,583	5,074	(4,241)	(4,244)	(4,440)	(6,406)	(3,316)

West Dunbartonshire Council Prudential and Treasury Indicators

Table C - Internal Loan Fund Repayment Profile (excluding PPP repayments)

	General Services	HRA	Total
	£000	£000	£000
Under 12 months	2,527	7,017	9,545
2 years to 5 years	22,121	36,314	58,436
6 years to 10 years	41,323	61,543	102,866
11 years to 15 years	49,846	57,689	107,535
16 years to 20 years	47,793	65,251	113,045
21 years to 25 years	42,074	69,823	111,897
26 years to 30 years	36,673	52,710	89,383
31 years to 35 years	36,261	34,069	70,330
36 years to 40 years	23,468	19,776	43,244
41 years to 45 years	12,729	6,670	19,399
46 years to 50 years	12,640	4,328	16,968
51 years to 55 years	17,482	6,656	24,139
56 years to 60 years	27,070	9,506	36,576
60 years plus	133,862	1,176	135,038

Table D - Ratio of Financing Costs to Net Revenue Stream

	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	Forecast 2030/31	Forecast 2031/32
General Services	8.07%	7.77%	8.53%	9.17%	10.52%	11.03%	11.01%	10.83%	10.89%	11.66%	11.88%
HRA	25.07%	27.08%	28.30%	31.44%	32.35%	37.79%	38.83%	39.33%	39.47%	39.98%	40.94%

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

£000	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	Forecast 2030/31	Forecast 2031/32
External Debt											
Debt at 1 April	548,659	604,941	650,563	721,601	762,997	784,901	794,686	795,107	794,627	793,984	792,061
New Borrowing - CFR	56,282	45,621	71,038	41,396	21,903	9,786	420	(479)	(643)	(1,924)	1,536
Debt at 31 March	604,941	650,563	721,601	762,997	784,901	794,686	795,107	794,627	793,984	792,061	793,597
Long Term Liabilities at 1 April	96,292	92,614	89,242	86,102	82,510	78,190	73,479	68,818	65,053	61,256	56,774
Change in Long Term Liabilities	(3,678)	(3,372)	(3,140)	(3,592)	(4,320)	(4,712)	(4,661)	(3,765)	(3,797)	(4,482)	(4,853)
Long Term Liabilities at 31 March	92,614	89,242	86,102	82,510	78,190	73,479	68,818	65,053	61,256	56,774	51,921
Gross Debt at 31 March	697,556	739,805	807,703	845,508	863,091	868,165	863,924	859,680	855,240	848,834	845,518
Capital Financing Requirement	698,886	741,135	809,033	846,838	864,421	869,495	865,254	861,010	856,570	850,164	846,848
Under / (Over) Borrowing	1,330	1,330	1,330	1,330	1,330	1,330	1,330	1,330	1,330	1,330	1,330

West Dunbartonshire Council Prudential and Treasury Indicators

Table F - Operational Boundary

£000	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	Forecast 2030/31	Forecast 2031/32
External Debt	665,436	715,619	793,761	839,297	863,391	874,155	874,617	874,090	873,383	871,267	872,957
Long Term Liability	101,876	98,166	94,712	90,761	86,009	80,826	75,700	71,558	67,381	62,451	57,113
Total	767,311	813,785	888,473	930,058	949,400	954,981	950,317	945,648	940,764	933,718	930,070

Table G - Authorised Limit

£000	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	Forecast 2030/31	Forecast 2031/32
External Debt	725,930	780,675	865,921	915,597	941,881	953,624	954,128	953,553	952,781	950,473	952,317
Long Term Liability	111,137	107,090	113,322	109,012	103,828	98,174	92,581	88,063	83,507	78,128	72,305
Total	837,067	887,766	979,243	1,024,609	1,045,709	1,051,798	1,046,709	1,041,616	1,036,288	1,028,601	1,024,622

Table H - Interest Rate Forecast (February 2022)

Link Asset Services Interest Rate View	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Bank Rate	0.75%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
5yr PWLB Rate	2.20%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%
10yr PWLB Rate	2.30%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%
25yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%
50yr PWLB Rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%

Table I - Historic Risk of Default

Long term rating	1 year	2 years	3 years	4 years	5 years
AAA	0.04%	0.10%	0.17%	0.26%	0.35%
AA	0.02%	0.04%	0.09%	0.16%	0.24%
A	0.05%	0.15%	0.27%	0.40%	0.55%
BBB	0.15%	0.40%	0.70%	1.05%	1.41%
BB	0.65%	1.84%	3.22%	4.60%	5.84%
B	2.76%	6.66%	10.26%	13.35%	15.82%
CCC	18.96%	26.64%	31.60%	35.08%	37.88%

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

West Dunbartonshire Council Prudential and Treasury Indicators

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 limit	£25 million	364 days
	Fund Limit	£5 million	

Table K - Sensitivity to Interest Rate Movements

£000	2021/22 Estimate	1%	-1%
Variable Rate Debt Payments	N/A	N/A	N/A
Variable Rate Investment income	75	150	(75)

West Dunbartonshire Council Prudential and Treasury Indicators

Table L- Treasury Management Limits on Activity

	2021/22 Upper	2022/23 Upper	2023/24 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