



West Lothian  
Council

## ***Governance and Risk Committee***

West Lothian Civic Centre  
Howden South Road  
LIVINGSTON  
EH54 6FF

3 October 2017

A meeting of the **Governance and Risk Committee** of West Lothian Council will be held within the **Council Chambers, West Lothian Civic Centre** on **Monday 9 October 2017** at **2:00pm**.

For Chief Executive

### **BUSINESS**

#### **Public Session**

1. Apologies for Absence.
2. Declarations of Interest - Members should declare any financial and non-financial interests they have in the items of business for consideration at the meeting, identifying the relevant agenda item and the nature of their interest.
3. Order of Business, including notice of urgent business and declarations of interest in any urgent business.
4. Confirm Draft Minute of Meeting of the Governance and Risk Committee held on Monday 19 June 2017 (herewith).
5. Risk Management within Finance and Property Services -
  - (a) Presentation by Head of Finance & Property Services (herewith).
  - (b) Report by Head of Finance & Property Services (herewith).
6. External Auditors' Report 2016/17 - report by Governance Manager (herewith).

DATA LABEL: Public

7. Corporate Governance - Annual Report - report by Governance Manager (herewith).
8. New Governance Framework and Code - report by Governance Manager (herewith).
9. Workplan (herewith).
10. PRIVATE SESSION - The Clerk considers that the following business is likely to be taken in private (exempt under the relevant paragraphs of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973).

**Private Items for Information**

11. Cyber Security -
  - (a) Presentation and video by Interim IT Services Manager (herewith) (exempt under Paragraph 14).
  - (b) Report by Head of Corporate Services (herewith) (exempt under Paragraph 14).
12. Civic Centre Security - report by Depute Chief Executive (herewith) (exempt under Paragraph 14).

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NOTE      **For further information please contact Lorraine McGrorty on 01506 281609 or email: [lorraine.mcgrorty@westlothian.gov.uk](mailto:lorraine.mcgrorty@westlothian.gov.uk)**

MINUTE of MEETING of the GOVERNANCE AND RISK COMMITTEE of WEST LOTHIAN COUNCIL held within COUNCIL CHAMBERS, WEST LOTHIAN CIVIC CENTRE, on 19 JUNE 2017.

Present – Councillors Damian Timson (Chair), Lawrence Fitzpatrick and Chris Horne.

In attendance

Graeme Struthers (Depute Chief Executive), James Millar (Governance Manager) and Kenneth Ribbons (Audit, Risk & Counter Fraud Manager).

1. OPENING REMARKS

The Chair welcomed members and officers to the first meeting of the newly-established committee. He expected that the committee would take a positive role in looking in depth at both aspects of its remit, and stated that members should feel able to bring areas of concern forward for consideration by the committee. He noted that the proposed administrative arrangements for the committee featured later on the agenda.

The Chair noted that there were still two places to be filled on the committee.

2. DECLARATIONS OF INTEREST

There were no declarations of interest made.

3. MINUTE

The committee noted the minute of the former Audit and Governance Committee meeting held on 27 February 2017.

At the suggestion of the Vice-Chair, members considered whether a lay member with appropriate expertise in relation to risk and/or governance would add value to the new committee.

Decisions

1. Noted the minute of the former Audit and Governance Committee meeting held on 27 February 2017; and
2. Agreed that officers explore the appointment of a lay member for the committee.

4. COMMITTEE REMIT AND ADMINISTRATIVE ARRANGEMENTS

The committee considered a report (copies of which had been circulated) by the Governance Manager, informing members of the committee's remit and powers and proposed administrative arrangements.

The report recalled that between May 2012 and May 2017 the council's decision-making structure included the Audit & Governance Committee. It carried out the role of a "traditional" Audit Committee as required by legislation and accounting convention and practice. It also included corporate governance in its remit and, along with that, risk management in the council.

On 7 June 2017 council decided that the existing committee should be replaced by two new committees – Audit Committee and Governance and Risk Committee. The council approved a division of the remit of the former Audit and Governance Committee, to apply with immediate effect. Details of the remit and powers of the Governance and Risk Committee were attached at appendix 1 to the report. The committee formed part of the council's scrutiny arrangements, along with the Audit Committee, Performance Committee, Education (Quality Assurance) Committee and the nine PDSPs.

As this was a new committee no meeting dates had been arranged after the meeting on 19 June 2017. The approved remit provides for quarterly meetings, which required to be approved by Council Executive. The committee was subject to the normal procedural rules in Standing Orders for the Regulation of Meetings. The report suggested that meetings should take place on Monday afternoons in close proximity to Audit Committee meetings.

It was proposed that a work plan be developed to set out as far as possible the schedule of business to be brought to the committee. A final version of the work plan would be prepared to be included on the agenda for the next meeting of the committee. The committee agreed that a work plan be kept as a standing agenda item and that members would advise the Chair of work plan issues for consideration.

It was also noted that some training and briefing on risk and governance would be appropriate for committee members. It was agreed that officers would identify potential dates for training.

The report concluded by highlighting that members' awareness of and input to the proposed meeting arrangements would assist in the committee's future work.

It was recommended that the committee:

1. Notes the committee's remit and powers; and
2. Considers and notes the proposed meeting and other arrangements for the committee.

#### Decision

- Noted the recommendations in the report;
- Agreed that meetings should take place on Monday afternoons in close proximity to Audit Committee meetings;

- Agreed that a work plan be kept as a standing agenda item and that members could and should advise the Chair of work plan issues for consideration; and
- Agreed that officers would identify potential dates for training on governance and risk

## 5. INTERNAL AUDIT ANNUAL REPORT

The committee considered a report (copies of which had been circulated) by the Audit, Risk and Counter Fraud Manager providing details of the council's framework of governance, risk management and control. The Internal Audit Annual Report 2016/17 was attached as an appendix to the report.

The report explained that the Local Authority Accounts (Scotland) Regulations 2014 requires the council or relevant committee to conduct, at least once in each financial year, a review of the effectiveness of its system of internal control, timed to support the council's annual governance statement. As the Audit Committee's remit included undertaking a corporate overview of the council's control environment, and monitoring the performance of the internal audit service, it was recommended that the internal audit annual report be referred to the Audit Committee for further consideration.

The Audit, Risk and Counter Fraud Manager confirmed that the council's framework of governance, risk management and control was generally sound. Committee members were also advised that they were able to request officers to attend meetings and provide information about risk management in their service areas and that issues raised by members could be addressed through the work plan and those items of business.

It was recommended that the Governance and Risk Committee:

1. Notes the Audit, Risk and Counter Fraud Manager's conclusion that the council's framework of governance, risk management and control was generally sound; and
2. To refer the report to the Audit Committee for further consideration.

### Decision

1. To note the conclusion by the Audit Risk & Counter Fraud Manager that the council's framework of governance, risk management and control was generally sound;
2. To refer the report on to the Audit Committee for further consideration; and
3. To note the committee's powers to have officers attend meetings and provide information about risk management in their service areas, and that issues raised by members could be addressed through the work

plan and those items of business.

## 6. ANNUAL GOVERNANCE STATEMENT

The committee considered a report (copies of which had been circulated) by the Governance Manager, providing details of the draft Annual Governance Statement 2016/17, which was attached as an appendix to the report.

The draft annual statement for 2016/17 was prepared in accordance with the new Framework and accompanying Guidance for Scottish Authorities. It was based on the key elements in the council's corporate governance arrangements, the findings of the review of the system of internal control. It took into account matters covered in the local code of corporate governance and the annual compliance statements, both of which would be presented to committee with a separate report at a later date. In particular, it noted the areas of concern identified in those documents and builds those in to the elements of work to be addressed in the coming financial year. Agreed actions and progress in relation to areas of concern identified would be reported to the Governance and Risk Committee.

Approval of the Annual Governance Statement would enable the council to comply with its statutory duties in relation to its annual accounts and help provide assurance to members in relation to the soundness of the council's corporate governance arrangements.

It was recommended that the Governance and Risk Committee:

1. Approves the draft Annual Governance Statement 2016/17; and
2. Notes that the Annual Governance Statement would form part of the council's unaudited accounts to be submitted to the external auditors before the end of June 2017.

### Decision

Approved the recommendation in the report.

## 7. RISK MANAGEMENT ANNUAL REPORT

The committee considered a report (copies of which had been circulated) by the Head of Finance and Property Services providing details of the Risk Management Annual Report for 2016/17, which was attached as an appendix to the report.

The Risk Management Annual report set out the main areas of work undertaken during the year. Appendix A within the Risk Management Annual Report outlined the risk management performance indicators and appendix B set out the definitions of council activities for business

continuity purposes.

The committee noted that independent assurance was received on the effectiveness of the council's risk management arrangements via the Gallagher Bassett risk consultant's report on the management of legionella, and the Falkirk Internal Audit report on service risk management arrangements.

It was recommended that the Governance and Risk Committee notes the progress made in risk management and business continuity planning during 2016/17.

#### Decision

Noted the recommendation in the report.

### 8. INTERNAL AUDIT OF SERVICE RISK MANAGEMENT ARRANGEMENTS

The committee considered a report (copies of which had been circulated) by the Head of Finance and Property Services providing details of the recent internal audit of service risk management arrangements.

The report explained that West Lothian Council's Internal Audit Team operated a long-standing joint working arrangement with Falkirk Council Internal Audit whereby audits were undertaken by West Lothian Council on Falkirk Council systems of internal control and vice versa. Falkirk Council's Internal Audit was invited to undertake the audit of West Lothian Council's service risk management arrangements, the outcome of which was attached as an appendix to the report. This contained an action plan with management actions and provided independent assurance as to the effectiveness of service risk management arrangements.

Falkirk Council's Internal Audit concluded that substantial assurance could be provided in relation to the adequacy of service risk management arrangements. In summary, the outcome meant that largely satisfactory risk, control and governance systems were in place.

During the course of the discussion the committee noted item 3 in the Recommendation and Action Plan that staff with formal risk management responsibilities should be given the opportunity to attend appropriate training. The Audit, Risk and Counter Fraud Manager undertook to revisit training opportunities for officers and make arrangements for refresher training to be carried out by the end of October 2017.

It was recommended that the Governance and Risk Committee notes that substantial assurance was provided in relation to the adequacy of service risk management arrangements.

#### Decision

1. Noted the recommendation within the report; and

2. Noted that the Audit, Risk and Counter Fraud Manager undertook to revisit training for officers and make arrangements for refresher training by the end of October 2017.



# RISK MANAGEMENT FINANCE AND PROPERTY SERVICES

Donald Forrest, Head of Finance and Property Services  
Kenneth Ribbons, Audit Risk and Counter Fraud  
Manager



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West Lothian  
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# Overview

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- **Definition of Risk**
- **Corporate Arrangements**
- **Summary of Service Risks**
- **Management Review Process**
- **High and Medium Risks**

# Risk

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- **The effect of uncertainty on our objectives**

# Corporate Arrangements

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- **Risks are held in the Pentana Performance system**
- **Assessed as a score, being the combination of impact x likelihood**
- **Include “original risk” score and “current risk” score**
- **Include ownership details**
- **Include details of key controls and mitigating risk actions**

# Scoring Matrix

PROBABILITY	Almost Certain 5	5 Low	10 Medium	15 High	20 High	25 High
	Very Likely 4	4 Low	8 Medium	12 High	16 High	20 High
	Likely 3	3 Low	6 Low	9 Medium	12 High	15 High
	Possible 2	2 Low	4 Low	6 Low	8 Medium	10 Medium
	Unlikely 1	1 Low	2 Low	3 Low	4 Low	5 Medium
		Insignificant 1	Minor 2	Significant 3	Major 4	Catastrophic 5
		IMPACT				

# Summary of Service Risks

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Low	Medium	High
19	5	6

# Management Review

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- **Monthly - overview of all risks**
- **Monthly - detailed review of high risks**
- **Monthly - review of risk actions**
- **Annual - review of key controls**
- **Evidenced by agendas, reports, action notes**
- **Evidenced by changes recorded in Pentana, including new risks, risk scores, risk actions and notes**

# High Risks 1

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- **WLC031a and WLC031b West Lothian Leisure - failure to agree and deliver financial plan 2018/19 to 2022/23**
- **WLC023a and WLC023b West Lothian Council - Failure to agree and deliver financial plan 2018/19 to 2022/23**



# High Risks 2

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- **FP004 Roll out of Universal Credit - Impact on Finance and Property Services**
- **WLC026 Failure to effectively manage the impact on council objectives of exit from the European Union**

# Medium Risks

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- **Statutory Compliance - Construction Services – 3 risks (potentially catastrophic)**
- **Fraud and Corruption - Audit, Risk and Counter Fraud – 2 risks (one is potentially catastrophic)**

# Conclusion

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- **Finance and Property Services has implemented a robust approach to identifying and managing its risks**
- **Risks are regularly reviewed at the Service Management Team**
- **Complete audit trail of the review process and changes**

# Questions?



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## **GOVERNANCE AND RISK COMMITTEE**

### **RISK MANAGEMENT WITHIN FINANCE AND PROPERTY SERVICES**

#### **REPORT BY HEAD OF FINANCE AND PROPERTY SERVICES**

##### **A. PURPOSE OF REPORT**

To advise the Governance and Risk Committee of the approach to risk management within Finance and Property Services.

##### **B. RECOMMENDATIONS**

It is recommended that the Governance and Risk Committee notes the approach taken by Finance and Property Services to the management of risk.

##### **C. SUMMARY OF IMPLICATIONS**

<b>I Council Values</b>	Being honest, open and accountable, making best use of our resources.
<b>II Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)</b>	The Risk Management Policy requires the council to effectively manage risks.
<b>III Implications for Scheme of Delegations to Officers</b>	None.
<b>IV Impact on performance and performance Indicators</b>	Ineffective risk management arrangements may adversely affect performance.
<b>V Relevance to Single Outcome Agreement</b>	Our public services are high quality, continually improving, efficient and responsive to local people's needs.
<b>VI Resources - (Financial, Staffing and Property)</b>	None.
<b>VII Consideration at PDSP / Executive Committee</b>	None.
<b>VIII Other consultations</b>	Finance and Property Services Management Team

##### **D. TERMS OF REPORT**

In accordance with corporate requirements, Finance and Property Services maintains its risk register in Pentana Performance (formerly Covalent), the council's corporate risk management tool. The risks contained with Pentana represent key risks to service objectives, and were originally developed as part of the transfer of the risk register to Covalent in 2011. They have been kept under continuous review since that time, and have developed in accordance with changes in the service structure, and in response to changes to the political, regulatory, economic and demographic environment.

The risk score is arrived at by multiplying the estimated likelihood of the risk by its estimated impact. Appendix 3 sets out the corporate risk assessment methodology. Risks are assessed on the basis of a five by five grid, and therefore the highest possible score is 25 and the lowest one.

There are three categories of risk:

Original risk - the risk assessed on the basis that controls are absent or ineffective.

Current risk - the risk assessed on the basis that the controls which are in place are effective.

Target risk – the risk which is being worked towards.

The benefit of an original risk score is that it provides an appreciation of the potential consequences if current controls fail or are not effective.

Finance and Property Services currently has 30 risks which are summarised in appendix 1. Of these risks, six are considered to be high, as follows:

- WLC031a “West Lothian Leisure - failure to agree financial plan 2018/19 to 2022/23” (current score 16).
- WLC031b “West Lothian Leisure - failure to deliver financial plan 2018/19 to 2022/23” (current score 16).
- WLC023a “Failure to agree financial plan 2018/19 to 2022/23” (current score 15).
- WLC023b “Failure to deliver financial plan 2018/19 to 2022/23” (current score 15).
- FP004 “Roll out of Universal Credit - impact on Finance and Property Services” (current score 12).
- WLC026 “Failure to effectively manage the impact on council objectives of exit from the European Union” (current score 12).

The risks coded “WLC” are considered to be council wide risks and ownership of those quoted above currently rests with Finance and Property Services. Appendix 2 provides further detail of the service’s high risks, associated controls, and mitigating risk actions.

Risks are reported to the service management team on a monthly basis in the format as set out in Appendices 1 and 2. The risks are discussed, changes are made to the risks or their scores, and new risks are added, as considered necessary. There is a complete audit trail of this review process via the meeting papers and the action note produced, which are held in the council’s records management system. Agreed changes to risks or risk actions are evidenced in Pentana and where necessary an explanatory note is added in Pentana.

In accordance with the corporate protocol approved by the Governance and Risk Board, relevant recommendations for improvement identified by internal audit, external audit, the council’s risk consultant, Gallagher Bassett, and any other relevant inspector, are added to Pentana as risk actions. Progress in implementing these risk actions is reported to the service management team on a monthly basis which facilitates their timeous completion.

Any additional mitigating actions identified by the service management team during the monthly risk review are also added to Pentana as risk actions.

The Audit, Risk and Counter Fraud Manager reports council-wide audit and inspection recommendations entered in Pentana and which are not implemented, to the Audit Committee, normally in June of each year.

**E. CONCLUSION**

Finance and Property Services has implemented robust risk management processes with the aim of ensuring that risks to the achievement of key objectives are mitigated as far as possible.

**F. BACKGROUND REFERENCES**

None.

Appendices/Attachments: (1) Finance and Property Services Risks (2) Finance and Property Services High Risks (3) Risk Assessment Methodology

Contact Person: Kenneth Ribbons, Audit Risk and Counter Fraud Manager – [Kenneth.ribbons@westlothian.gov.uk](mailto:Kenneth.ribbons@westlothian.gov.uk) Tel No. 01506 281573

**Donald Forrest**  
**Head of Finance and Property Services**

Date of meeting: 9 October 2017























## Appendix 1: Finance and Property Services Risks










DATA LABEL: PUBLIC










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Report Layout: .(Std)Original Risk Score(Desc), Current Risk Score\_T










Traffic Light: Red 6 Amber 5 Green 19

Risk Title	Original Risk Score	Original Traffic Light Icon	Current Impact	Current Likelihood	Current Risk Score	Current Traffic Light Icon	Assigned To
WLC031a West Lothian Leisure - failure to agree financial plan 2018/19 to 2022/23 with a resultant financial impact on the council	25		4	4	16		Head of Finance and Property Services
WLC031b West Lothian Leisure - failure to deliver financial plan 2018/19 to 2022/23 with a resultant financial impact on the council	25		4	4	16		Head of Finance and Property Services
WLC023a Failure to agree financial plan 2018/19 to 2022/23	25		5	3	15		Head of Finance and Property Services
WLC023b Failure to deliver financial plan 2018/19 to 2022/23	25		5	3	15		Head of Finance and Property Services
FP004 Roll out of Universal Credit - Impact on Finance and Property Services	16		4	3	12		Anti-Poverty & Welfare Advice Manager, Benefits Manager
WLC026 Failure to effectively manage the impact on council objectives of exit from the European Union	12		4	3	12		Head of Finance and Property Services
WLC020 Failure to prevent and detect fraud / theft	16		2	4	8		Audit, Risk and Counter Fraud Manager
WLC012 Failure to deliver financial plan and balanced budget 2015/18	25		3	2	6		Head of Finance and Property Services
FM001 Creditors Payments: payment of creditors bills to fraudulent bank accounts	16		3	2	6		Corporate Finance Manager


Risk Title	Original Risk Score	Original Traffic Light Icon
WLC029 West Lothian Leisure - failure to manage 2017/18 budget with a resultant financial impact on the council	16	
FP001 Failure to maintain services in the event of an emergency / disaster	15	
PMD001 Major damage to managed building	15	
CSg004 Accident or injury to contractor engaged by West Lothian Council	12	
FP003 Information Security: Breach of legislation or council policy including data protection act	12	
CSg006 Death or injury due to fire within operational Buildings (Non-Housing)	20	
WLC019 Acceptance of a bribe by an officer or member	20	
CSg001 Death or illness due to legionella outbreak in operational buildings (non-housing)	15	
CSg008 Failure to effectively manage gas safety resulting in death or injury	15	

Current Impact	Current Likelihood	Current Risk Score	Current Traffic Light Icon	Assigned To
3	2	6		Head of Finance and Property Services
3	2	6		Estates Manager; Construction and Design Manager; Anti-Poverty & Welfare Advice Manager; Revenues Manager; Corporate Finance Manager
3	2	6		Estates Manager
3	2	6		Construction and Design Manager
3	2	6		Estates Manager; Construction and Design Manager; Anti-Poverty & Welfare Advice Manager; Revenues Manager; Corporate Finance Manager; Audit, Risk and Counter Fraud Manager
5	1	5		Maintenance Team Principal
5	1	5		Audit, Risk and Counter Fraud Manager
5	1	5		M&E Services Team Principal
5	1	5		M&E Services Team Principal

Risk Title	Original Risk Score	Original Traffic Light Icon
CSg010 Failure to effectively manage asbestos resulting in exposure to building users	20	
FM002 Failure to adequately monitor capital and revenue budgets	20	
CSg007 Failure to effectively manage electrical systems in operational buildings resulting in death or injury	16	
REV001 Reductions in Government Funding for Benefits - adversely affecting performance.	16	
FM004 Insurance: inadequate cover through professional errors / omissions	15	
CSg009 Accident or injury resulting from a building related defect within Operational Buildings (Non-Housing)	12	
FM003 Final accounts: failure to secure unqualified audit certificate	20	
FP002 Failure to comply with the requirements of the prudential code	20	
PMD003 Failure to deliver asset management strategy	20	
FEADS001 Bad advice / help leads to financial loss or loss of home	15	
REV002 Housing Benefit - failure to process claims within timescales and meet required accuracy levels	20	

Current Impact	Current Likelihood	Current Risk Score	Current Traffic Light Icon	Assigned To
4	1	4		Asbestos Co-ordinator
4	1	4		Corporate Finance Manager
4	1	4		M&E Services Team Principal
2	2	4		Benefits Manager
4	1	4		Corporate Finance Manager
4	1	4		Maintenance Team Principal
3	1	3		Corporate Finance Manager
3	1	3		Corporate Finance Manager
3	1	3		Estates Manager
3	1	3		Anti-Poverty & Welfare Advice Manager
2	1	2		Benefits Manager

Risk Title	Original Risk Score	Original Traffic Light Icon
CSg003 Non compliance with EU regulations and Council standing orders (construction works contracts)	12	

Current Impact	Current Likelihood	Current Risk Score	Current Traffic Light Icon	Assigned To
2	1	2		Construction and Design Manager


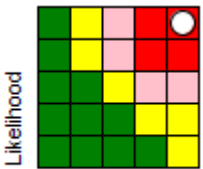
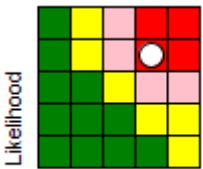
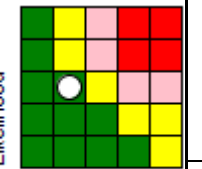



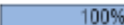
## Appendix 2: Finance and Property Services High Risks

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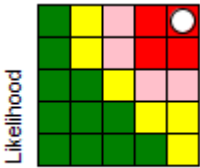
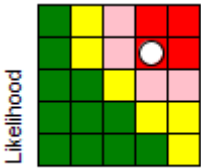
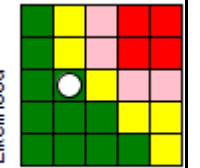




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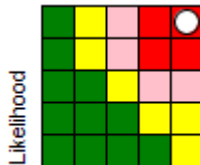
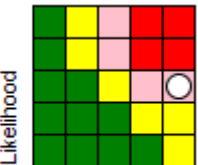
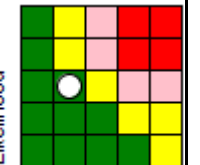


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Rows are sorted by Risk Score, Risk Score


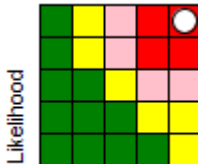
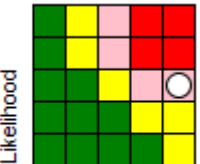
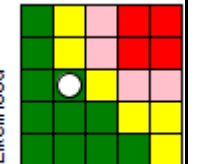

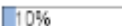
 <b>WLC031a West Lothian Leisure - failure to agree financial plan 2018/19 to 2022/23 with a resultant financial impact on the council</b>											
<b>Current Controls:</b>						Failure by WLL to prepare and agree an effective medium term financial plan including a balanced budget could lead to unplanned WLL service reductions, failure to deliver key services, and additional demands on WLC resources.  WLL have set their 2017/18 budget with available reserves being used to offset deficit position and have an established annual requirement to agree a balanced budget. WLL have committed to medium term financial planning consistent with the council's budget strategy period 2018/19 to 2022/23 Monthly monitoring of WLL's budget position is being reported to WLL Audit & Finance Committee and WLL Board. Updates on finance position also reported to WLL Advisory Committee including highlighting potential impact on WLC.					
Risk Score	Original Risk Matrix	Risk Score	Current Risk Matrix	Risk Score	Target Risk Matrix	Linked	Risk Actions	Assigned to:	Due Date	Progress	Desired Outcome
25	 Likelihood Impact	16	 Likelihood Impact	6	 Likelihood Impact		FM17006_Ar Liaison with WLL on budget position including delivery of agreed 5 year financial plan	Corporate Finance Manager	31-Mar-2018		Position on WLL financial planning being regularly reported to WLL Advisory Committee. WLC officers will liaise closely with WLL to ensure that there is an understanding of service changes and associated risks to key services. Potential risks to WLC will also be closely monitored and any issues highlighted.
							FM17005_Ar Monthly monitoring of WLL budget position	Corporate Finance Manager	31-Mar-2018		Monthly monitoring of budget position is being undertaken with updates being reported to WLL Board and Advisory Committee. Risks and action identified including potential impact and


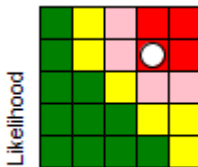
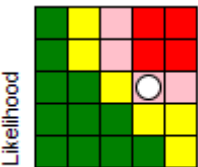
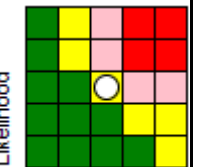






								demands on WLC resources. Medium term financial strategy being progressed by WLL with objective that WLL will approve financial plan that allows services to be delivered within available resources.
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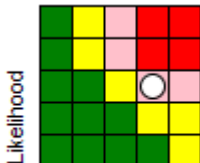
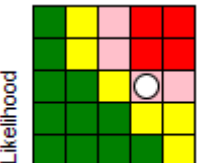
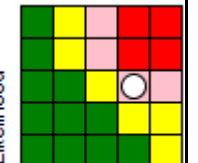

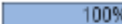
 <b>WLC031b West Lothian Leisure - failure to deliver financial plan 2018/19 to 2022/23 with a resultant financial impact on the council</b>		Failure by WLL to deliver an effective medium term financial plan including a balanced budget could lead to unplanned WLL service reductions, failure to deliver key services, and additional demands on WLC resources.									
<b>Current Controls:</b>						WLL have committed to medium term financial planning consistent with the council's budget strategy period 2018/19 to 2022/23					
Risk Score	Original Risk Matrix	Risk Score	Current Risk Matrix	Risk Score	Target Risk Matrix	Linked	Risk Actions	Assigned to:	Due Date	Progress	Desired Outcome
25	 Likelihood Impact	16	 Likelihood Impact	6	 Likelihood Impact		FM17006_Ar Liaison with WLL on budget position including delivery of agreed 5 year financial plan	Corporate Finance Manager	31-Mar-2018		Position on WLL financial planning being regularly reported to WLL Advisory Committee. WLC officers will liaise closely with WLL to ensure that there is an understanding of service changes and associated risks to key services. Potential risks to WLC will also be closely monitored and any issues highlighted.
							FM17005_Ar Monthly monitoring of WLL budget position	Corporate Finance Manager	31-Mar-2018		Monthly monitoring of budget position is being undertaken with updates being reported to WLL Board and Advisory Committee. Risks and action identified including potential impact and demands on WLC resources. Medium term financial strategy being progressed by WLL with objective that WLL will approve financial plan that allows services to be delivered within available resources.

	<b>WLC023a Failure to agree financial plan 2018/19 to 2022/23</b>					Failure to prepare and agree an effective medium term West Lothian Council financial plan including a balanced budget, could lead to unplanned service reductions, a failure to deliver key services, reputational damage, and industrial action.					
<b>Current Controls:</b>						Comprehensive financial regulations in place Robust financial planning and budgetary framework in place Priority based budgeting approach to medium term financial planning (2018/19 to 2022/23) approved by Council Executive					
<b>Risk Score</b>	<b>Original Risk Matrix</b>	<b>Risk Score</b>	<b>Current Risk Matrix</b>	<b>Risk Score</b>	<b>Target Risk Matrix</b>	<b>Linked</b>	<b>Risk Actions</b>	<b>Assigned to:</b>	<b>Due Date</b>	<b>Progress</b>	<b>Desired Outcome</b>
25		15		6			FP17001_Ar Preparation of Financial Plan	Corporate Finance Manager	28-Feb-2018		The council approved the approach to the financial strategy in June 2017. Budget saving requirements of £73m have been identified over the five year period 2018/19 to 2022/23. Draft saving proposals have been identified and will be subject to public consultation from mid October 2017 to mid November 2017 and the results of the public consultation reported to PDSPs in December 2017. 2018/19 budget and financial strategy will be presented to the Council in early Spring 2018 for approval.



	<b>WLC023b Failure to deliver financial plan 2018/19 to 2022/23</b>					Failure to deliver the agreed West Lothian Council medium term financial plan including a balanced budget could lead to unplanned service reductions, a failure to deliver key services, reputational damage, and industrial action.					
<b>Current Controls:</b>						Comprehensive financial regulations in place Robust financial planning and budgetary framework in place Priority based budgeting approach to medium term financial planning (2018/19 to 2022/23) approved by Council Executive Transformation project team established to drive forward implementation of service changes required to achieve financial balance Well established RAG analysis processes in place to monitor delivery of savings Consultation timetable approved by Council Executive					
<b>Risk Score</b>	<b>Original Risk Matrix</b>	<b>Risk Score</b>	<b>Current Risk Matrix</b>	<b>Risk Score</b>	<b>Target Risk Matrix</b>	<b>Linked</b>	<b>Risk Actions</b>	<b>Assigned to:</b>	<b>Due Date</b>	<b>Progress</b>	<b>Desired Outcome</b>
25		15		6			FP17002_Ar Delivery of Financial Plan	Corporate Finance Manager	28-Feb-2018		A Transformation Project Team has been established within the council to drive forward the operational delivery of savings. 2018/19 budget and financial strategy will be presented to the Council in early Spring 2018 for approval. Quarterly monitoring reports to the Council Executive will include a review of progress on delivery of budget savings for all five years.

	FP004 Roll out of Universal Credit - Impact on Finance and Property Services					The roll out of Universal Credit (UC) could have an adverse impact on service objectives, due to the volume of UC cases, and the potential for delays in processing of claims. This could result in additional Discretionary Housing Payments (DHP), Scottish Welfare Fund (SWF) crisis grants, and community care grant applications, and additional demands on the welfare advice service. There will be a requirement for additional training which may impact on service delivery both in relation to the Advice Shop and in Revenues. There may be a consequent effect on Council Tax Reduction Scheme (CTRS) and an increase in council tax arrears. Rent arrears are covered by risk HCBS002.					
Current Controls:						Advice Shop plan to mitigate the effects of Universal Credit Revenues plan to mitigate the effects of Universal Credit DWP and local authority working group Rent arrears and welfare reform working group					
Risk Score	Original Risk Matrix	Risk Score	Current Risk Matrix	Risk Score	Target Risk Matrix	Linked	Risk Actions	Assigned to:	Due Date	Progress	Desired Outcome
16		12		9			AS17001_Ar National standards for advice providers	Anti-Poverty & Welfare Advice Manager	31-Mar-2018		Achievement of national standard in welfare advice
							FP17004_Ar Universal Credit Working Group Action Plan	Benefits Manager; Anti-Poverty & Welfare Advice Manager	31-Dec-2017		Agreed corporate actions to mitigate the effects of Universal Credit
							FP17003_Ar Cross Service Universal Credit Working Group	Head of Finance and Property Services	30-Sep-2017		Implementation of working group to plan for and mitigate the effects of Universal Credit

	<b>WLC026 Failure to effectively manage the impact on council objectives of exit from the European Union</b>					Risk of recession resulting in increased demand for welfare advice, additional housing benefit claims and processing times, reduced commercial rent income from tenanted non residential portfolio, lower council tax collection. rates. Current EU funding may not be maintained by UK government. There may also be an impact on the overall grant settlement.					
<b>Current Controls:</b>						Internal assessment and reporting to management and members on financial implications of UK exit from the EU Quarterly Horizon Scan reports					
<b>Risk Score</b>	<b>Original Risk Matrix</b>	<b>Risk Score</b>	<b>Current Risk Matrix</b>	<b>Risk Score</b>	<b>Target Risk Matrix</b>	<b>Linked</b>	<b>Risk Actions</b>	<b>Assigned to:</b>	<b>Due Date</b>	<b>Progress</b>	<b>Desired Outcome</b>
12		12		12			FM17001_Ar Quarterly Horizon Scanning Reporting .	Corporate Finance Manager	31-Mar-2018		To identify appropriate mitigating actions. Potential financial implications for WLC highlighted including factors relating to EU funding, employment and interest rates / inflation. Regular monitoring through Horizon Scan reports ensures issues are identified and taken into account of in council medium term planning.



## APPENDIX 3 RISK ASSESSMENT METHODOLOGY

### PROBABILITY TABLE

1	Unlikely	Has not happened so far and is unlikely to happen.
2	Possible	Has happened to neighbours and could happen here.
3	Likely	Has happened in the past or can be expected to happen sometime.
4	Very Likely	Has happened within the last three years and can be expected to happen again.
5	Almost Certain	It has happened several times a year and can be expected to happen.

The table is based on past history or knowledge of problems elsewhere. These are easier to judge, but you may also consider 5 is relevant for "accidents waiting to happen"

In assessing original the absence of controls can be expected to result in an increased impact or likelihood. For example, an event assessed with current controls as possible, may be assessed with the absence of controls as likely or higher.

## IMPACT TABLE

Impact Risk Assessment - Each column is independent. Use the highest score.

<u>Hazard / Impact of Risk</u>	<b>Personal safety</b>	<b>Property loss or damage</b>	<b>Regulatory / statutory / contractual</b>	<b>Financial loss or increased cost of working</b>	<b>Impact on service delivery</b>	<b>Personal privacy infringement</b>	<b>Community / environmental</b>	<b>Embarrass- ment</b>
<b>Insignificant 1</b>	Minor injury or discomfort to an individual	Negligible property damage	None	<£10k	No noticeable impact	None	Inconvenience to an individual or small group	Contained within service unit
<b>Minor 2</b>	Minor injury or discomfort to several people	Minor damage to one property	Litigation, claim or fine up to £50k	£10k to £100k	Minor disruption to services	Non sensitive personal information for one individual revealed / lost	Impact on an individual or small group	Contained within service
<b>Significant 3</b>	Major injury to an individual	Significant damage to small building or minor damage to several properties from one source	Litigation, claim or fine £50k to £250k.	>£100k to £500k	Noticeable impact on service performance.	Non sensitive personal information for several individuals revealed / lost	Impact on a local community	Local public or press interested
<b>Major 4</b>	Major injury to several people or death of an individual	Major damage to critical building or serious damage to several properties from one source	Litigation, claim or fines £250k to £1m	>£500k to £2m	Serious disruption to service performance	Sensitive personal information for one individual revealed / lost	Impact on several communities	National public or press interest
<b>Catastrophic 5</b>	Death of several people	Total loss of critical building	Litigation, claim or fines above £1m or custodial sentence imposed	>£2m	Non achievement of key corporate objectives	Sensitive personal information for several individuals revealed / lost	Impact on the whole of West Lothian or permanent damage to site of special scientific interest	Officer(s) and/or members dismissed or forced to resign

## RISK MATRIX

<b>PROBABILITY</b>	Almost Certain 5	5 Low	10 Medium	15 High	20 High	25 High
	Very Likely 4	4 Low	8 Medium	12 High	16 High	20 High
	Likely 3	3 Low	6 Low	9 Medium	12 High	15 High
	Possible 2	2 Low	4 Low	6 Low	8 Medium	10 Medium
	Unlikely 1	1 Low	2 Low	3 Low	4 Low	5 Medium
		Insignificant 1	Minor 2	Significant 3	Major 4	Catastrophic 5
		<b>IMPACT</b>				







## **GOVERNANCE & RISK COMMITTEE**

### **EXTERNAL AUDITORS' REPORT 2016/17**

#### **REPORT BY GOVERNANCE MANAGER**

##### **A. PURPOSE OF REPORT**

To advise the committee of the parts of the external auditors' report on the council's annual accounts which are relevant to the committee's remit.

##### **B. RECOMMENDATIONS**

1. To note the terms of the external auditors' 2016/17 Annual Audit Report which was reported to the council on 26 September 2017 (Appendix 1)
2. To note the summary of matters in the auditors' report which are relevant to the remit of this committee
3. To note that council agreed on 26 September that in relation to Action Plan Points 8, 9 and 10 of the report, officers should report to the next council meeting with appropriate advice and suggested changes to Standing Orders and the Scheme of Administration for consideration by members
4. To note that the auditors' report will also be considered by the Audit Committee at its next scheduled meeting for its own interests
5. To consider any actions or recommendations that might be made in relation to matters in the auditors' report which are relevant to the remit of this committee

##### **C. SUMMARY OF IMPLICATIONS**

<b>I</b>	<b>Council Values</b>	Being honest, open and accountable
<b>II</b>	<b>Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)</b>	Local Authority Accounts (Scotland) Regulations 2014; Standing Orders for the Regulation of Meetings and Scheme of Administration
<b>III</b>	<b>Implications for Scheme of Delegations to Officers</b>	None
<b>IV</b>	<b>Impact on performance and performance Indicators</b>	None
<b>V</b>	<b>Relevance to Single Outcome Agreement</b>	None

<b>VI Resources - (Financial, Staffing and Property)</b>	Within existing resources
<b>VII Consideration at PDSP</b>	Not required
<b>VIII Other consultations</b>	Audit, Risk & Counter Fraud Manager; Monitoring Officer

## **D. TERMS OF REPORT**

### **1 Background**

- 1.1 The council's unaudited accounts were submitted to Ernst & Young (EY), its external auditors, in June 2017 and were then made available for public inspection and objection. EY's audit report is addressed to members of the council, is simultaneously forwarded to the Controller of Audit and forms part of the audit process.
- 1.2 EY's report starts with an Executive Summary and then covers Financial Statements and Accounting; Approach to Best Value; Financial Management; Financial Sustainability; Governance and Transparency; and a section on Other Audit Deliverables which includes an Action Plan. This reflects Audit Scotland's public sector audit model, which concentrates on the key risks and priorities facing the organisations they audit.
- 1.3 EY's report forms Appendix 1. Most of its contents are relevant to the Audit Committee. Those will be considered at that committee's next scheduled meeting along with the overall conclusions and recommendations of the report.

### **2 Risk and governance issues**

- 2.1 From the Executive Summary, these are the matters most relevant to the remit of this committee.
- 2.2 On page 2, EY identify a list of significant and other inherent risks. Those, and a brief summary of their findings, are copied from the report, as follows:-
  - Risk of fraud in income and/or expenditure recognition
    - We have not identified any material weaknesses in the design and implementation of controls tested as part of our audit, or evidence of fraud in income and expenditure recognition during the financial year
  - Management override of controls
    - We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls
    - We consider that management made good disclosure on the accounting judgements and estimates made, with some scope for further enhancement
  - Valuation of property, plant and equipment

- We identified a prior year adjustment of £470 million on the carrying value of property, plant and equipment as at 31 March 2016. This comprised an increase in value of other land and buildings by £482.3 million, offset by a decrease in value of £12.3 million to council dwellings. In addition, an adjustment of £23.3 million was also required to the 31 March 2017 carrying values of council dwellings to ensure these reflected Existing Use Value – Social Housing.
  - While underlying valuations are robust, the process for accounting for changes in value can be enhanced.
  - Retirement benefits
    - Defined benefit pension scheme liabilities have been estimated using actuarial assumptions which we consider to be reasonable. The required disclosures are provided in the financial statements, including those providing details of the sensitivity of the valuation to changes in the assumptions
    - We have undertaken appropriate testing of underlying data to support the calculation of the liability
- 2.3 These are developed further on pages 6 to 9 and but with no Action Plan Points attached.
- 2.4 On page 3, EY say the following in relation to governance:-
- Governance and transparency – area of audit focus
    - The Council has a comprehensive framework of governance arrangements and shows clear commitment to the core principles. Internal audit is well respected, however, we have raised a number of recommendations for consideration to strengthen reporting and monitoring by the audit committee
    - We consider there is scope to strengthen the arrangements for scrutiny of corporate and service performance. The relationship between the new governance & risk and audit committees should be monitored. The Council needs to improve the controls and governance arrangements around Following the Public Pound
- 2.5 This is developed further on pages 23-28 and the relevant Action Plan Points are 8, 9 and 10.
- 3 Focus on Audit and Governance & Risk Committee arrangements**
- 3.1 The narrative is on page 24 and Action Plan Point 8 is on page 43, which includes the findings, recommendations and management response.
- 3.2 EY made some recommendations in relation to the operation of the two committees. They were accepted in the management response, apart from a commitment to change the Scheme of Administration, which is a matter for members.
- 4 Focus on performance and scrutiny arrangements**
- 4.1 The narrative is on page 25 and Action Plan Points 9 and 10 are on pages 43 and 44.

- 4.2 EY made recommendations about the relationship between Audit Committee and Governance & Risk Committee and their working arrangements. They also made recommendations about service and corporate performance scrutiny arrangements. Again, they were accepted in the management response, apart from a commitment to change the Scheme of Administration, which is a matter for members.

## **5 Actions**

- 5.1 In relation to the recommendations accepted by officers, an Action Plan will be drawn up and monitored.
- 5.2 In relation to recommendations which relate to decisions that only members can make, council has instructed officers to report to the next scheduled council meeting with appropriate advice and suggested changes to Standing Orders and the Scheme of Administration for consideration by members.

## **E. CONCLUSION**

The committee is invited to consider EY's report in relation to matters in its risk and governance remit and whether any actions or recommendations should be considered and made.

## **F. BACKGROUND REFERENCES**

- 1 2016/17 Audited Annual Accounts for West Lothian Council
- 2 West Lothian Council, 26 September 2017
- 3 Ernst and Young LLP - 2016/17 Annual Audit Report to Members and the Controller of Audit

Appendices/Attachments: 1. Ernst & Young LLP - 2016/17 Annual Audit Report to Members and the Controller of Audit

James Millar, Governance Manager, 01506 281613, [james.millar@westlothian.gov.uk](mailto:james.millar@westlothian.gov.uk)

Date of meeting: 9 October 2017

# **West Lothian Council**

Year ended 31 March 2017

Annual Audit Report

West Lothian Council – 26 September 2017

DRAFT



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

## About this report

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

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

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

## Complaints

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

## Purpose of this report

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

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

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

## Scope and responsibilities

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

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

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

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

## Status of the audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2017. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements. However until work is complete, further amendments may arise:

- Review of the final approved version of the financial statements
- Completion of subsequent events review / receipt of signed management representation letter

Upon completion of these outstanding items and following final approval of the audited financial statements by the Council we will update and finalise this Annual Audit Report.

## Key contacts

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John Boyd, Senior Manager  
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**Ernst & Young LLP, Ten George Street, Edinburgh EH2 2DZ**

## Acknowledgement

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

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

### Preparation of financial statements

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

### Significant risks

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

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

#### *Management override of controls*

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

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

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

### Other inherent risks

#### *Retirement benefits*

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

### Other matters and reporting requirements

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



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

### Financial management

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

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

### Financial sustainability – area of audit focus

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

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

### Governance and transparency – area of audit focus

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

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

### Value for Money

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

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

## Appendices

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

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

# **1. Financial statements and accounting**

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

## Audit opinion

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

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

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

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

## Financial statements preparation

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

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

**Action plan point - 1**

## Materiality

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

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

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

## Audit differences

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

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

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

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

### What is the risk?

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

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

### Results of audit procedures

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

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

Where we are performing procedures to address significant risks to the financial statements we do so to a lower level of materiality than for standard accounts. All procedures outlined above were completed with no material reported audit differences or other matters noted.

### Other income and expenditure areas

The most significant area of revenues was taxation and non-specific grant income of £399 million. £249 million of this related to government grant income which we substantively tested to grant confirmation letters. The remainder is made up of £87.7 million of NDR redistributions and £62.2 million of Council Tax income. These were agreed either to funding correspondence, and / or through establishing detailed expectations of income and expenditure, agreeing underlying assumptions to supporting evidence, and comparison to actual income and expenditure recorded by the Council in the year.

For expenditure, £230 million relates to payroll costs. These have been subject to detailed analytical procedures and reconciliation to underlying payroll information. We have agreed PPP transaction costs to PFI contract and finance models. Depreciation and impairment charges have been subject to detailed audit testing, including reconciliation to fixed asset register.

### Risk of fraud in income and expenditure recognition – what have we concluded?

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

## Significant risk – management override

### What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

### Audit procedures performed and what did we find?

*Test the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements*

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify any unusual journal types or amounts based on our identified risk areas for the audit. We then tested a sample of these journals, understood their purpose and agreed and corroborated them to supporting documentation.

*Review accounting estimates for evidence of management bias, including management's retrospective consideration of prior year estimates.*

We identified and considered the appropriateness of key accounting estimates, including provisions, and their susceptibility to bias. Management have disclosed their consideration of the critical accounting judgements and key estimates in the financial statements. We have reviewed these and agree with the detail of the assessment performed.

*Evaluate the business rationale for any significant unusual transactions*

We did not identify any significant unusual transactions outside the normal course of business.

*Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.*

We reviewed expenditure on property, plant and equipment to ensure that expenditure items were not being inappropriately capitalised to defer costs to future years. Likewise we performed analytical procedures and transaction testing of HRA expenditure to ensure HRA funds were not being utilised to meet general fund expenditure. No issues were noted through our testing performed.

### Risk of management override – what have we concluded?

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

## Significant risk – valuation of property, plant and equipment

### What is the risk?

The Council's property portfolio totalled £1.3 billion as at 31 March 2016, with the major elements of this being in respect of council dwellings, other land and buildings and infrastructure assets. Given the size of this balance and the fact that a number of assumptions are made in the valuation, we initially assigned a higher inherent risk to the valuation of property, plant and equipment.

The unaudited financial statements included significant revaluations in respect of certain operational land and buildings, totalling over £400 million. As a result, we re-scoped this aspect of our work as a significant risk.

### Audit procedures performed and what did we find

Through analysis of the source data and enquiries of management, we considered the appropriateness as to the procedures used by management's specialist to establish whether the source data was complete and concluded this was satisfactory.

We assessed the reasonableness of the assumptions and methods used in the valuation of land and buildings, including compliance with the Code of Practice on Local Authority Accounting. In doing so, we also considered the appropriateness of the timing of when management's specialist carried out the work. The Council revalue assets as part of a five year rolling programme. The Code of Practice on Local Authority Accounting requires assets to be carried at fair value. The Council considers material changes in asset valuations through consideration of significant capital additions in the year, as well as discussions with in-house valuers around potential asset impairments. This does not necessarily consider the potential impact of market movements impacting on fair value.

In line with the Council's policy, some operational land and buildings were subject to revaluation as at 1 April 2016. From assessment of market data management confirmed that the material increase in the asset valuations was due to conditions that existed as at 31 March 2016. Given the material revaluation increases, we concluded that this change should have been reflected in the prior year financial statements and that the carrying value was materially understated. We also identified that the Council had historically carried PPP school assets at cost on the balance sheet rather than at fair value. Taken together, the total value of the prior year misstatement for these elements was to understate assets by £482.3 million.

In respect of the valuation of council dwellings, we identified that these were also not appropriately valued as at 31 March 2017 or 2016. Consequently an impairment of £23.3 million (2016: £12.3 million) was required to the carrying value of these assets to ensure these were carried at Existing Use Value – Social Housing.

In performing our work, we involved EY valuation specialists to ensure management's underlying valuation approach was appropriate and consistent with guidance. We concluded that the underlying valuation process is robust. We recommend that management enhance the existing valuation process to ensure that a full consideration of the appropriateness of asset valuations, and their recognition in the financial statements, is undertaken in a more timely manner.

**Action plan point – 2**

## Significant risk, valuation of property, plant and equipment – what have we concluded?

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

## Other inherent risks – retirement benefits

### What is the risk?

The Code and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS). Accounting for the pension fund assets and liabilities involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

### Results of audit procedures

In planning our audit, we identified that pension liabilities at 31 March 2016 were £176.1 million. Following the result of the EU Referendum in June 2016, we saw significant changes in certain economic assumptions used in the valuation of pension liabilities leading to significant increases in reported net pension liabilities by entities with accounting year-ends after June 2016. At 31 March 2017, the Council's net pension liability had increased to £290.3 million, primarily as a result of changes in the discount rate used to value the pension obligations. Our audit procedures included:

- Analysis of the payroll and pensions source data and made inquiries as to the procedures used by management's specialist to establish whether the source data was relevant and reliable.
- Utilisation of EY pension specialists to challenge the appropriateness of the assumptions used in deriving the liabilities at 31 March 2017. As part of this work, our specialists considered the work undertaken by PWC on behalf of the public audit agencies to provide assurance over the major actuarial firms involved in preparing IAS 19 valuation reports. Assumptions used by the actuary and adopted by the Council are considered to be within our acceptable range.
- Testing of the journal entries for the pension transactions to ensure that they have been accurately processed and agreed the required disclosures in the financial statements to relevant information provided by the actuary.

## Other inherent risks, retirement benefits – what have we concluded?

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



Our Audit Plan identified other audit matters and aspects of our work which arise either in accordance with International Standards on Auditing (UK & Ireland) or in accordance with the Code. These are set out below.

## Other audit matters

### Expenditure and funding analysis

In 2016/17 there were amendments to the Code as a result of the 'Telling the Story' review of the presentation of local authority financial statements. The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the Council operates, reflecting internal financial reporting structures.

This change impacted the Consolidated Income and Expenditure Statement (CIES), the Movement in Reserves Statement (MiRS) and introduced the new expenditure and funding analysis (EFA), with full retrospective restatement of the CIES and MiRS. Our audit approach has focused on:

- Reviewing the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Code. Management initially presented the EFA as the first statement within the financial statements. Since it does not form one of the four primary statements, we requested that management make the narrative clear that the EFA, while displayed prominently, is a note to the financial statements.
- Reviewing the analysis of how these figures are derived, the re-mapping of the ledger system to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.
- Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

### Opening balances

International Standard on Auditing (UK and Ireland) 510: *Initial audit engagements – opening balances* requires auditors to obtain sufficient, appropriate audit evidence that opening balances do not contain misstatements that materially affect the financial statements. The standard also requires auditors to verify that appropriate accounting policies are reflected in the opening balances and that they have been consistently applied in the current period's financial statements.

In response, we:

- Held discussions with your former external auditor in respect of previous significant audit issues, corporate governance and general risk assessment.
- Reviewed prior year financial statements, annual audit reports and other reports issued by your former external auditor.
- Substantively tested opening balances to ensure that they agree both to the prior year audited financial statements and closing trial balance.
- Undertaken a range of testing on balances during 2016/17 which provide assurance on the judgements and estimates made as at 31 March 2016.

We have reported elsewhere on the requirement to undertake restatement of the prior period to correct errors in the valuation of property, plant and equipment. A separate adjustment was also required to correct £6.6 million of developer contributions which were accounted for in current liabilities, instead of being held in an earmarked reserve.

### Other audit matters – what have we concluded?

- The EFA has been presented in accordance with the Code and the MiRS and CIES restated accordingly. We consider the disclosures provided to be appropriate to the Council's internal reporting during the year.
- We concluded our work on the opening balances as part of the requirements for initial audit engagements. As reported elsewhere, a number of adjustments to prior period figures were required.



## Other audit matters (continued)

### Group financial statements

In 2015/16, the Council accounted for West Lothian Leisure Ltd and Lothian Valuation Joint Board as associates, due to an assessment of having significant influence but not outright control over these two entities. The Council also identified two joint ventures, West Lothian Recycling Ltd and West Lothian Integration Joint Board (WLIJB). A number of other entities were excluded from consolidation on the grounds of either materiality or lack of significant influence.

In scoping our audit work over the group, only WLIJB was scoped into our audit procedures on the grounds of materiality. We are the appointed auditor to the WLIJB and report separately on our audit of that entity. The accounting for the WLIJB was new in 2016/17. The relationship as a joint venture meant that in the Council CIES, a gross-up of expenditure funding made to WLIJB plus the expenditure on social care services should be shown, offset by the income receivable from WLIJB as part of its delegation of resources. The unaudited financial statements did not account for this correctly, leading to an adjustment in the financial statements.

The overall impact of preparing group financial statements was to reduce total reserves by £2.9 million (2015/16: £0.8 million).

During the year, West Lothian Leisure converted from a registered society to an incorporate company limited by guarantee with the Council as the sole member. An updated assessment of the control arrangements was not conducted by the finance team based on the change in circumstances during the year. We have concurred with management's assessment that there was no material impact on the group financial statements even had a change to the group relationship been made during the year. An unadjusted audit difference with a cumulative value of £3 million has been identified.

From 1 April 2017, the articles of association of West Lothian Leisure were changed again. In addition, the company took on additional leisure and culture assets of the Council. An updated assessment of the group relationship with West Lothian Leisure should be conducted by management in advance of preparation of the 2017/18 financial statements.

**Action plan point - 3**

### Qualitative aspects of the financial statements

With the exception of the matters discussed specifically elsewhere in this report:

- We have reviewed the significant accounting policies, which are disclosed in the annual financial statements. We consider these to be appropriate to the Council.
- There was no disagreement during the course of the audit over any accounting treatment or disclosure.
- There were no significant difficulties encountered in the audit.

## Other audit matters (continued) – what have we concluded?

- We have obtained reasonable and appropriate audit evidence over the Council's group financial statements. Based on our group scoping we were not required to undertake detailed testing at components of the group. We are the appointed auditor to West Lothian Integration Joint Board.
- Management should ensure they update their consideration of the group boundary for changes in circumstances at entities with which they have an interest.

## Other audit matters

### Charitable trusts

The Council acts as sole trustee for 40 trusts and mortifications, nine of which are registered charities. The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. The Regulations require an auditor to prepare a report to the charity trustees where an audit is required by any other enactment. The Council's charitable trust funds are covered by the requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit. We have audited the 2016/17 financial statements of the charitable trust funds. In summary:

- We have provided an unqualified audit opinion on the charitable trust funds financial statements, in accordance with applicable law and the relevant financial reporting framework.
- There were no audit adjustments impacting on the net assets or income and expenditure reported for the year.
- No numerical and presentational adjustments were required to the financial statements prepared for audit.
- We considered and confirmed our independence to act as auditors of the charitable trust funds, in line with the procedures set out in Appendix C for the Council audit, together with the objectivity of the audit partner and staff.
- Materiality for the audit was set in accordance with our audit methodology, at 2% of total income.
- We encountered no significant difficulties in undertaking our work and have no other significant matters to report to you.

### Significant trading operations

Under the Local Government in Scotland Act 2003, the Council has to maintain statutory trading accounts for any 'significant trading operations' (STOs). The 2003 Act also prescribes that STOs have to break even over a three year rolling period.

The Council reports one significant trading operation, Economic Development Properties. The cumulative three-year result is a deficit of £4.86 million, resulting in a failure to achieve the statutory financial requirement. During 2015/16 and 2016/17 impairment charges against assets within the property portfolio were £4.48 million and £0.64 million, respectively. These impairment charges represented the reason why the statutory breakeven position was not achieved.

In line with the position reported in the prior year by your former external auditor, without qualifying our audit opinion, we include an Emphasis of Matter paragraph in our audit report explaining the Council's failure to achieve a statutory objective.

## Other audit matters (continued) – what have we concluded?

- We undertook the audit of nine of the Council's registered charitable trusts. We provided an unqualified audit opinions on the financial statements of the trusts.
- Without qualifying our audit opinion, we include an Emphasis of Matter paragraph in our audit report due to the Council's failure to achieve a statutory objective in the operation of its statutory trading operation.

The Local Authority Accounts (Scotland) Regulations 2014 set out the statements which should be included in the Annual Report and Accounts in addition to the financial statements. These items are covered by our independent auditor's report as *Other prescribed matters*, in accordance with the requirements of the Code.

## Other reporting requirements

### The Local Authority Accounts (Scotland) Regulations 2014 (the Regulations)

Regulations 8 to 10 set out the statutory requirements on the Council in respect to the Annual Accounts, their availability for public inspection and the consideration and signing by the Council or a committee with an audit or governance remit. As required, we received the unaudited Annual Accounts by the 30 June. The audit committee considered the unaudited Annual Accounts on 30 June 2017, in advance of the 31 August deadline. No statutory objections were received on the unaudited financial statements.

While complying with the regulations, we consider that there is some potential inconsistency in the role and remit of the audit committee in the oversight of the financial statements which management should consider.

**Action plan point – 8**

### Management Commentary

The requirement for the Council to include a management commentary is included in Regulation 8(2)(a). Audit Scotland requires us to read the management commentary and express an opinion on whether the information given is consistent with the financial statements and whether it has been prepared in accordance with the statutory guidance.

Guidance on the content of the management commentary was issued by the Scottish Government within Local Government Finance Circular 5/2015. We considered whether the management commentary provided a fair and balanced review of the Council's business; a description of the principal risks and uncertainties; financial and non-financial key performance indicators; a description of the Council's strategy and business model and the main trends and factors likely to affect future developments; performance and position of the Council's business and explanation of the amounts in the financial statements.

We made suggestions to provide some more detailed and specific analysis within the management commentary. Management updated the commentary appropriately to reflect key elements of our review.

### Remuneration Report

Auditors are required by the Code to audit the disclosures of remuneration and pension benefit, pay bands, and exit packages and express a separate opinion within their independent auditor's report on whether they have been properly prepared in accordance with the Regulations.

No amendments were required to the draft remuneration report to ensure its consistency with underlying records and presentation in accordance with the statutory requirements. The Council has disclosed appropriately exit packages provided to 42 staff totalling £951,000 (2015/16: 46 staff totalling £1.1 million).

### Annual Governance Statement

Audit Scotland requires us to read the information in the annual governance statement and express an opinion on whether the information given in the annual governance statements is consistent with the financial statements and whether the statement has been prepared in accordance with *Delivering good governance in local government: framework 2016*. We set out the work undertaken in respect of the Council's annual governance statement as part of the Wider Scope – Governance & Transparency section of this Report.

## Other reporting requirements – what have we concluded?

- We have concluded that the Council has complied with the requirements of the Regulations.
- In respect of our 'Opinions on other prescribed matters', which includes the management commentary, the auditable part of the remuneration report, and the annual governance statement, our opinion is unqualified.
- We have not identified any other matters on which we are required to report by exception.

## **2. Wider scope audit**

## 2.1 Wider scope – Approach to Best Value



Together the Accounts Commission and the Auditor General for Scotland agreed the four dimensions set out in the Code which comprise the wider scope audit for public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money.

### Wider scope audit

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment and assurance on the achievement of Best Value. As your external auditor we also participate in the Local Area Network (LAN). The LAN brings together representatives from across different scrutiny bodies to agree a Shared Risk Assessment (SRA) for each local authority. The SRA informs the local scrutiny plan (LSP) ensuring that for any risks identified there is an appropriate scrutiny response.

The 2016/17 LSP reported that the LAN were of the view that the Council demonstrates its commitment to best value, with evidence of strong leadership, a clear vision and a focus on continuous improvement. The LAN did not identify any specific areas from the risk assessment where scrutiny was required. The 2017/18 LSP confirmed this position and taken together formed a context for our audit and risk assessment.

### Best Value auditing

Under the new approach to Best Value auditing in local government, the Controller of Audit will provide a Best Value Assurance Report (BVAR) for each council at least once in a five year period. The Council was selected as one of six councils to be subject to a BVAR report in the first year of the new arrangements. Joint work has been undertaken by ourselves and members of Audit Scotland's Performance Audit and Best Value team. The finalised BVAR will be heard by the Accounts Commission in November 2017.

The annual audit continues to focus on aspects of Best Value over our five year appointment. We have identified an indicative five year Best Value Plan in the table below. This will be subject to ongoing revision as priorities change or emerging risks arise.

The Accounts Commission has published its strategic audit priorities and these are mapped across, at a high level, to the Best Value audit work planned as shown below.

- A. The clarity of council priorities and quality of long-term planning to achieve these.
- B. How effectively councils evaluate and implement options for significant changes in delivering services.
- C. How effectively councils are ensuring members and officers have the right knowledge, skills and time to lead and manage delivery of the council priorities.
- D. How effectively councils are involving citizens in decisions about services.
- E. The quality of council public performance reporting to help citizens gauge improvement.

Indicative five year Best Value plan						Mapping to Strategic Audit Priority
	2016/17	2017/18	2018/19	2019/20	2020/21	
Planned BVAR	X					
Follow up of BVAR		X				
Audit coverage:						
Performance and outcomes		X				B
Improvement		X				-
Leadership, Governance and Scrutiny			X			A
Equal Opportunities			X			E
Partnership Working and Empowering Communities				X		C, D
Financial and service planning					X	A, C
Financial governance and resource management				X		-

## 2.2 Financial management

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

### Financial management

In undertaking our work on this audit dimension, at a high level we consider the following aspects:

- ▶ Is financial management effective?
- ▶ Are the budget setting and monitoring processes operating effectively?
- ▶ Is there sufficient financial capacity?

### 2016/17 financial outcomes

The 2016/17 Comprehensive Income and Expenditure Statement (CIES) shows that the Council incurred gross expenditure on the provision of services of £754.2 million (2015/16: £702.2 million), and incurred an accounting deficit of £95.2million (2015/16: £105.9 million) on those services.

The new Expenditure and Funding Analysis (EFA) note to the financial statements provides an explanation of how this expenditure is used and funded by the Council. This is different from the accounting position shown in the CIES in accordance with the Code and, together with the Movement in Reserves Statement, demonstrates how the Council's statutory reserves, including the General Fund, have changed in the year.

As shown in the EFA, the outturn for the financial year against the Council's general fund was a deficit of £0.35 million (2015/16: £0.26 million). In February 2016, the Council approved its 2016/17 revenue budget and provisionally approved its 2017/18 budget. Included within the budget for 2016/17 were budget reduction measures of £11.2 million to deliver a balanced budget. These were delivered.

Key financial statements movements and balances are considered below.

Focus on financial statements results	2016/17 £000	Restated 2015/16 £000	Commentary	RAG rating
(Surplus) / deficit on provision of services	95,215	105,892	The primary factor in the reduced deficit was the significant depreciation charged to the Housing Revenue Account in 2015/16 on revaluation of council dwellings.	G
(Surplus) / deficit on General Fund and HRA	347	260	No significant change. In general this result reflects on good in-year financial management and budgetary control	G
Uncommitted general fund	2,075	2,070	This equates to 0.5% of budgeted net expenditure and is one of the lowest levels held of any local authority in Scotland. This needs to be kept under close review.	R
Earmarked reserves	23,187	23,539	Earmarked reserves have broadly been maintained at the same level and provide the Council with flexibility around key initiatives.	G
Net current liabilities	(245)	(12,542)	Net current liabilities can reflect a potential inability to meet liabilities as they fall due. In practice, good cash flow management will ensure that this is not a risk.	A
Total Usable Reserves	103,550	128,464	Most of the reduction is due to utilisation of the capital fund in supporting the Council's investment in assets. However there are significant usable reserves available.	G
Total Unusable Reserves	803,687	979,422	Revaluation of operational land and buildings / Council's asset base remains strong.	G
Net (decrease) / increase in cash	(12,718)	2,561	The decrease in cash reflects the significant investment the Council is currently making in its assets and in line with plan.	G

### 2016/17 budget monitoring and outturn

A balanced budget was set for 2016/17. The projected outturn against budget was reported regularly to the Council Executive during the year. The outturn report in June 2017 which supported the preparation of the unaudited financial statements is summarised in the table.

Service area	Budget £000	Outturn £000	Over / (under) £000
Schools, Education Support	207,730	207,370	(360)
Planning, Economic Development and Regeneration	6,999	5,263	(1,736)
Operational Services	68,160	68,160	-
Housing, Customer and Building	10,796	11,456	660
Corporate Services	17,609	17,609	-
IJB – Adults and Elderly Services	60,584	60,584	-
Non-IJB – Children's Services	30,010	30,100	90
Chief Executive, Finance and Property	32,632	32,167	(465)
Joint Boards	1,214	1,214	-
<b>Service Expenditure - Total</b>	<b>435,734</b>	<b>433,923</b>	<b>(1,811)</b>

The significant variance item giving rise to the underspend was reported as due to receipt in March 2017 of additional funding of £1.74 million for investment linked to employability and economic regeneration. This has been earmarked for spend in 2017/18. The key overspend in Housing, Customer and Building Services related to homelessness.

In-year budget monitoring reports were provided to the Council Executive on a regular basis, which included forecast outturn. There were no major fluctuations in the outturn projections provided to members during the year, demonstrating good financial control and an understanding of the budget and in-year management of financial pressures. Action to address service pressures were included in monitoring reports, enabling members to have appropriate oversight.

#### *Reporting on budget reduction measures*

Monitoring reports also included in-year analysis against the budget reduction measures. For 2016/17, these totalled £11.2 million and reports included red, amber, green assessment of their achievement. By Period 6, £9.4 million (78%) had been assessed as green with the remainder as amber. This included £2.1 million of staff performance savings, to be met through management of staffing vacancies during the year.

As the budget approved in February 2016 also included indicative figures for 2017/18. At mid-year in 2016/17 management were able to report that 59% of the £8.4 million reduction measures were already green with the remainder amber. This results in a position whereby at the time of the budget approval for 2017/18, the majority of savings are all identified and understood and so can deliver full in-year savings.

#### **Action plan point - 4**

### **Housing Revenue Account**

The HRA delivered break-even performance in the year. There were no significant movements in any of rent arrears, losses on void properties or the bad debt provision from the prior year.



### 2016/17 financial outcomes – capital expenditure

Capital expenditure	Budget £000	Outturn £000	Over / (under) £000
<b>General services capital programme</b>	<b>63,304</b>	<b>69,616</b>	<b>6,312</b>
In line with prior year, the Council delivered accelerated spend on its general services capital programme. Compared with our experience elsewhere, where slippage on capital programmes can be a regular occurrence this demonstrates appropriate management of capital projects and ability to accelerate spend where circumstances allow.			
<b>Housing capital programme</b>	<b>62,450</b>	<b>49,787</b>	<b>(12,663)</b>
The housing programme under-delivered against the plan, due primarily on slippage due to the 1,000 Houses New Build programme. This accounted for slippage of £17 million against budget, although £27 million of expenditure was still invested in this programme during the year.			

Overall financing of the capital programme was supported by £67.1 million of capital receipts, grants from government and contributions from third parties and/or existing capital funds; £9.3 million of capital expenditure funded by revenue with the remaining £42.9 million funded by borrowing.

### Capacity of finance and standing in the organisation

The Council's section 95 officer is the head of finance and property services. We considered the role and status of the section 95 officer and are satisfied that the Council adheres to the principles laid out within CIPFA's *Statement on the role of the Chief Financial Officer in Local Government*.

We have reviewed the Council's financial regulations and are satisfied that these are comprehensive and subject to regular update. They are available through the Council's website.

### Internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Our first year audit has been predominantly substantive in nature, and therefore we have not tested the operation of key controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any such matters to report to you.

### Financial management – what have we concluded?

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



## 2.3 Financial sustainability



Financial sustainability interprets auditors' requirements under ISA 570 *Going concern* and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Financial sustainability

The Accounts Commission's overview report on Local Government in Scotland: Performance and Challenges 2017 sets out the increasingly demanding environment facing local authorities. In particular an overall reduction of 9.2% in Scottish Government total revenue funding since 2010/11 and demographic changes in particular in respect of aging populations. Additionally, there are a broad range of legislative and policy changes, including for example integration of health and social care, community empowerment provision and education reform.

Scottish Government funding is distributed to councils using a formula based on factors such as population, deprivation and rurality. This means that not all councils have experienced the same level of reductions in funding. Audit Scotland figures show that the Council's reduction in funding overall has been the lowest of all councils, at less than 5%. This is in the context, however, of a demographic which also shows that the Council is expected to experience the most significant increase in population over 75 years old, by over 120% in the period 2014 to 2039.

Education and social work increasingly make up a greater majority of expenditure in local government. Within the Expenditure and Funding Analysis, in terms of the amount chargeable to the general fund and HRA, 67% of spend was in respect of these areas, within a range nationally of 60 – 80%.

### Level of reserves

As shown in the table below, the Council's level of usable revenue reserves as a percentage of net expenditure on cost of services has decreased over the last five years. While reserves are broadly at a similar level, the overall net expenditure of the Council has increased. Within earmarked reserves, the Council's modernisation fund has been assisting in funding potential termination costs for staff, as service delivery has been modernised.

Analysis of reserves	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	%age change
Earmarked general fund	23,212	20,571	23,869*	23,539*	23,187	(28)
Uncommitted general fund	2,000	2,000	2,000	2,070	2,075	4
HRA fund	926	926	926	926	926	-
Insurance fund	12,269	12,193	13,570	13,715	11,835	(4)
<b>Total Usable Revenue Reserves</b>	<b>38,407</b>	<b>35,690</b>	<b>40,365*</b>	<b>40,250*</b>	<b>38,023</b>	<b>(1)</b>
<b>As a % of net expenditure on cost of services</b>	<b>9.9%</b>	<b>9.1%</b>	<b>10.4%</b>	<b>8.5%</b>	<b>8.2%</b>	
Capital fund	74,338	79,008	84,765	88,214	65,527	(12)
<b>Total Usable Reserves</b>	<b>112,745</b>	<b>114,698</b>	<b>125,130*</b>	<b>128,464*</b>	<b>103,550</b>	<b>(14)</b>

\* Restated following prior year adjustment processed in 2016/17

The Council has maintained an uncommitted general fund balance at around £2 million, representing approximately 0.5% of net expenditure. This remains one of the lowest balances of all local authorities in Scotland and while the use of earmarked balances should also be considered when reviewing the available flexibility to the Council in making budget decisions, we believe this level of uncommitted reserves represents a risk to the Council.

### Action plan point - 5

The significant capital fund means that reserves in total for the Council are strong. A significant proportion of this fund has been allocated, and is being utilised, to support the significant capital investment currently being made by the Council in both housing and general fund services, thus reducing the amount of additional borrowing required at this time.

### Forward financial planning

The Accounts Commission has stressed the need for long-term financial strategies, supported by medium-term financial planning, to provide councils with the ability to respond to the acknowledged demographic and fiscal pressures. The Council has traditionally aligned its financial strategy with its corporate plan, which was approved for 2012-17 in line with the timing of local elections. There is strong evidence of delivery of this financial strategy over the last five years, drawing on major public consultation exercises in 2012 and 2014.

During this period, the Council set multi-year indicative budgets, for example in January 2015 for the three year period 2015/16 to 2017/18 i.e. including the current financial year. This represents good practice. In January 2016 and January 2017 this was reduced to two-year and then just a one-year budget.

In February 2017, the Council approved the process to prepare a priority based revenue financial plan for 2018/19 to 2022/23 and to set out how the Corporate Plan priorities will be delivered over this period.

In setting the 2017/18 budget, the Council received an overview of the challenging economic outlook over the next five years. However, no detailed financial information was provided to members outlining the likely profile of the medium-term financial position. To our knowledge, this puts the Council in a minority of local authorities by not providing such information to members in advance of what was known to be a highly challenging period. The 2017/18 budget committed £2.179 million of non-recurring resources to meet the budget.

As part of the 2017/18 budget process, members agreed to the development of a financial and corporate plan for the period 2018/19 to 2022/23.

### Action plan point - 6

In June 2017, management submitted a Revenue Budget Strategy 2018/19 to 2022/23 to the new Council Executive outlining the forecast budget gaps for the period.

Forecast budget gaps	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Gross expenditure	17.5	16.4	16.8	15.3	15.7	81.7
Gross Income	2.5	0.4	(7.0)	(5.9)	(6.0)	(16.0)
<b>Forecast Budget Gap</b>	<b>20.0</b>	<b>16.8</b>	<b>9.8</b>	<b>9.4</b>	<b>9.7</b>	<b>65.7</b>

Expenditure pressures on staffing comprised £19.8 million of the forecasts, based on a 1.25% pay rise assumption in the first two years and 1% thereafter. This is a key assumption and the paper notes that a 0.5% increase on this assumption would add a further £6 million in cost pressures. Given recent public announcements by the Scottish Government, in our view it is likely that there will be a need to revisit these assumptions.

Demographic and demand led pressures account for £28.4 million, or 35% of the expenditure budget pressures. This is heavily weighted to social care costs, and the Council's demographic of an increasing elderly population.

Income assumptions are based on a 3% annual Council tax increase which, coupled with the house building programme in the area, results in the majority of the increase in gross income. The Local Government finance settlement is assumed to show further reductions in 2018/19 and 2019/20, before increasing again thereafter. Taken together, this results in the front loading of the budget gap, with 56% of savings in the first two years.

### Closing the gap

Following consideration of the Revenue Budget Strategy 2018/19 to 2022/23 report, in line with the officer recommendations in the report, Council Executive agreed that officers should report back to them in late summer / early autumn on proposals for a public consultation, including proposed priorities, future spending plans and savings options, and proposed council tax levels.

The Corporate Management Team has been working through officer savings proposals to meet the forecast budget gaps. In September 2017, the Council Executive considered an update from officers which set out a revised estimated budget gap of £66.1 million. This report set out the public consultation details as follows:

- Priorities for the next five years, drawing on the existing eight priorities of the Corporate Plan 2012/17 to ask respondents to comment on their ongoing suitability for West Lothian and again asking respondents to rank the priorities in order of importance.
- Seek views on the outline officer proposals for reductions and / or changes to services provided by the Council in seeking to balance the Council's financial position over the next five years.
- Seek views on the annual Council Tax increase of 3% which had been assumed in the budget model.

The consultation period will run from 16 October to 12 November 2017, with officers reporting on the results of the consultation to the relevant Policy Development and Scrutiny Panels for consideration in December 2017.

The development of the Council's new five year corporate plan and supporting corporate strategies, including the financial strategy resulting from the public consultation and subsequent consideration by members, are due to be approved in February 2018.

At the current time, therefore, the budget proposals are not public although we understand that management categorises these by prioritisation savings and efficiency savings, essentially considering how savings can be made in what the Council does, and secondly by how it does it. The required savings are expected to be found by an approximate 50:50 split between these two aspects.

Overall, we have assessed that the Council fully recognises the need for medium-term financial planning, linked to delivery of the corporate plan priorities. However, members have not yet been involved in determining the proposed areas of transformation and targeted savings. These are expected to include difficult decisions and so in our view this could leave the delivery of savings in the required timescales at risk.

***Action plan point - 7***

### Long-term capital programme

2017/18 represented the final year of the current capital programmes for both general and housing services.

Capital investment of £49.8 million on general fund services was approved in the budget although £21.9 million of investment already committed in 2018/19 and beyond was highlighted. By completion of the financial year 2017/18, this will bring £257 million of investment over the previous five years.

The Council is in the process of developing a 10-year capital plan to be approved along with the next round of the Corporate Plan and underpinning strategies. This will be phased for years 1-5 individually and then years 6-10 as one phase.

The Accounts Commission's 2015/16 financial overview report provided comparison levels of borrowing across councils. While the Council has a relatively high level of borrowing, in terms of affordability, it was the 11<sup>th</sup> lowest in terms of percentage of income used to service debt. The Council has accelerated elements of borrowing to fund the 2017/18 programme as interest rates continue to be low, leaving more of the Capital Fund available to fund the longer-term programme.

A housing capital budget of £77.2 million was approved for 2017/18, comprising £60.7 million on the new build housing programme and £16.5 million on other works including planned refurbishments. This is an ambitious programme, and reflects partly the under-delivery in the new build programme to date.

Funding of the housing capital programme is predominantly through borrowing of £53.5 million, with right to buy sales generating £5.6 million through completion of final sales before the legislative change which brought an end to tenants' right to buy. The retention of council housing will significantly impact on HRA rental income in the future, supporting the increased borrowing levels.

### Other long-term liabilities

#### *Retirement benefits*

We reported earlier on the significant increase in the liability assessed at the balance sheet in respect of the Council's obligations for pensions. Individual council obligations, and their corresponding affordability, reflects on a number of factors:

- performance of the pension funds of which they are members
- assumptions made by actuaries of the various funds
- the maturity of the council's membership (average age of pension scheme members)
- decisions made by councils to award discretionary benefits to staff retiring early.

In the Accounts Commission's 2015/16 financial overview report, at approximately 40%, the Council had the sixth lowest ratio of pension liability to net revenue. While this ratio has increased substantially to closer to 79%, similar movements will have affected all councils and so this remains one of the lower percentages.

#### *PPP liabilities*

The Council has two PPP contracts for schools, both over 31-year periods, one of which expires in 2032 and the second in 2039. The outstanding principal on these contracts totals £65.5 million at 31 March 2017. In line with other long-term leasing obligations, the Council also makes annual payments in respect of interest, lifecycle capital costs and operating costs.

### Integration of Health and Social Care

The Public Bodies (Joint Working) (Scotland) Act 2014 established the legal framework for integrating health and social care in Scotland. The West Lothian Integration Joint Board (the WLIJB) was legally established on 21 September 2015 and from 1 April 2016 took on the relevant functions and resources delegated to it from both the Council and NHS Lothian. The Council committed £60.6 million of expenditure to the WLIJB in 2016/17 and received direction from the WLIJB in respect of use of these resources in the year. The Council's 2017/18 budget approved resource of £69.4 million, representing the growth in resources required in this area.

### Edinburgh and South East Scotland City Region Deal

The Council is one of six local authorities within the Edinburgh and South East Scotland City Region Deal. The City Region Deal was approved in July 2017, with commitment from the Scottish and UK Governments to provide significant investment, along with additional investment from the councils as well as universities within the region. This provides opportunity for the Council to work with its partners to use this investment to improve economic performance in the region, deliver services more effectively and tackle inequality and deprivation.

### Financial sustainability – what have we concluded?

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

## 2.4 Governance & transparency

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

### Governance arrangements

During our audit, and in conjunction with the BVAR work, we have reviewed the Council's overall governance arrangements. In line with responsibilities of the Council, this has considered the Council's arrangements as they relate to standards of conduct including for the prevention and detection of fraud and error.

The Council has a set of Standing Orders which regulate the way it goes about its business, supported by the Scheme of Administration which sets out the membership, powers and responsibilities for full council, all its committees, sub-committees, working groups, Policy Development and Scrutiny Panels and Local Area committees. The Financial Regulations contain the Council's arrangements for the proper administration of its financial affairs. In line with good practice, all documents are kept up to date to reflect changes.

The full Council of 33 Members meets approximately every six weeks, with most of the Council's important decisions and policies made by the Council Executive or the Education Executive. The Council Executive meets twice between meetings of full Council, and the Education Executive once.

During 2016/17, the Council was led by a minority Labour administration. Following the May 2017 elections, which returned 13 Scottish National Party, 12 Scottish Labour Party, seven Scottish Conservative and Unionist and one Independent members of Council. The remains a minority Labour administration.

### Member training

The Council offers training to elected members through the year, and make available on its website details of the 19 events hosted during 2016/17 and the number of members who attended this. The content of training was broad and covered a range of subject matters corresponding to the breadth of responsibilities held by elected members.

Following the May 2017 elections, induction training was provided for new and returning members. Discussions with members as part of the ongoing Best Value work found that members were positive about the nature and extent of training provided.

We understand that Human Resources are in the process of developing and progressing individual training plans for members and records of training undertaken. While senior officers respond to and provide informal briefings to members when they have queries, given the increasing challenges facing local government, we would encourage individual tailored plans to be developed for elected members to support them in discharging their roles in ensuring Best Value in provision of services at the Council over the coming term in office.

### Annual Governance Statement (AGS)

The AGS sets out the Council's governance framework. The Council supports its arrangements through its local code of corporate governance, and assessments are undertaken regularly of compliance against this. Other core support for the AGS is through the system of compliance statements which are obtained from key individuals in the Council's management team, relating to their areas of responsibility.

The annual report from the Audit, Risk and Counter Fraud Manager is a further source of support for the AGS. This report concluded "*that the council's framework of governance, risk management and control is generally sound.*" We observed that of the 19 reviews for which an audit conclusion was provided, two obtained an 'unsound' conclusion and nine 'required improvement'. With over half of the reviews receiving one of the bottom two gradings produced by internal audit; we considered whether the overall support for the AGS was appropriate. We judged that since areas requiring improvement were included within the AGS then there was appropriate transparency and disclosure of the underlying control framework. The Audit, Risk and Counter Fraud Manager has further advised that in reaching his conclusion, he considers other sources of assurance than that of the individual audit reviews.

### Focus on Audit and Governance and Risk Committee arrangements

Prior to the local elections in May 2017, the audit and governance committee had primary responsibility for matters relating to internal and external audit, and the governance arrangements of the Council. During 2016/17 this committee continued to be chaired by a member of the administration, which as also reported by the Council's former auditor, does not accord with our own, or the Accounts Commission's, views on best practice for independence of audit committee chairs.

The main change to the Council's committee structure following the elections was to split the remit of the audit and governance committee into two, replacing it with an audit committee and a governance and risk committee. Both of these committees have a membership of five (two Labour, two Conservative and 1 SNP), with in addition one lay member currently appointed to the audit committee, and a lay member due to be appointed to the governance and risk committee. At the current time, three of the five members of each committee are the same, while the SNP members are not taking up their one position on each committee.

The remits of the two new committees contain some significant overlap, for example in June 2017 both committees considered the Internal Audit Annual Report. There are a number of occasions where it is likely that the same reports from officers may need to be considered by both committees in order to fully discharge their responsibilities.

Management have explained that the reason for the split is to allow members to have a greater focus in particular on risk within the Council. We agree with this principle as there has been limited consideration or review of the corporate risk register at any committee of the Council during the year, as this was performed at the Governance & Risk Board during the year.

While the chairs of both new committees are not currently members of the minority administration, best practice would suggest formalising the arrangement within the Scheme of Administration such that the chair, or vice-chair, of these important committees should not be drawn from the administration.

Given the new arrangements, and the potential overlap in remit, we believe it will be important for officers and members to keep the operation of the committees under review during their first cycles of operation.

**Action plan point - 8**



### Focus on performance and scrutiny arrangements

The scrutiny of performance by members is carried out in different places in the decision-making structure. These are two committees, Performance committee and Education (Quality Assurance) committee (EQAC) and nine Policy Development and Scrutiny Panels (PDSPs).

The Council operates a series of PDSPs. These are small groups of councillors (four Labour administration, three opposition) and up to six invited third party representatives, who develop new policies for the Council, or scrutinise the workings of existing policies to consider where changes are needed. They do not have the power to actually make decisions, but they make recommendations to the Council Executive or Education Executive for them to make decisions which are binding on the Council.

Since they report through either the Council Executive or the Education Executive, the current membership of the PDSPs is such that most have a majority of elected members who are also members of either executive committee.

The PDSPs therefore play an important role in the development and scrutiny of policy decisions. In undertaking this role, in accordance with the Scheme of Administration their remit also includes the review of periodic service performance reports. This enables them to make recommendations to officers for improvements or actions to be taken.

This is an important part of the scrutiny of policy, although in our view we do not consider this alone would represent sufficient scrutiny of service performance by elected members.

The main committees in the structure for consideration of performance are the Performance committee, and for education services, the EQAC.

The Performance committee comprises five members. In practice, it has been and is currently chaired by a non-administration member, although the Scheme of Administration does not require this, nor does it set out whether members of the Executive(s) may or may not be on the committee. According to its remit, the purpose of the committee is consideration of the Council's corporate performance, including ensuring that performance management arrangements cover Best Value considerations.

The EQAC has since its inception been chaired by a non-administration member. Its membership includes religious and parent members and parent council representatives are invited to attend for each school under review. It considers reports from external and internal school inspections and reviews and the action plans that have been developed in response. There is evidence of member involvement in scrutiny and a willingness to follow up reports at future meetings to monitor progress. Of its 13 elected member representation, 11 of these members are also on the Education Executive.

In our view, there is scope to review and potentially enhance the arrangements in the Scheme of Administration for review of performance within the committee structure, to ensure that this provides for sufficient involvement from elected members drawn from outside the decision-making committees of the Council.

#### **Action plan point – 9**

The Performance committee sets a work-plan for the year and receives an annual report on the Council's performance within the Local Government Benchmarking Framework. From our review of committee business, there has tended to be more focus on service performance reports than overall corporate performance reporting. Further, from our review of minutes there is limited evidence of challenge and oversight of corporate performance of the Council, as the minutes often record that members noted the content of reports without recording any challenge or scrutiny which may have occurred.

Robust challenge and involvement from elected members in driving improvement of Council performance at a corporate level is a key element of a commitment to delivering Best Value.

#### **Action plan point – 10**

### Focus on Internal Audit

The Council has an in-house internal audit function which is designed to provide members and management of the Council with independent assurance on risk management, internal control and corporate governance processes. As part of our first year appointment, we considered aspects of internal audit's performance with relevance to their compliance with Public Sector Internal Audit Standards (PSIAS). Our work in this area was assisted by Internal Audit's own self-assessment against PSIAS, and an independent peer review of this self-assessment by the Chief Internal Auditor from Moray Council. Broad compliance with the PSIAS was noted.

Overall, the Council's Internal Audit team demonstrates a number of areas of good practice, including clear access and reporting to the leadership team and the audit committee. Review of internal audit reports and observation of audit committee meetings evidenced that management is subject to challenge.

The Audit, Risk and Counter-Fraud section consists of 7 FTE of skilled and experienced personnel, with access to more specialised IT technology support through its partnership relationship with Falkirk Council. The internal audit complement is 3 FTE. The relatively small size of the team, which is reflected in the cost of the function being benchmarked as the second lowest in Scotland, increases the inherent risk around the dependency and reliance on key individuals within the team. Our review of Internal Audit working papers found that while there was a structured quality review process, there were opportunities to enhance aspects of assignment working paper review and sign-off to be aligned with good practice which we have discussed with management.

The PSIAS assessment identified that planned audit reviews are not prioritised in the internal audit plan for the year. The Audit, Risk and Counter Fraud Manager provided the mitigation that this is due to the intention to complete the annual internal audit plan each year, giving every review the same high priority. We have observed that experience shows that this is not the case, with reviews being rescheduled into future years or removed from the plan as other pressures on resource arise.

#### **Action plan point - 11**

In line with the Council's performance management framework, Internal Audit reports against a series of performance indicators. Notable is the highly positive feedback which is consistently received from services which have been subject to audit. However, in our view, there is scope to improve the indicators identified and / or the targets for assessment of performance. For example, the 12-week target as the average time to issue draft reports on completion of assignments is not sufficiently challenging and provides a risk that control weaknesses can continue un-addressed while draft reports are being prepared. Management have advised that in practice, any significant risk or issue would be escalated out with formal reporting cycles.

#### **Action plan point – 12**

### Focus on Internal Audit's role in the organisation

The Audit, Risk and Counter Fraud Manager fulfils a role both as Head of Internal Audit and also Risk Manager. The risk associated with internal audit self-review is mitigated by management ensuring that audit of the Council's risk management process is conducted independently from the in-house internal audit team. Nonetheless, our view is that this combined Risk Manager and Head of Internal Audit role creates a potential conflict of interest.

The delivery of the Council's new corporate plan is likely to bring a period of significant change as the Council works to deliver and enhance services for users, while responding to changing demographics and ongoing budgetary and funding constraints. In our view, at such times, a Risk Manager should be utilising their specialist risk experience and knowledge to provide advice and support to management across the Council in identifying and managing risks, supporting effective internal control, the risk management framework and overall good governance. This allows Internal Audit to be free from any actual or perceived conflict of interest to challenge and scrutinise management on delivery of transformation of Council working practices.

#### **Action plan point - 13**



### Following the public pound

Auditors are required to consider the Council's arrangements for compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound (the FtPP Code). The audit and governance committee received and considered the Accounts Commission's report "*Roles and working relationships in councils - Are you still getting it right?*" Part of this report considered the relationship of working with Arms Length External Organisations (ALEOs). The committee agreed that the contents of the report would be progressed through the Governance and Risk Board and a further report considered if any recommendations arose from that consideration.

Internal audit undertook a review of the monitoring processes in respect of grants to voluntary and not-for-profit organisations. At the time of the review, this covered payments totalling £22.8 million during 2015/16 of which approximately £20.3 million were related to social policy and £2.5 million to other areas. Internal audit concluded that controls were effective where grants were made in respect of social policy, although it highlighted that there was a risk of a lack of effective oversight by members as required information on contract performance had not been properly reported to the Social Policy PDSP.

In respect of funding of other areas, controls were found to be unsound with four 'high' graded recommendations and four 'medium' graded recommendations made by internal audit.

### Focus on West Lothian Leisure

The Council has an interest in one ALEO, West Lothian Leisure Limited (WLL). West Lothian Leisure was established in 1998 but during 2016 converted, from a registered society, to a company limited by guarantee with the council as the sole member. The Council provides a management fee, which for 2016/17 amounted to £1.9 million, being approximately 20% of WLL's income. From 1 April 2017, additional leisure and cultural services were transferred from the Council to WLL.

One consequence of using more complex structures involving ALEOs in delivering services is that the public may be less clear about who is responsible for services. Maintaining transparency by having arrangements that are easy for people to get access to and understand is a key objective of good governance. This is detailed in the Accounts Commission's *How councils work: Arm's-length external organisations (ALEOs): are you getting it right?* 2011 report.

It is good practice that councils should monitor how ALEOs perform against both financial and service expectations. Internal audit undertook a review of financial monitoring and reporting in relation to WLL and concluded that the control framework required improvement. A number of recommendations were made in respect of improving the governance and control environment, which were accepted and management have advised that these have been implemented.

The West Lothian Leisure Advisory Committee is the committee responsible for oversight of the Council's relationship with WLL. As a result of the internal audit report, financial and performance reporting was separated into different reports. However, all papers considered by this committee have up until now been done so in private.

During 2016/17 three members of the advisory committee were also directors of WLL. The Accounts Commission's 2011 report identifies that such roles are incompatible or pose a real risk to governance and accountability, stating that "*the councillor or officer who scrutinises an ALEO on behalf of the council, or makes funding decisions affecting an ALEO, should not be a board member of the ALEO.*"

On 28 February 2017, the Council Executive was given explicit advice about appointment of members to ALEOs based on Standards Commission advice. Since the May elections, no member on the advisory committee is also a director of WLL. However, the Council Scheme of Administration does not set out that this should not occur. In addition to the actions identified by internal audit, therefore, the Council should review its governance arrangements to ensure they provide for a relationship with WLL that is clear and complies with best practice and relevant guidance, thus reducing the risk of conflicts of interest arising.

**Action plan point – 14**

### Fraud and irregularity

In line with our responsibilities under the Code, we have considered the Council's high level arrangements as they relate to the prevention and detection of fraud and error. Overall we consider the Council's arrangements to be appropriate.

#### *National Fraud Initiative*

The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error. These exercises are undertaken every two years as part of the statutory audit of the participating bodies. Local authorities were required to submit datasets in autumn 2016 and matches for investigation and follow-up were released early in 2017.

We reviewed the Council's arrangements for participation in the NFI in support of preparation of a return to Audit Scotland. We were satisfied that the Council had appropriate arrangements to respond to the NFI and had initiated their response to the most recent exercise.

### Standards of conduct

Through consideration of the Council's financial regulations, standing orders and scheme of administration, supplemented by consideration of the Code of Conduct for elected members, we are satisfied that the Council has established appropriate arrangements. The Standards Commission for Scotland did consider two cases in respect of councillors during the period and in both cases found against them for relatively minor breaches in respect of disclosure of interests.

### Governance and transparency – what have we concluded?

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

Value for money is concerned with using resources effectively and continually improving services. This includes consideration of whether resources are being used effectively; services are improving and the Council has appropriate arrangements to demonstrate Best Value.

### Performance and improvement

#### *Framework for improvement*

The Council uses the Covalent performance management software as their central performance management system. Covalent supports management and reporting of performance and includes functionality for setting and reviewing targets and thresholds to trigger intervention or action from the service.

The Council has an improvement strategy which guides how continuous improvement is pursued throughout the organisation. The strategy is well rounded in that it considers the different stages of the improvement cycle, from engagement, to planning, performance management and self-assessment. Services carry out self-assessment of their performance through the West Lothian Assessment Model (WLAM). There are two elements to the WLAM, looking at what has been done (enablers) and what has been achieved (results).

Information on the enablers is provided by the service's assessment team. Results information is lifted from the relevant performance indicators on the Covalent system by the Council's Performance and Improvement Service and analysed jointly along with the assessment team. These performance indicators are related to both processes and activities. A final score is then agreed based on both parts of the assessment.

WLAM cycles run for three years, with each WLAM unit required to carry out one assessment per cycle with the aim of achieving continuous improvement. Assessments are presented to a WLAM Review Panel, which is made up of the Chief Executive and two other senior managers (not from the service subject to review). The Review Panel is set up to provide high level scrutiny and peer review, and ensure a consistent approach to self-assessment.

The Council produced an end of programme report for the WLAM cycle 2014-17. This showed that the average score across the Council had improved from the previous cycle and all services (where comparable information was available) had improved performance in their assessment. The Council did acknowledge that the pace of improvement varied between services and that some services could benefit from swiftly addressing the recommendations from their Review Panel.

The Council is currently considering the refresh of the WLAM programme for 2017-20.

#### *Statutory performance indicators*

The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting. The 2015 Direction set out a streamlined and more flexible set of performance information for the 2016/17 financial year that the Commission required councils to collect and report in public. Councils are required to publish the required information from the financial year ended 31 March 2017 each year through to the financial year ending 31 March 2019. The schedule within the 2015 Direction sets out the required information as:

##### *Achievement of Best Value*

SP 1: Each council will report a range of information setting out its performance in:

- improving local public services (including with partners)
- improving local outcomes (including with partners)
- engaging with communities and service users, and responding to their views and concerns
- achieving Best Value, including its use of performance benchmarking; options appraisal; and use of resources

##### *Local Government Benchmarking Framework*

SP 2: Each council will report its performance in accordance with the requirements of the Local Government Benchmarking Framework (LGBF)

### Performance and improvement (continued)

The Council utilises four categories of performance indicator in its performance management framework:

- Public Performance Reporting (PPR): A small number of key indicators – linked to the key processes / activities and / or outcomes that are reported externally, for example to meet the Accounts Commission's requirements.
- High Level: Key indicators – linked to the key processes / activities and / or outcomes that are reported to senior officers and elected members.
- WLAM: Indicators of local service performance – linked to the key processes / activities that are reported within the service.
- Management: Indicators that provide management information for use in the service to plan or forecast provision

Service plans, approved through the PDSPs at the start of the financial year, set out the performance targets for the year ahead as well as reporting on the trend performance against the indicator for the previous three years.

The Council reports annually to its performance committee on comparative performance through the LGBF. The most recent report covered the 2015/16 performance year. This shows that the Council generally performs well against its peers. Using data from the Local Government Benchmarking Framework, the Council calculates an average ranking against other Scottish Local Authorities to measure performance. Under the most recent reported figures it came fifth overall in 2015/16, down from second in 2014/15. The report identified a number of areas where performance had declined, particularly around cost pressures in adult social work.

The BVAR will report in more detail on the Council's performance, focussing in particular on trend performance and the linkage between indicators and improvements in outcomes.

### Options appraisal and decision making

In advance of approving the transfer of management of facilities and functions to a modernised West Lothian Leisure, the Council Executive received a series of papers outlining the options appraisal exercise undertaken in advance of the recommended option. The move to a shared service delivery was driven by the need to generate additional savings of £0.5 million, but the appraisal decision was based on criteria which would indicate the likelihood that the option would support the Council's priorities of people living longer, healthier lives through increased participation in sport, leisure and cultural activities.

In line with the revised arrangements for Best Value, and the Accounts Commission's strategic priorities, our approach to which we set out in our indicative five year plan, we will undertake further detailed work on options appraisal and decision making in future years following the adoption and implementation of the new Corporate Plan.

### Value for money – what have we concluded?

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

### **3. Other audit deliverables**

### 3. Other audit deliverables

Under the terms of our appointment, we provide other assurance activities such as the certification of certain grant claims and the Council's Whole of Government Accounts return, as well as information returns to Audit Scotland.

Other audit deliverables			
Aspect of work	What we did and what we found	Expected completion / submission date	Submitted on time
Annual Audit Plan	Reported to audit committee on 27 February 2017	31 March 2017	Yes
Audit Scotland Fraud Return submission	We submitted fraud returns summarising the reporting to audit and governance committee during the year.	26 May 2017	Yes
Submit NFI return to Audit Scotland	Reviewed the Council's arrangements and completed an information return – see conclusion elsewhere in this report	30 June 2017	No – submitted July 2017 due to EY staff illness
Submit Audit Scotland EU Funding questionnaire return	The purpose of this questionnaire was to support the development of an understanding of Scotland's reliance on EU structural funding arrangements and in particular the extent to which public bodies have been preparing themselves for the consequences of not having access to EU funds in the future.  We identified that the Council is managing £5.95 million of EU funds through 2016/17 and 2017/18, with 39 staff members involved in associated projects. Updates on the risk facing the Council are reported to the Partnership and Resources PDSP.	30 June 2017	Yes
Submit certified Education Maintenance Allowance return	The return was not received by the Council submission deadline. When testing was undertaken during July, specific supporting evidence was not available for key elements of the claim, with evidence held offsite at schools. Our opinion was qualified as a result.	31 July 2017	No, due to the delays as a result of lack of evidence available from the Council
Submit certified Criminal Justice Social Work claim	Audit work has been undertaken with no significant findings arising.	29 September 2017	On target
Whole of Government Accounts assurance statement to NAO	Audit work will be undertaken on updated WGA pack, following audit adjustments made to the financial statements.	29 September 2017	On target
Certify Annual Accounts and submit Annual Audit Report	Pending formal approval of the financial statements	30 September 2017	On target
Submit Best Value Data Return to Audit Scotland	N/A for the Council due to BVAR in 2017	2 October 2017	N/A
Submit certified Non-Domestic Rates return	Audit work has been undertaken with no significant findings arising.	6 October 2017	On target
Submit certified Housing benefit subsidies claim to DWP	Work is in progress and we will discuss findings with the relevant officers prior to submission of our certification report.	30 November 2017	On target

## **Appendices**

- A – The Council’s responsibilities**
- B – Required communications with the audit committee**
- C – Auditor independence**
- D – Accounting and regulatory update**
- E – Summary of audit differences**
- F – Action plan**

# A. The Council's responsibilities

The Code of Audit Practice (the Code) summarises the responsibilities on all audited bodies falling within the public sector audit framework. We summarise these on this page.

Responsibilities of audited bodies	
<b>Corporate governance</b>	Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.
<b>Financial statements and related reports</b>	<p>Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.</li> <li>• maintaining proper accounting records.</li> <li>• preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.</li> </ul> <p>Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.</p> <p>Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<b>Standards of conduct / prevention and detection of fraud and error</b>	Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
<b>Financial position</b>	<p>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• such financial monitoring and reporting arrangements as may be specified</li> <li>• compliance with any statutory financial requirements and achievement of financial targets</li> <li>• balances and reserves, including strategies about levels and their future use</li> <li>• how they plan to deal with uncertainty in the medium and longer term</li> <li>• the impact of planned future policies and foreseeable developments on their financial position.</li> </ul>
<b>Best Value</b>	<p>Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.</p> <p>Specified audited bodies also have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.</p>



## B. Required communications

There are certain additional communications that we must provide to the Audit Committee, in accordance with ISA 260 and other auditing standards. These are set out below.

Required communication - what is reported?	Our reporting to you
<b>Terms of engagement</b> Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit, including any limitations.	Annual Audit Plan – 27 February 2017
<b>Significant findings from the audit</b> <ul style="list-style-type: none"> <li>• Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Any significant difficulties encountered during the audit</li> <li>• Any significant matters arising from the audit that were discussed with management</li> <li>• Written representations we have requested</li> <li>• Expected modifications to the audit report</li> <li>• Any other matters significant to overseeing the financial reporting process</li> <li>• Findings and issues around the opening balance on initial audits</li> </ul>	This Annual Audit Report We request written representation from you in respect of key matters arising during the course of our audit, and in accordance with auditing standards. A copy of this letter is provided for your consideration and signature at the time of approval of the financial statements.
<b>Going concern</b> Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about the Council's ability to continue for the 12 months from the date of our report.
<b>Misstatements</b> <ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Significant corrected misstatements, in writing</li> </ul>	This Annual Audit Report
<b>Fraud</b> <ul style="list-style-type: none"> <li>• Asking the audit committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Council</li> <li>• Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving:               <ul style="list-style-type: none"> <li>(a) management;</li> <li>(b) employees with significant roles in internal control; or</li> <li>(c) others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>► A discussion of any other matters related to fraud, relevant to audit committee responsibility.</li> </ul>	This Annual Audit Report

Required communication - What is reported?	Our reporting to you
<b>Significant deficiencies in internal controls identified during the audit</b> <ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	This Annual Audit Report
<b>Related parties</b> Significant matters arising during the audit in connection with the Council's related parties including, where applicable: <ul style="list-style-type: none"> <li>Non-disclosure by management</li> <li>Inappropriate authorisation and approval of transactions</li> <li>Disagreement over disclosures</li> <li>Non-compliance with laws and/or regulations</li> <li>Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters to report.
<b>Subsequent events</b> <ul style="list-style-type: none"> <li>Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	We have asked management and those charged with governance. We have no matters to report.
<b>Other information</b> <ul style="list-style-type: none"> <li>Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.</li> </ul>	We have no matters to report.
<b>External confirmations</b> <ul style="list-style-type: none"> <li>Management's refusal for us to request confirmations</li> <li>We were unable to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations.
<b>Consideration of laws and / or regulations</b> <ul style="list-style-type: none"> <li>Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off"</li> <li>Asking the audit committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the audit committee.</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
<b>Group Audits</b> <ul style="list-style-type: none"> <li>An overview of the type of work to be performed on the financial information of the components</li> <li>An overview of the group audit team's planned involvement in the component auditor's work on the financial information of significant components</li> <li>Instances where the group audit team's evaluation of a component auditor's work of gave rise to a concern about its quality. Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>Fraud or suspected fraud involving group or component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements.</li> </ul>	Annual Audit Plan – 27 February 2017  This Annual Audit Report
<b>Independence</b> <ul style="list-style-type: none"> <li>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</li> </ul>	This Annual Audit Report – Appendix C

Professional ethical standards, and the Terms of our Appointment, require us to communicate all significant facts and matters that have a bearing on EY's objectivity and independence as auditor of the Council.

## What we are required to communicate

Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:

- ▶ The principal threats.
- ▶ Safeguards adopted and their effectiveness.
- ▶ An overall assessment of threats and safeguards.
- ▶ Information on the firm's general policies and processes for maintaining objectivity and independence.
- ▶ Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards.

## Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated 27 February 2017.

We complied with the APB Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your audit committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the audit committee on 25 September 2017.

## Summary of fees

As part of our reporting on our independence, we set out below a summary of the fees initially agreed for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the Code requirements.

Additional auditor remuneration of £4,000 was agreed with management in respect of the audit of the Council's nine charitable trust funds.

Auditor remuneration per Annual Audit Plan	£201,333
Audit Scotland central costs	£130,480
<b>Total fee per Annual Audit Plan</b>	<b>£331,813</b>
Additional auditor remuneration	£4,000
Non-audit service fees	-
<b>Total fees</b>	<b>£335,813</b>

# D. Accounting and regulatory update



There are a number of new accounting standards and interpretations which will impact on the local authority accounting code of practice in the next two or three years. The following table provides a high level summary of those that have the potential to have the most significant impact on you.

Area	Summary	Potential impact
<i>IFRS 9 – Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard will change:</p> <ul style="list-style-type: none"> <li>▶ How financial assets are classified and measured</li> <li>▶ How the impairment of financial assets are calculated</li> <li>▶ Financial hedge accounting</li> <li>▶ The disclosure requirements for financial assets.</li> </ul> <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains uncertainty. The Council will, however, have to:</p> <ul style="list-style-type: none"> <li>▶ Reclassify existing financial instrument assets</li> <li>▶ Remeasure and recalculate potential impairments of those assets; and</li> <li>▶ Prepare additional disclosure notes for material items</li> </ul>
<i>IFRS 15 Revenue from Contracts with Customers</i>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> <li>▶ Leases;</li> <li>▶ Financial instruments;</li> <li>▶ Insurance contracts; and</li> <li>▶ for local authorities, Council Tax and NDR income.</li> </ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>There are transitional arrangements within the standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.</p>	<p>Again CIPFA have issued initial thoughts on the approach to adopting IFRS 15, although uncertainty remains until the Code is issued. For all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none"> <li>▶ Disaggregate revenue into appropriate categories</li> <li>▶ Identify relevant performance obligations and allocate income to each</li> <li>▶ Summarise significant judgements</li> </ul>
<i>IFRS 16 Leases</i>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard, IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p>

## E. Summary of Audit Differences



There were a number of significant adjustments processed to the unaudited financial statements as a result of our audit work. The impact of these is summarised below.

### Summary of audit differences – prior period adjustments

No.	Account	Comprehensive income and expenditure statement (Increase) / Decrease	Balance sheet (Decrease) / Increase
<b>1</b>	<b>Revaluation adjustment to correct increase in value of other land and buildings in prior year</b>		
	Property, plant & equipment – land & buildings		£426.2 million
	Revaluation reserve		£(426.2) million
<b>2</b>	<b>Recognition of revaluation of schools PPP assets</b>		
	Property, plant & equipment – schools PPP assets		£56.0 million
	Revaluation reserve		£(56.0) million
<b>3</b>	<b>Impairment to carrying value of Council Dwelling additions in the period to hold at Existing Use Value – Social Housing in accordance with the Code of Practice on Local Authority Accounting</b>		
	Property, plant and equipment – Council Dwellings		(£12.2 million)
	Impairment recognised in cost of services	£12.2 million	
<b>4</b>	<b>Adjustment to remove HRA developer contributions from creditors and reflect these as a transfer between HRA fund and General Fund.</b>		
	Short Term Creditors		£6.6 million
	Housing Revenue Account Expenditure	(£6.6 million)	
	Housing Revenue Account Fund		£(6.6) million
	General Fund – earmarked reserves		£6.6 million

## E. Summary of Audit Differences (cont.)



There were a number of significant adjustments processed to the unaudited financial statements as a result of our audit work. The impact of these is summarised below.

Summary of audit differences – current year adjustments			
No.	Account	Comprehensive income and expenditure statement (Increase) / Decrease	Balance sheet (Decrease) / Increase
1	Revaluation adjustment to correct increase in value of other land and buildings in prior year		
	Property, plant & equipment – land & buildings		£(426.2) million
	Revaluation reserve		£426.2 million
2	Impairment to carrying value of Council Dwelling additions in the period to hold at Existing Use Value – Social Housing in accordance with the Code of Practice on Local Authority Accounting		
	Property, plant and equipment – Council Dwellings		(£20.6 million)
	Impairment recognised in cost of services	£20.6 million	
3	Adjustment to depreciation in year to reflect depreciation on PPP assets		
	Property, plant and equipment - depreciation		£(12.8) million
	Depreciation charged to cost of services	£12.8 million	
4	Recognition of initial contribution to West Lothian Integration Joint Board and subsequent income received to deliver services.		
	CIES – Service gross income	£(60.6) million	
	CIES – Service gross expenditure	£60.6 million	
5	Adjustment to remove incorrect recognition of an accrual and prepaid income within the draft financial statements.		
	Short-term creditors		£0.5 million
	Short-term debtors		£(0.5) million

## E. Summary of Audit Differences (cont.)



There were a number of significant adjustments processed to the unaudited financial statements as a result of our audit work. One difference remains unadjusted as set out below.

### Summary of audit differences – unadjusted differences

No.	Account	Comprehensive income and expenditure statement (Increase) / Decrease	Balance sheet (Decrease) / Increase
1	<b>Net estimated impact of recognising West Lothian Leisure as a subsidiary in the group financial statements instead of as an associate</b>		
	Group net assets		£(3.0) million
	Group reserves		£3.0 million

This action plan summarises specific recommendations included elsewhere within this Annual Audit Report. We have graded these findings according to our consideration of their priority for the Council or management to action.

## Classification of recommendations

**Grade 1:** Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	<p><b>Financial reporting process</b></p> <p>Overall the financial reporting process is well established within the Council.</p> <p>However, particularly in relation to non-transactional items, we have identified that there are examples where judgements made in the financial statements process are not fully and appropriately documented and approved.</p>	<p>Where key judgements on items within the financial statements are being made, these should be fully documented and subject to approval by the Head of Finance and Property Services, and retained to support current and future year financial statements.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Key judgements will be fully documented and approved by the Head of Finance and Property Services for the 2017/18 financial statements onwards.</p>
2	<p><b>PPE Valuations</b></p> <p>Our audit work identified significant movements in operational building valuations which were not being taken into account when assessing whether, in line with Code requirements, the year end values of assets could be materially different from the carrying value recorded in the financial statements.</p>	<p>Management requires to consider and agree an appropriate process to ensure the valuation cycle is appropriate to take into account potential material movements in key assets, as well as a means to ensure that where a 1 April valuation is undertaken, that the valuation remains appropriate as at the 31 March balance sheet.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>A review will be undertaken by the end of December 2017 to agree an appropriate process.</p>
3	<p><b>Group financial statements</b></p> <p>From 1 April 2017, the articles of association of West Lothian Leisure were changed again. In addition, the company took on additional leisure and culture assets of the Council.</p>	<p>An updated assessment of the group relationship with West Lothian Leisure should be conducted in advance of preparation of the 2017/18 financial statements.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>An assessment has been completed. West Lothian Leisure will be accounted for as a subsidiary in the 2017/18 financial statements.</p>
4	<p><b>Financial management – risk assessment of savings</b></p> <p>Management has an established process of risk assessing the delivering of savings within the in-year budget monitoring. Savings will, however, become increasingly difficult to deliver.</p>	<p>We have discussed with management the means to identify within budget papers the risk assessment associated with individual savings proposals. We recommend that an overall red/amber/green rating is provided to members on savings proposals allowing them to focus on the area of greatest financial risk.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Savings proposals going forward will be assessed on a red/amber/green basis by officers. This information will be included in the revenue budget papers reported to elected members.</p>



No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
5	<p><b>Level of uncommitted general fund reserves</b></p> <p>The Council has one of the lowest levels of uncommitted general fund reserves of all Scottish local authorities. While the Council exhibits good in-year financial management, as financial savings become harder to delivery, this low level of reserves reduces the Council's flexibility around budget decisions.</p>	<p>Management should consider whether the target level of uncommitted reserves remains appropriate in the context of approval of the forthcoming medium-term financial strategy.</p> <p><i>Grade 2</i></p>	<p>Management has considered if the level of uncommitted reserves remains appropriate. Taking account of clear financial planning arrangements, sound financial management and the level of other reserves, the Head of Finance and Property Services believes the level of uncommitted reserves is appropriate.</p> <p>The level of uncommitted reserves will continue to be reviewed as part of the revenue budget setting process and will continue to be subject to a specific recommendation in the annual revenue budget report.</p>
6	<p><b>Approval of 2017/18 budget</b></p> <p>As the final year of the existing five year financial plan, the Council set a one-year budget for 2017/18. While an overview of the economic outlook was provided to members, there was no detailed information provided on the financial challenges facing the Council over the medium-term.</p>	<p>While we understand that the Council links the financial strategy to the corporate plan, we recommend that in setting budgets, the Council should always have a multi-year budget strategy in place so that savings are being considered in the context of a medium-term plan.</p> <p><i>Grade 1</i></p>	<p>Updates on the economic context at UK, Scottish and West Lothian level and an update on the council's future budget model are now being presented quarterly to the Partnership and Resources PDSP. In future, these updates will include information for at least three years in advance on the anticipated financial position of the council. This information will also be included in any reports on future financial planning.</p>
7	<p><b>Engagement of members in long-term financial planning</b></p> <p>In advance of public consultation, the corporate management team has been developing proposals to meet the significant forecast budget gaps. While members have approved the overall process, their detailed consideration of officer savings proposals will commence in December 2017. These are expected to include difficult decisions and could leave the delivery of savings in the required timescales at risk.</p>	<p>With significant challenges facing the Council over the coming years, in our view it is important that members take an early lead in shaping the direction of future priorities and service delivery.</p> <p><i>Grade 1</i></p>	<p>Council, in February 2017 agreed objectives, a process and a timetable for corporate and financial planning. In accordance with the agreed process and timetable a consultation is to take place from mid October to mid November and provides all stakeholders in West Lothian with the opportunity to comment on proposed priorities, officer savings proposals and future council tax levels.</p> <p>Reports on all responses to the consultation will be presented to PDSPs in December 2017 providing the opportunity for elected members to share the direction of future priorities and service delivery.</p>

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
8	<p><b>Operation of audit and governance &amp; risk committees</b></p> <p>With the remit of the audit and governance committee split across these two new committees, to introduce a greater focus on risk, there is the potential for unnecessary duplication in the work of the committees, together with a lack of clarity in respect of where reports and business are considered.</p> <p>In addition, while the audit committee received the unaudited accounts on 30 June 2017, its remit does not formally include the annual accounts and so there is a risk of uncertainty arising around the audit committee's role in considering the external audit report on the annual accounts.</p>	<p>It is recommended that, in line with best practice, these committees undertake annual self-assessments of effectiveness, including with a focus on how they have interacted with each other over a full cycle of reporting. The role of the audit committee with the annual accounts should also be clarified.</p> <p>In addition, best practice would suggest that the scheme of administration sets out that the chairs of these committees should not be drawn from the Council administration.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>It is intended to include a self assessment in the work-plan for both committees.</p> <p>In accordance with the agreed procedures, Council will consider for approval the auditor's annual report and audited annual accounts. Following approval, the auditor's report and the audited annual accounts will be referred to audit committee for information.</p> <p>Changes to the scheme of administration are a matter for elected members of the council to consider. The covering report by the Head of Finance and Property Services on the auditor's annual report will highlight these recommendations to elected members for consideration.</p>
9	<p><b>Scrutiny of performance</b></p> <p>The Performance committee and the Education (Quality Assurance) committee are the main committees within the scheme of administration for consideration of performance.</p> <p>At the current time, the scheme of administration does not set out the membership of these committees in relation to roles elected members may have on other committees.</p>	<p>In our view, there is scope to review and potentially enhance the arrangements in the Scheme of Administration for review of performance within the committee structure, to ensure that this provides for sufficient involvement from elected members drawn from outside the decision-making committees of the Council.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Changes to the scheme of administration are a matter for elected members of the Council to consider. The covering report by the Head of Finance and Property Services on the auditor's annual report will highlight these recommendations to elected members for consideration.</p>

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
10	<p><b>Performance committee reporting</b></p> <p>The performance committee is the key committee for independent scrutiny of overall corporate performance. Improvements could, however, be made to the information and reports received on corporate performance.</p> <p>Review of committee minutes, and attendance at the committee, also found that there is scope to improve evidence of member involvement in providing robust challenge and scrutiny to drive forward improvement at the Council.</p>	<p>As the key committee for driving improvement at a corporate level, including oversight of the key Council priorities against which the Council reports in its public performance reporting, the performance committee should receive appropriate information on corporate performance and record evidence of effective and robust challenge and scrutiny provided by the committee in respect of achievement of corporate performance targets should be recorded.</p> <p><i>Grade 1</i></p>	<p>A officer review will be undertaken by the end of October 2017 to consider how reporting and scrutiny on corporate performance can be improved. The documented minutes of performance committee will provide more details of questions and discussion at the committee.</p>
11	<p><b>Prioritisation of internal audit reviews</b></p> <p>Experience has shown that the original annual audit plan is not always delivered with reviews either rescheduled into future years or removed from the plan as other pressures on resource arise. For example, in 2016/17 four reviews were rescheduled to 2017/18 and three removed, totalling 125 days out of the original 370 day plan.</p>	<p>While the audit committee is asked to review a revised plan, in our judgement, prioritisation of reviews in the original plan is important to support members in discharging their oversight role on the appropriate delivery of the internal audit plan for the year.</p> <p>Good practice would also show the audit plan productive days as an element of total resources available.</p> <p><i>Grade 2</i></p>	<p>In future the audit reviews included in the annual audit plan, and presented to the audit committee for approval, will be prioritised and the productive days as an element of total resources will also be included in the plan.</p>
12	<p><b>Internal audit performance indicators</b></p> <p>In our view, certain targets set for measurement of the performance of internal audit are not sufficiently stretching, with for example 12 weeks to deliver a draft report providing a risk that control weaknesses continue un-addressed while the report is being prepared.</p> <p>Key performance indicators also indicate that 100% of the annual audit plan has been delivered, but this does not relate to a measurement of the original plan set at the start of the year.</p>	<p>A review of internal audit performance indicators should be undertaken to ensure that these are appropriately challenging, relevant to business needs and take account of changes in annual audit plans in the year.</p> <p>In addition, while internal audit reports appear to be suitably challenging of the control environment, a key indicator of the challenge provided is the percentage of recommendations which are accepted and implemented by management.</p> <p><i>Grade 2</i></p>	<p>Internal audit performance indicators are currently subject to ongoing review, however a further review will be undertaken by the end of December 2017.</p>

No.	Findings and risk	Recommendation / grading	Management response / Implementation timeframe
13	<b>Role of internal audit</b> The Audit, Risk and Counter Fraud Manager fulfils a role both as Head of Internal Audit and also Risk Manager. This creates, in our view, a potential for conflict of interest to arise.	During a forthcoming period of potentially significant change, senior officers should consider the potential for this risk to arise and to ensure there is appropriate mitigation, such that the risk manager is not involved in activities which could subsequently affect their independence in conducting internal audit reviews in certain areas.  <i>Grade 2</i>	The view of the council's Corporate Management Team is that the arrangements in the council have improved significantly since responsibility for risk management was combined with Internal Audit.  A review will be undertaken by the end of December 2017 to identify any potential conflicts of interest to ensure mitigating actions are implemented.
14	<b>FtPP Compliance / Governance</b> Scrutiny of the performance of West Lothian Leisure has been undertaken in private throughout 2016/17. In addition, two members of the committee charged with scrutinising performance have also been directors of the Company. This is not in line with the Accounts Commission's guidance on working with arms-length external bodies.	In addition to addressing the weaknesses identified through an internal audit review, the Council should review the overall governance and scrutiny arrangements in respect of West Lothian Leisure to ensure these accord with best practice.  <i>Grade 1</i>	A review will be undertaken by the end of February 2018 of governance and scrutiny arrangements in respect of West Lothian Leisure.

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## **GOVERNANCE & RISK COMMITTEE**

### **CORPORATE GOVERNANCE – ANNUAL REPORT**

#### **REPORT BY GOVERNANCE MANAGER**

##### **A. PURPOSE OF REPORT**

To enable the committee to consider the annual report on corporate governance which has been referred by the Council Executive to the committee for consideration.

##### **B. RECOMMENDATIONS**

To consider the annual report on corporate governance for 2016/17 (Appendix 1) and identify any areas of concern and actions that may be required.

##### **C. SUMMARY OF IMPLICATIONS**

<b>I</b>	<b>Council Values</b>	Being honest, open and accountable
<b>II</b>	<b>Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)</b>	Local Code of Corporate Governance. The council's Corporate Plan 2013/17 identifies governance and risk as one of three co-ordinated enablers underpinning the delivery of the Plan's priorities and outcomes
<b>III</b>	<b>Implications for Scheme of Delegations to Officers</b>	None
<b>IV</b>	<b>Impact on performance and performance Indicators</b>	None
<b>V</b>	<b>Relevance to Single Outcome Agreement</b>	None
<b>VI</b>	<b>Resources - (Financial, Staffing and Property)</b>	Within existing resources
<b>VII</b>	<b>Consideration at PDSP</b>	Not required
<b>VIII</b>	<b>Other consultations</b>	Monitoring Officer; Audit, Risk & Counter Fraud Manager; Chief Solicitor; Governance & Risk Board; Corporate Management Team

##### **D. TERMS OF REPORT**

###### **1 Background**

- 1.1 A broad definition of governance is that it comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The council currently defines corporate governance as "the systems by which local government bodies are directed and controlled and how they lead their communities".
- 1.2 It is recognised that "good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes". Corporate governance is not directly about performance, or service standards, service delivery, or policy-making - it is about the systems which make sure these things can be done, that they can be done well and that they can be done in an open, transparent and accountable way.
- 1.3 To help make sure that the council adheres to the rules of good corporate governance, it maintains a Local Code of Corporate Governance which sets out the principles and other standards by which good governance should be judged. In June 2010 it adopted a revised Code of Corporate Governance based on a Framework called "Delivering Good Governance in Local Government", produced by CIPFA/SOLACE.

## **2 Responsibilities**

- 2.1 The council itself is the governing body which carries ultimate responsibility for achieving good standards of corporate governance. It receives assurance in relation to that obligation through the activities of its committees and from council officers. It is recognised that both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times. Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.
- 2.2 This committee now has governance in its remit. Its role and powers are set out in the Scheme of Administration, and were formally reported to the committee at its last meeting.
- 2.3 The Governance Manager has responsibility for reporting on the Code and for preparing the council's annual governance statement. Other officers have complementary responsibilities in relation to other aspects of the council's corporate governance systems. The Monitoring Officer has a statutory role in relation to breaches of the law and compliance in general. The Audit, Risk & Counter Fraud Manager provides the council's statutory and independent internal audit function and reports on the council's system of internal control. The Head of Finance & Property Services ensures compliance with the local authority accounting regime. The Chief Solicitor is responsible for providing legal advice to the council, both to committee and officers.
- 2.4 The Governance & Risk Board, which is chaired by a Depute Chief Executive, meets quarterly to exercise oversight of the council's governance, risk management and business continuity arrangements. This reflects that the council's Corporate Plan 2013/17 identifies corporate governance and risk as one of the three co-ordinated enablers underpinning the delivery of the Plan's priorities and outcomes.
- 2.5 The soundness of the council's governance arrangements is an element in the annual audit report to Members and the Controller of Audit by the council's external auditors. That was considered at full council on 26 September 2017. The parts of it within this committee's remit are reported separately at this meeting.



### **3 Reporting cycle**

- 3.1 The annual report on compliance with the council's Code of Corporate Governance was submitted to the Council Executive on 19 September 2017, as required by the Code (Appendix 1). The purpose of the report and the work which is undertaken to support it is to allow the council to be assured that the requirements of good corporate governance are being met. The appendices show the Annual Governance Statement; scoring for each standard in the Code; and Statements of Compliance from Depute Chief Executives and Heads of Service to provide information about statutory and policy compliance. The Council Executive agreed the recommendations in the report, and, as part of the recurring annual process, that the report be submitted to this committee for consideration.
- 3.2 The committee has the opportunity to discuss this annual report, to consider any issues which it considers would merit more detailed discussion, and to consider making recommendations arising from the Code and the procedures for its monitoring and approval.
- 3.3 The conclusion and advice to Council Executive was that the standards of the Code have continued to be substantially met in 2016/17. The committee accepted that advice.
- 3.4 The same conclusion was reached in the Annual Governance Statement approved at this committee on 19 June 2017.
- 3.5 At the same meeting the committee accepted the advice from the Audit, Risk and Counter Fraud Manager, after his annual review, that the council's system of internal control was considered to be effective.
- 3.6 Based on their observations and audit work, the council's external auditors' annual report to members concluded that the council has a comprehensive framework of governance arrangements, shows clear commitment to the core principles and that Internal audit is well respected. They made some comments and some recommendations in relation to reporting and monitoring by the audit committee; scrutiny of corporate and service performance; the relationship between the new governance & risk and audit committees; and controls around Following the Public Pound.
- 3.7 The committee is invited to consider the report and any matters of concern, to recommend any actions it considers might be taken, and whether any further reporting to future meetings might be desirable.

### **4 Approach by members**

- 4.1 In considering the report, members may wish to have regard to part of the guidance on the new 2016 CIPFA/SOLACE Framework. It sets out a list of points for members to keep in mind when considering the adequacy of their governance arrangements:-
  - How is governance perceived in the council? Is it regarded as an enabler in terms of innovation or a barrier to it?
  - How has the council tried to embed good governance in its culture? Has this been successful?
  - Are the benefits of good governance transparent in the council? For example: better informed and improved decision making; clear demonstration of integrity and probity; clear focus on outcomes; developing a risk management culture.
  - How are the benefits of good governance communicated to those who may not be aware of them including some members and senior officers?

- How does the council engage its members on governance issues? How might this be improved?
- Do officers feel free to raise any concerns that they might have?
- Are the council's Code and its governance arrangements easy to understand?
- How are good governance principles communicated to contractors and partners? How effective is that communication?
- How is the importance of maintaining standards communicated? Is it successful?
- Is appropriate induction and training available to those who need it?
- Does the concept of good governance have support from the top – the chief executive and leader? How do they demonstrate this?
- How are the political groups involved in developing and maintaining good governance?
- How does the council ensure that governance structures continue to be up to date and relevant? For example, decision making frameworks, roles and responsibilities and schemes of delegation.
- What is the role of the Monitoring Officer and other officers in enabling and facilitating good governance?

## **E. CONCLUSION**

Consideration of the annual report and any matters of interest and concern will complete the annual cycle of reporting in relation to corporate governance in 2016/17.

## **F. BACKGROUND REFERENCES**

- 1 Audit & Governance Committee, 26 September 2016
- 2 Governance & Risk Committee, 19 June 2017
- 3 Council Executive, 19 September 2017
- 4 West Lothian Council, 26 September 2017
- 5 Local Authority Accounts (Scotland) Regulations 2014
- 6 Council's Local Code of Corporate Governance

Appendices/Attachments: 1. Annual report and appendices

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Date of meeting: 9 October 2017



**West Lothian  
Council**

## **COUNCIL EXECUTIVE**

### **CODE OF CORPORATE GOVERNANCE – ANNUAL REPORT**

#### **REPORT BY GOVERNANCE MANAGER**

#### **A. PURPOSE OF REPORT**

To provide assurance in relation to compliance with the standards in the council's Code of Corporate Governance and related governance matters.

#### **B. RECOMMENDATIONS**

1. To note the terms of the annual governance statement approved at Governance & Risk Committee on 19 June 2017 (Appendix 1)
2. To note the information provided in the annual compliance statements by senior officers (Appendix 2)
3. To note the information provided in relation to the standards in the Code of Corporate Governance (Appendix 3) and that the standards continued to be substantially met in 2016/17
4. To note that this report will be considered further by the Governance & Risk Committee to identify areas of concern and appropriate actions

#### **C. SUMMARY OF IMPLICATIONS**

<b>I</b>	<b>Council Values</b>	Being honest, open and accountable
<b>II</b>	<b>Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)</b>	Code of Corporate Governance. The council's Corporate Plan 2013/17 identifies governance and risk as one of three co-ordinated enablers underpinning the delivery of the Plan's priorities and outcomes
<b>III</b>	<b>Implications for Scheme of Delegations to Officers</b>	None
<b>IV</b>	<b>Impact on performance and performance Indicators</b>	None
<b>V</b>	<b>Relevance to Single Outcome Agreement</b>	None
<b>VI</b>	<b>Resources - (Financial, Staffing and Property)</b>	Within existing resources

<b>VII Consideration at PDSP</b>	Not required
<b>VIII Other consultations</b>	Monitoring Officer; Audit, Risk & Counter Fraud Manager; Chief Solicitor; Governance & Risk Board; Corporate Management Team

## **D. TERMS OF REPORT**

### **1 Background**

- 1.1 A broad definition of governance is that it comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The council defines corporate governance as "the systems by which local government bodies are directed and controlled and how they lead their communities".
- 1.2 It is recognised that "good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes". Corporate governance is not directly about performance, or service standards, service delivery, or policy-making - it is about the systems which make sure these things can be done, that they can be done well and that they can be done in an open, transparent and accountable way.
- 1.3 To make sure that the council adheres to the rules of good corporate governance, it maintains a Local Code of Corporate Governance which sets out the principles and other standards by which good governance should be judged. In June 2010 it adopted a revised Code of Corporate Governance based on a Framework called "Delivering Good Governance in Local Government", produced by CIPFA/SOLACE.
- 1.4 The Code is built around six over-arching principles of good governance for councils, and beneath those principles there are further sub-divisions in a hierarchy, at the bottom of which sit specific standards against which compliance with the Code can be measured.
- 1.5 The council's Corporate Plan 2013/17 identifies corporate governance and risk as one of the three co-ordinated enablers underpinning the delivery of the Plan's priorities and outcomes.
- 1.6 The six over-arching principles are:-
  - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
  - Members and officers working together to achieve a common purpose with clearly defined functions and roles
  - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
  - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
  - Developing the capacity and capability of members and officers to be effective

- Engaging with local people and other stakeholders to ensure robust public accountability
- 1.7 The council itself is the authority or governing body which carries ultimate responsibility for achieving good standards of corporate governance. It receives assurance in relation to that obligation through the activities of its committees and from council officers. It is recognised that both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times. Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.
- 1.8 This annual report is brought to Council Executive each year to provide assurance in relation to the extent of compliance with the Code, to provide information about steps taken to address areas of concern identified in the past, and to identify areas of concern requiring future attention. As well as consideration by Council Executive, the report has in the past also been taken to Audit & Governance Committee for detailed consideration. That practice will continue. However, the appropriate committee is now, since June 2107, the Governance & Risk Committee.
- 1.9 From the work of officers and council and committees, the following sources of information and evidence provide the basis for giving members assurance that the council's standards of corporate governance continued to be substantially met in 2016/17.

## **2 Audit & Governance Committee**

- 2.1 That committee's remit and activity was significant in relation to many aspects of corporate governance. It approved annual plans for internal audit, risk and counter-fraud, and it received reports about progress in the completion of each one. It received regular and frequent reports in relation to risk, internal audit activity and governance matters; reports and recommendations from the external auditors (who attend meetings of the committee); the same from the Accounts Commission; and *ad hoc* reports in relation to unanticipated areas of concern. Its membership includes a non-councillor member with a background and expertise in public body internal audit.

Its meetings in 2016/17 included these items as examples of its business:-

- Annual Governance Statement 2015/16 and Unaudited Accounts
  - System of Internal Control - Internal Audit and External Audit Reports
  - Anti-Fraud & Corruption Policy
  - Accounts Commission/Audit Scotland reports on Social Work in Scotland, National Fraud Initiative, Procurement in Councils, and health & Social Care Integration
  - Risk actions outstanding from previous internal and external audit reports
  - Investigation reports in relation to concerns at Howden Park Centre, Armadale Community Centre, and Building Services
- 2.2 Audit Scotland confirmed, as with previous years:-

- That they were content to place formal reliance on the work of the council's Internal Audit function in carrying out their own external audit work
  - That Internal Audit operated in compliance with the Public Sector Internal Audit Standards
  - That no significant control weaknesses had been identified
- 2.3 The committee considered the annual report on the Code of Corporate Governance at its meeting in September 2016. It simply noted its terms and made no specific recommendations for actions or improvement.
- 2.4 In June 2017 the committee's remit was divided, and two committees replaced it – Audit Committee, and Governance & Risk Committee. The powers held by the former committee and members' rights to information and officers were not changed or diluted. The remit was simply divided between two bodies instead of being concentrated in one.
- 2.5 In June 2017, the newly-formed Governance & Risk Committee considered and approved the council's Annual Governance Statement which forms part of the council's unaudited accounts for submission to its external auditors (Appendix 1). That statement was prepared for the first time having regard to a new CIPFA/SOLACE Framework entitled "Delivering Good Governance" (2016). It must be formally approved before being submitted with the council's annual accounts and financial statements to external audit. It forms part of the audited accounts which are reported to council in September each year alongside the external auditors' report to members. It is then signed by Council Leader and Chief Executive.

### **3 Governance & Risk Board**

- 3.1 The Governance & Risk Board is an officer group charged with maintaining oversight of the council's corporate governance and risk management functions. It is chaired by a Deputy Chief Executive and has representation from all service areas, including the Monitoring Officer, the Audit, Risk and Counter-Fraud Manager, the Chief Solicitor (also the Deputy Monitoring Officer), and the Governance Manager. It reports when required to the Corporate Management Team and oversees the work of officer working groups.
- 3.2 Its meetings in 2016/17 included these items of business:-
- Conclusion of the review business continuity plans, including the corporate plan and services' own plans
  - Monitoring of insurance claims and statistics
  - Monitoring and reporting on corporate high risks and strategic risks
  - Statutory Compliance Performance Indicators
  - Review of Health and Safety Policies and Procedures
  - Review of draft policies and strategies on their way to PDSP and committee, such as the RIPS Policy and the reviews of Standing Orders and Scheme of Administration

## **4 Management Plans**

4.1 Management Plans are an important and vital link between the council's corporate aims and priorities and the implementation at a service level, with their identification and reporting of actions and performance monitoring measures. Many of the standards built into the Code are clearly reflected in the Plans, for example:-

- Explaining service structures, services and activity budgets
- Partners and partnership working
- Relevance to Corporate Plan priorities and responsibility for corporate strategies
- Customer participation and consultation
- Employee engagement
- Performance and actions and improvement and efficiency activity

4.2 All are reported to members and are available to the public through PDSPs in the spring each year, and then on the council's website. They provide information on the service's activities in the preceding year and planned activities for the forthcoming year and are an essential tool in assisting the translation of service activity into evidence of compliance with the Corporate Plan and the Code.

## **5 Policy and Strategy Development and Reviews**

5.1 During the year there were many significant steps taken corporately and at service level in developing and reviewing strategies and policies. Many of those have a material impact on compliance with the standards. A brief selection is:-

- Broadcasting and recording of council meetings
- Review of Asbestos Management Policy and Plan
- Integration Joint Board Financial Assurance, and Strategic Plan
- Strategic Housing Investment Plan 2017/22
- Participation Request Procedure
- Parental Engagement Strategy

5.2 The reports and minutes of decisions for all of these are readily available on the council's website through COINS (<http://coins.westlothian.gov.uk/coins/>). New and reviewed policies and strategies as a matter of routine explain when they will be reviewed again and how performance will be reported.

## **6 Monitoring and Reporting**

- 6.1 There is clear evidence from PDSP and committee and council reports and minutes of regular and transparent reporting in relation to significant aspects of the council's functions and which have a bearing on compliance with the Code. These include performance reporting (both service and financial), compliance with statutory retimes and compliance with internal standards and agreed outcomes. Some examples are:-
- Progress against the Corporate Plan, Factfile 2016 and End of Term Report
  - Education/pupil attainment
  - Review of Standing orders and Scheme of Administration, and protocols for officer and member working
  - Annual review of Policing
  - Community Development Finance Institution
  - Ongoing revenue and capital budget and programme reports to committee
- 6.2 Performance reporting continues through quarterly reports to PDSPs, reports to the Performance Committee and Education (Quality Assurance) Committee, and public performance reporting arrangements through Covalent. Reports to Performance Committee follow internal assessments of service areas through the council's West Lothian Assessment Model and cover that assessment process and its outcome in detail.

## **7 Systems and procedures**

- 7.1 The implementation and review of corporate policies and procedures provides additional evidence of compliance with the standards in the Code. Some examples are:-
- Approval and implementation of Green Transport Policies
  - Employee Appraisal and Performance Framework and Staff Survey
  - Development of strategic planning and locality arrangements for all health and social care services delivered by council and health board, to sit alongside the statute-based IJB services
  - Introduction of a new Social Work Complaints Handling Procedure
  - Review of corporate and service business continuity plans
  - Approval and implementation of Revised Multi-Member Ward protocol and arrangements for members' Use of Council Facilities
- 7.2 Some of these may not be as visible as the higher-level issues reported and approved by members since they may involve management implementation of agreed strategies and policies.

## **8 Annual Compliance Statements**



- 8.1 The Code requires an annual statement of compliance to be made by relevant responsible officers on a number of issues. These relate to significant corporate policies and procedures and regulatory compliance.
- 8.2 The preparation and compilation of these annual statements are the responsibility of the Monitoring Officer. The statements for 2016/17 are attached in Appendix 2, and are comprised of:-
- Breaches of the law - Monitoring Officer
  - Best Value Framework - Head of Finance & Property Services
  - Procurement - Head of Corporate Services
  - Fraud and Corruption Head of Finance & Estates
  - Employee Whistleblowing - Head of Finance & Property Services
  - Discipline and Grievances - Head of Corporate Services
  - Occupational Health & Safety - Head of Corporate Services
  - Protection of Vulnerable Groups - Head of Corporate Services
  - Information Security - Head of Corporate Services
  - Public Sector Equality Duty - Head of Corporate Services
  - Covert Surveillance and Accessing Communications Data – Governance Manager
- 8.3 Compliance with the freedom of information regime is reported separately and elsewhere by the head of Corporate services. An annual report on the operation of the Councillors' Code of Conduct is also reported separately by the Governance Manager.
- 8.4 Each of these annual statements of compliance concludes that the council's policies and procedures are operating satisfactorily or effectively and any breaches or areas of improvement have been identified. None of the breaches highlighted is considered to have had, or to have, a material or significant impact on the operations or finances of the council. As is appropriate for the separate processes through which good standards of corporate governance are demonstrated, some of those issues are echoed in the annual governance statement and in the review of the system of internal controls that preceded approval of the annual governance statement by committee.
- 9 Standards in the Code**
- 9.1 Appendix 3 contains a list of the underlying standards in the Code, ordered according to the aggregate score allocated to each. The first digit of the reference number allocated to each standard indicates which of the six over-arching principles it supports. Each item requires to be assessed across three factors – approach, deployment and review.

- 9.2 None of these factors is directly concerned with the quality or effectiveness of the systems or procedures or the data they produce. Those are monitored and judged in other ways through various scrutiny routes. The scores are concerned with the provision, availability and review of the systems themselves.
- 9.3 The maximum score across all three elements is 12, the lowest is zero. Scores are allocated to red (0-5, inclusive), amber (6-8, inclusive) and green (9-12) categories.
- 9.4 The table in the appendix shows the standards in those three categories. In addition, it shows:-
- Those for which it has been assessed that the scores have risen (shaded in green)
  - Those for which it has been assessed that the scores have fallen (shaded in red)
  - For both categories, a brief explanation is provided as to the reasons to justify that higher or lower assessment
- 9.5 The following information should be noted, based on scores updated for the current year:-
- As for the last two years, there are no red scores, only greens and ambers. During previous years, a small number of red scores were gradually eliminated through review and improvement
  - Green scores represent 263 out of 360, or 73%
  - Amber scores represent 97 out of 360, or 27%
  - The number of green scores has risen by 4
  - The number of amber scores has fallen by 4
  - The number of standards where scores have risen is 35
  - The number of standards where scores have fallen is 1
- 9.6 Comparative figures for this and the last three years are as follows:-

	<b>2016/17</b>	<b>2015/16</b>	<b>2014/15</b>	<b>2013/14</b>
<b>Green</b>	263 (73%)	259 (72%)	230 (64%)	250 (69%)
<b>Amber</b>	97 (27%)	101 (28%)	130 (36%)	110 (31%)
<b>Red</b>	0 (0%)	0 (0%)	0 (0%)	0 (0%)
<b>Total</b>	360 (100%)	360 (100%)	360 (100%)	360 (100%)

## 10 Areas of concern

- 10.1 Last year's report reported on progress in relation to two issues, but noted that more remained to be done. These were overdue reviews of Standing Orders for the Regulation of Meetings, MMW Protocols and other significant governance documents, and in relation to members' training. Both of those have since been addressed as follows:-
- The Code calls for certain significant governance documents to be formally reviewed at least once per administrative term. Some are kept under regular and continuous review through officer working groups, but others require more discrete attention. That review process was commenced through Partnership & Resources PDSP in December 2015 and concluded in November and December 2016. Revised versions are in place of Standing orders for the Regulation of Meetings; the Scheme of Administration; two protocols for officer and member working and use of council facilities; and elected member role descriptions
  - In relation to members' training, progress was made through the planning of the post-election induction programme for members which was delivered in May and June 2017. Other work is ongoing, including evaluation of that induction programme and the acquisition of a software system to allow electronic access for members to online training resources and briefings
- 10.2 Drawn from the information in the appendices, these are the areas which will be given attention in the current financial year.
- 10.3 Building on the post-elections members' induction programme, further development of members' training and briefings
- Implementation of the community empowerment legislation in relation to participation requests, asset transfer requests and participatory budgeting
  - Implications from the Scottish Government's review of local governance arrangements
  - Implementation of a refreshed RIPSA policy and procedure, and reporting arrangements
  - Translation of the existing Code of Corporate Governance to the 2016 CIPFA/SOLACE Framework
  - Reporting and monitoring of information security breaches
  - Improvements to the information asset register
  - Procedures in relation to procurement business case exemptions from Standing Orders
  - Review of the role descriptions of the four statutory officers in light of recent guidance
  - Implementation of the general data protection regulation for May 2018
  - Grants to voluntary organisations

- 10.4 Where these issues have been identified through internal audit reports the agreed actions and progress will be monitored and reported through the Audit Committee. In other cases, the Governance & Risk Committee will have that role. The committee may identify other issues to be explored and considered when it deals with this report at its meeting on 9 October 2017.

## **E. CONCLUSION**

On the basis of all of the factors and information noted in this report, the council can be assured that the standards of the Code of Corporate Governance continue to be substantially met.

## **F. BACKGROUND REFERENCES**

- 1 Minutes of meetings of Audit & Governance Committee throughout 2016/17
- 2 Council Executive, 30 August 2016
- 3 Audit & Governance Committee, 26 September 2016
- 4 Governance & Risk Committee, 19 June 2017

Appendices/Attachments:

1. Annual Governance Statement
2. Annual Compliance Statements
3. Code Standards and Scores

James Millar, Governance Manager, 01506 281613, [james.millar@westlothian.gov.uk](mailto:james.millar@westlothian.gov.uk)

Date of meeting: 19 September 2017

## **APPENDIX 1**

### **ANNUAL GOVERNANCE STATEMENT 2016/17**

#### **1 Corporate Governance**

- 1.1 The governance framework is the systems, processes, culture and values by which the council is directed and controlled, and the activities through which it is accountable to, engages with and leads the West Lothian community. These are the arrangements put in place to ensure that the intended outcomes for West Lothian residents and other stakeholders are defined and delivered. They must always be used in the public interest.
- 1.2 The council has overall responsibility for good governance arrangements – for establishing its values and principles and culture, for ensuring the existence and review of an effective governance framework, and for putting in place monitoring and reporting arrangements.
- 1.3 In practice, as with most of its business, the council to a large extent entrusts the delivery of those tasks to committees and to appropriate council officers. That delegation does not remove or avoid the responsibility of all the council's elected members for governance.
- 1.4 In the council's Corporate Plan 2013/17 the place of corporate governance as an "enabler" is recognised and established. It is one of the essential back-office corporate services necessary to assist the setting, monitoring, achievement and reporting on corporate priorities and outcomes. The Corporate Plan acknowledges the wide understanding that good governance promotes good decision-making.

#### **2 Governance framework**

- 2.1 The framework is made up of corporate documents, policies and procedures which are designed to guide and assist the council in doing its business in accordance with the law and with proper standards and principles; ensuring that public money is safeguarded and used economically, efficiently and effectively; and fulfilling its statutory duty to secure best value.

#### **3 System of internal control**

- 3.1 A significant part of the council's governance framework is its system of internal control (financial and other). It is an ongoing process designed to identify risks to the achievement of the council's objectives; to evaluate the likelihood of those risks occurring; to consider the potential impact of the risks; and to manage them effectively. Those controls can never eliminate risk or failure to achieve objectives entirely – they can only provide reasonable and not absolute assurance. The design, development and management of the system of internal control is undertaken by managers within the council.
- 3.2 The system of internal financial control is designed to provide assurance on the effectiveness and efficiency of operations and the reliability of financial reporting. It is based on a framework, which includes financial regulations and a system of management supervision, delegation and accountability, supported by regular

management information, administrative procedures and segregation of duties. Its key elements include a documented internal control framework relating to financial processes, procedures and regulations; a comprehensive budgeting and monitoring framework; scrutiny of periodic and annual financial and operational performance reports; performance management information; and project management disciplines.

- 3.3 Reporting to members on the effectiveness of the system of internal control is carried out by the Audit Risk & Counter Fraud Manager in his Internal Audit Annual Report to committee (June 2017). His conclusion is that the framework of governance, risk management and control is generally sound. He identified areas where improvements could be made and confirmed that recommendations would be followed up and reported as required. Of those, four areas were identified where the conclusion was that control was unsound - information security breaches, grants to voluntary organisations, information asset register and procurement business case exemptions. The agreed actions in relation to those areas will be followed up in the next year.

#### **4 Audit & Governance Committee**

- 4.1 The Audit & Governance Committee monitors the independence and effectiveness of the Audit, Risk and Counter Fraud Unit. It is given assurance in relation to non-internal audit functions through the internal audit manager of Falkirk Council. The committee considers annual reports by Audit, Risk and Counter Fraud Manager and the Governance Manager which provide an opinion and assurance on the overall adequacy and effectiveness of the council's framework and code of governance, risk management and control. This statement forms part of that process and was approved at committee in June 2017.
- 4.2 The committee meets four times each year. Reports by the Audit, Risk and Counter Fraud Manager are presented and considered in public unless there is clear legal justification for excluding the public. The outcome of internal audit and counter-fraud investigations judged to be significant are reported. They express an opinion as to whether controls are satisfactory or require improvements. They set out improvement actions which have been agreed with relevant managers. The findings, actions and times for completion are presented for committee approval. The committee periodically receives a report by the Audit, Risk and Counter Fraud Manager in relation to agreed actions which have been reported to committee but which have not been fulfilled.
- 4.3 The committee also receives reports in relation to governance matters, principally reports issued by the Accounts Commission and/or Audit Scotland in relation to the council or local government as a whole. It can consider those reports from the councillors' perspective and recommend any action which it considers should be taken in response. The committee also receives the annual report on corporate governance and the annual governance statement for approval.
- 4.4 The committee includes one non-councillor member recruited for a three-year tenure. That member is entitled to the same papers and reports as councillor members of the committee and brings a different non-council and non-councillor perspective to the work of the committee.

#### **5 Code of Corporate Governance**

5.1 The council's governance arrangements are reflected in a Local Code of Corporate Governance based on a framework produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The six principles on which the Code is currently based are:-

- Focusing on the purpose of the council, outcomes for the community and a vision for the local area
- Elected members and officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting values for the council and demonstrating good governance through upholding high standards of conduct and behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Developing the capacity and capability of elected members and officers to be effective
- Engaging with local people and other stakeholders to ensure robust public accountability

5.2 That framework is based on governance principles and sub-principles and is informed by standards and evidence-based compliance and monitoring arrangements. The Code is maintained on the council's performance system, Covalent, with a settled scoring methodology applied and used to measure compliance and monitor progress against each of the requirements of the Code. An annual report is presented to committee annually to provide members with assurance as to the degree of compliance with the standards in the Code. The annual report will be published when it is reported to Council Executive. The annual report includes information about compliance through a list of scores against the Code's standards.

## **6 Compliance statements**

6.1 As part of the annual report a set of compliance statements are produced. They deal with compliance with the law and with the policies, procedures and practices of significance to good governance. They are prepared after wide consultation with services and senior officers and take into account oversight by external bodies of the council's compliance. They are signed by the responsible senior officer and are designed to bring to the attention of elected members any incidents of non-compliance which are significant to the council's operations. They cover the following areas of activity:-

- Breaches of the law - Monitoring Officer
- Best Value Framework - Head of Finance & Property Services
- Procurement - Head of Corporate Services
- Fraud and Corruption Head of Finance & Property Services

- Employee Whistleblowing - Head of Finance & Property Services
- Discipline and Grievances - Head of Corporate Services
- Occupational Health & Safety - Head of Corporate Services
- Protection of Vulnerable Groups - Head of Corporate Services
- Information Security - Head of Corporate Services
- Public Sector Equality Duty - Head of Corporate Services
- Covert Surveillance and Accessing Communications Data – Governance Manager

6.2 The statement by the Monitoring Officer is particularly important since the Monitoring Officer is one for the four statutory officer posts charged with ensuring the council's compliance with its statutory duties and responsibilities and reporting on any breaches of the law which are significant to the operation of the council.

6.3 Separate reports are provided to members in relation to the operation and compliance with the Councillors' Code of Conduct (by the Governance Manager) and in relation to compliance with the freedom of information legislation (Head of Corporate Services).

## **7 Scrutiny**

7.1 The council deals with the remainder of its scrutiny function by members in three places.

- Policy Development & Scrutiny Panels are working groups of members and representatives from external community bodies. They consider quarterly performance reports from the service areas included in their remit. The reports are drawn from the council's well-established performance monitoring and reporting system (Covalent) and reports are presented with graphs, charts and RAG analysis together with explanatory commentary. Members and external representatives are able to question officers on service performance and make recommendations to them about improvement actions.
- The Performance Committee is established to consider the performance of service units against the council's performance appraisal system, the West Lothian Assessment Model (WLAM). It receives written reports presented at public committee meetings by senior service managers and can question them and make recommendations to them about improvement actions.
- The Education (Quality Assurance) Committee carries out a scrutiny role solely in relation to schools' performance and internal and external assessment reports. The committee includes the non-councillor members appointed by the council in relation to its education function. Representatives from the relevant school's Parent Council are invited to attend and take part in the committee's meetings.



- 7.2 Taking these into account for performance scrutiny the council has provided a set of forums for the effective scrutiny by members of service performance. Training on scrutiny was included in the induction programme for members to be delivered after the local government elections in May 2017.

## **8 Officer activity**

- 8.1 The council is required by legislation to operate a professional and objective internal audit service. The Audit, Risk and Counter Fraud Unit includes internal audit which is an independent appraisal function which examines and evaluates systems of financial and non-financial control. Internal audit operates in accordance with the "Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector" (PSIAS). An annual audit plan is prepared based on an assessment of risk and is approved by the Audit & Governance Committee. Internal audit reports are issued to the committee in relation to the outcome of significant proactive and reactive reports. Reports are issued in the name of the Audit, Risk and Counter Fraud Manager who has the right, when deemed necessary, of direct access to the Chief Executive. There is annual reporting to the committee of internal audit activities and to give assurance about the independence, effectiveness and soundness of the service.
- 8.2 Legislation requires the council to appoint a Chief Financial Officer. That role is to be performed conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the Application Note to Delivering Good Governance in Local Government: Framework. The CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) sets out the requirement for the Chief Financial Officer to be professionally qualified and sets out the criteria for qualification. The council's Head of Finance & Property Services is the council's Chief Financial Officer. He operates in accordance with the council's Financial Regulations and Treasury Management plan, and reports regularly to members on revenue and capital budgetary performance and compliance. The role is undertaken in accordance with the relevant statutory rules, guidance and standards.
- 8.3 Governance and risk management are supervised on the officer side of the council by the Governance & Risk Board. It is chaired by a Depute Chief Executive and its members include the Monitoring Officer, the Audit Risk and Counter Fraud Manager, the Governance Manager, the Chief Solicitor and senior managers from across the council's service areas. It receives reports from officer working groups on risk and corporate governance, and monitors corporate and high risks. It considers the annual report on corporate governance and the compliance statements before they are presented to committee. It provides an effective control and conduit for risk and governance issues and matters of concern.
- 8.4 Risk management is embedded at a service level across the council and management teams monitor, assess and mitigate risk at service level as a matter of routine at their management team meetings. That process continues at lower levels in each service's management structure. Risk assessment and monitoring and the progress towards agreed actions are carried out using Covalent.
- 8.5 Similarly, management teams routinely monitor their performance through

Covalent, utilising the high-level performance indicators which are reported publicly as well as lower level management performance indicators. Services are divided into WLAN units which report on an agree cycle to a panel chaired by the Chief Executive. It considers the evidence presented and allocates a score. The service unit then proceeds to report to the Performance Committee.

## **9 Assurance**

9.1 In addition to the activities and procedures already described, throughout the year the council has considered, reviewed and approved numerous documents, strategies, policies and procedures which are reflected and assessed in the code of corporate governance. All of these can be found in the reports and minutes of the committees and other bodies in the council's decision-making structure. The following are small lists of examples of that work:-

- Significant document reviews - Corporate Plan 2013/17; ICT, Corporate Procurement and Information Strategies; Standing Orders and Scheme of Administration; Members' Role Descriptions; Officer/Member Protocols
- Annual reports - System of Internal Control and External Auditors' Review of Key Internal Controls; Equality Outcome and Mainstreaming; Code of Corporate Governance and Annual Compliance Statements; Councillors' Code of Conduct; Chief Social Work Officer Report
- Annual plans and progress/completion reports - Treasury Management Plan and Annual Report; Internal Audit Charter, Plan and Annual Report; Corporate Procurement Plans; Management Plans; People Strategy and Staff Engagement
- Performance and scrutiny - General and HRA revenue fund and capital programme monitoring; procurement activity; complaints performance; service unit performance reports to Performance Committee; Public performance reporting, including Fact File and the End of Term Report
- *Ad hoc* reporting and issues - Independent Review of the Planning Service; Public Protection Committee Biennial Report; Audit & Governance Committee on outstanding actions from risk-based audit reports; recording and broadcasting council meetings; monitoring of performance of Police Scotland and Fire & Rescue Service

9.2 Based on the governance framework and arrangements already described, the council and the West Lothian community can be assured that the council's corporate governance standards have been substantially met in 2016/17.

## **10 Matters of concern from 2015/16**

10.1 Two matters for action were highlighted in last year's annual governance statement and the annual report on corporate governance. They have been addressed in the last year as follows.

- Members' training was again seen as an area where improvements could be made. Especially in the current regime of reducing budgets for local government the engagement of members in a full understanding of the council's statutory duties and the impacts of budget reductions is essential. It was acknowledged in those reports that the best chance of progress would come after the local government elections in May 2017. With that in

mind a working group of officers was established in September 2016 and met regularly with a view to designing and delivering the best possible post-election induction programme and ongoing training and briefing arrangements. Feedback from elected members was obtained and built in to the programme. Training for all members, returning and newly-elected, was made compulsory for regulatory committees. The success of the induction programme will be assessed and experience used to inform ongoing training opportunities.

- Formal reviews of several elements of the council's constitutional arrangements were overdue. Those were Standing Orders for the Regulation of Meetings, the Scheme of Administration, the Multi-Member Ward Protocol for Officers, the Multi-Member Ward Protocol for Members and Elected Members' Role Descriptions. The review process was started in 2015/16 and was concluded for all five documents in November and December 2016. They fall to be reviewed again at least once before the next local government elections in 2022.

10.2 Another matter commented on in previous years is the streamlining of the Code of Corporate Governance to try to reduce its size and unwieldiness. That work has not progressed significantly in the current year but has been overtaken by the introduction of a new CIPFA/SOLACE Framework and Guidance (2016). That will require consideration of the extent to which the current Code requires to be amended to reflect and apply the new principles and standards. That is work to be carried out in the coming year.

## **11 Matters addressed and to be addressed**

11.1 A selection of the issues which have been noted in the year are as follows. Actions have been taken during the year as described, and the last three of these are areas which will be taken forward to be addressed next year.

- The possibility of political change and uncertainty was recognised following the local government elections in May 2017. This was largely not capable of control. In preparation, a working group of officers was established and met from September 2016 to plan for the introduction and induction of elected members and for the legal requirements to be met in the immediate post-election period. The effectiveness of those arrangements will be reviewed in 2017/18
- The proposed expansion of the services delivered for the council through West Lothian Leisure raised legal and governance concerns. A working group chaired by the Project Manager was set up and included the Governance Manager and Chief Solicitor. The actions identified included adequate measures to deal with the governance issues identified. The advice issued by the Standards Commission in 2016 on members' roles in ALEOs was incorporated
- The implementation of the community empowerment regime called for new policies and procedures to be put in place in relation to asset transfer and participation requests and those were achieved
- The continuing and developing relationship between the council and the Integration Joint Board was of potential concern. Arrangements were put

in place during the year for reporting of IJB activity and decisions within the council and the provision of service delivery and financial performance information to the IJB for its meetings

- The council's awareness of and compliance with its public sector equality duties was addressed through compulsory training at service level and increased attention to carrying out and reporting on equality impact assessments
- The review was concluded of Standing Orders for the Regulation of Meetings, the Scheme of Administration, the Multi-Member Ward Protocol for Officers, the Multi-Member Ward Protocol for Members and Elected Members' Role Descriptions
- The council was inspected by the Office of the Surveillance Commissioner in relation to its policies and procedures for compliance with its regulation of investigatory powers duties. The inspection identified areas of concern and six principal actions required for improvement. An action plan has been put in place and this is covered in the annual compliance statements. They include the introduction of revised and up-to-date policy and procedures and regular training
- Members' training remains an area of concern. It has been and will be addressed through the arrangements for post-election induction and training
- In 2016 a new CIPFA/SOLACE Framework "Delivering Good Governance" was introduced. It replaces the principles, sub-principles and standards found in the 2007 version with revised and updated versions. The Code of Corporate Governance currently reflects the 2007 version of the Framework. Detailed consideration will be given in the next year to transferring the current Code into the framework introduced in the 2016 version. In doing so, it is likely that more specific issues requiring action will be identified as the new principles are applied in the context of the council's present arrangements
- The review of the system of internal control identified four areas where control was unsound (information security breaches, grants to voluntary organisations, information asset register and procurement business case exemptions). Actions for improvement have been agreed and progress will be monitored in the next year

11.2 A list of actions and target completion dates in relation to these issues will be developed and followed up. It will incorporate the work required for consideration of translating the current code of corporate governance into the form required of the 2016 framework and guidance. Completion will be monitored through the governance and risk board and reported to committee as required.

## Local Code of Corporate Governance - Annual Statement of Compliance 2016/17

**Name of Policy or Procedure:** Information Security Policy

**Responsible Officer:** Julie Whitelaw – Head of Corporate Services

**Stated Requirement in Code:** Annual Statement of Compliance

**Report required by:** Corporate Management Team August 2017 Meeting

Next report due April 2018

**Report by Head of Corporate Services on Statements of Compliance with arrangements**

The Information Security Policy is maintained by IT Services who are responsible for the continuous development and review of the policy, associated procedures and technical controls. IT Services also log, manage and report all breaches of policy and facilitate ongoing compliance across service areas.

During the 2016/17 financial year the following volumes of security incidents were recorded:

Summary of Information Security Incidents 2016/17 compared with previous year								
Service Area/Category	2016/17				2015/16			
	Low	Medium	High	Total	Low	Medium	High	Total
Area Services	0	0	0	0	66	2	0	68
HCBS	217	38	0	255	255	1	0	256
Finance & Property	110	9	0	119	98	5	0	103
Education	53	6	0	59	15	6	1	22
Corporate Services	192	30	3	225	242	16	2	260
Social Policy	199	31	1	231	328	5	0	333
Operational Services	83	6	2	91	89	2	0	91
Schools	10	11	2	23	16	3	0	19
PED&R	75	6	0	81	66	0	0	66
<b>Total</b>	<b>939</b>	<b>137</b>	<b>8</b>	<b>1084</b>	<b>1175</b>	<b>40</b>	<b>3</b>	<b>1218</b>

**Impact Categories:** *Low* - relates to viruses identified and removed, *Medium* - relates to virus outbreaks and other cyber security incidents, *High* - relates to loss of data, critical vulnerabilities and loss of systems

A total of 1084 incidents were logged in 2016/17. This compares to 1218 in 2015/16. This is an overall decrease of 11% which is largely due to a decrease in reported 'phishing' emails down by 12% on the previous year. The IT Service Desk has processes in place to identify, log, remove and report phishing emails to internet authorities. Figure 2 shows the breakdown in incident type in 2016/17 compared to 2015/16:

Breakdown of Security Incident Types 2016/17 compared with previous year				
	2016/17		2015/16	
Account Management	14	1%	6	0.1%
Cyber Incident/Investigation	23	2%	11	0.1%
Phishing Email/Virus/Spam	985	93%	1120	91.1%
Data Handling	37	2%	60	0.4%
Data Loss	0	0%	3	0.1%
Lost Equipment	25	2%	17	0.1%
Stolen Equipment	0	0%	1	0.1%
<b>Total</b>	<b>1084</b>	<b>100%</b>	<b>1218</b>	<b>100%</b>

The volume of non-phishing emails remained largely static with 99 recorded in 2016/17 compared to 98 in 2015/16.

'Phishing' is when criminals use fake e-mails or web links to acquire sensitive personal information, such as passwords, usernames, or bank details. This is now the most common method of delivering viruses onto computers. IT Services maintain anti-virus and other security systems that identify and remove the majority of phishing emails and viruses from council systems. IT Services also have a standard process in place to routinely record and remove the small percentage of phishing emails etc. that can bypass these security controls and, once removed, they pose little ongoing risk to the council. No data has been lost in these incidents. Consequently, no further assessment of risks is required.

However, comprehensive risk assessments are undertaken where the security of equipment, systems, policies and/or data have been compromised or threatened. Risk Assessments inform decisions on how to protect individuals, systems, services and the council. It is also important that enough information is gathered to compile a comprehensive report about what went wrong to help put together a strategy to prevent similar breaches in the future.

Risk assessments are also used as a basis for deciding on how and when to notify third parties and used as evidence that the council has taken appropriate action. This is particularly important in incidents involving personal data. It ensures the council meets its obligations under the Data Protection Act and in dealings with the Information Commissioner's Office (ICO). This also ensures that policies and other controls remain effective and adequate.

An internal audit was conducted in 2016 which identified a number of the steps in the procedure for conducting risk assessments were not always being followed and concluded that the process was unsound. As a result, the Risk Assessment process controls have been reassessed and improvements are being implemented. The main changes are to remove the requirement for a paper copy of a risk assessment to be completed, substituting this with an electronic risk assessment. This should remove the risk of the paper copy of the risk assessment not being signed by the relevant parties or not being stored in the appropriate folder in the Meridio EDRMs. The new procedure also requires steps to be taken to contain any breach within 2 days and consideration to be given to whether to report to the ICO within 3 days of the breach. Improvement actions are to be identified and logged in Covalent in order that their implementation can be reported and monitored.

As per the above criteria, there were 30 Risk Assessments conducted on security incidents in 2016/17. This is a decrease of 33% on the previous year. None of the incidents were considered significant enough to notify the Information Commissioner. However, corrective actions were taken in each case to minimise the impact and risk of recurrence. All incidents are monitored and reviewed through established governance routes i.e. to the Information Management Working Group and ICT Programme Board. General security awareness is maintained through direct emails and the 'I-Matters' email newsletter.

The council achieved annual compliance with the PSN (Public Services Network) on 23<sup>rd</sup> August 2016. The Cabinet Office audit and scrutinise the security controls put in place in order to ensure compliance across Local Government.

In the annual questionnaire, all Service Areas across the council have indicated satisfaction on Policy Awareness, Data Sharing/Processing Agreements, Reporting of Security Breaches, Update of the Information Asset Register, and completion of Privacy Impact Assessments for new

systems or projects.

Significant incidents in 2016/17 included two instances of Ransomware outbreaks on the council network. This affected a limited number of computers and a small portion of network storage. The impact was contained by IT Services who have since reinforced network defences with additional controls. This is in line with the principles of the Scottish Government's Cyber Security Strategy (November 2015).

**Conclusions Drawn from Report**

The council's existing policy and procedures in respect of Information Security continue to be monitored to ensure effective operation. The data breach risk assessment process was found to be unsound by internal audit, but a review of the data breaches has not found any breach which had a material or significant impact on the operations or finances of the council. Despite the failings in completing the required documentation relating to the breaches, the breaches themselves had been assessed and steps taken to contain the breach and mitigate the risk of further breach. The revised risk assessment process should address the processing issues which were identified during the internal audit.

**Matters for Forward Periods**

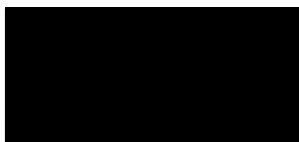
The Information Security Policy, other IT Policies, procedures and procedures will continue to be appraised and developed in line with the developing Scottish Government Cyber Security Strategy.

The Information Security requirements of GDPR (General Data Protection Regulation) will be evaluated and assessed to meet the May 2018 implementation date.

**Certificate by Head of Support Services**

I certify that the council's existing policies and procedures in respect of information security are operating effectively and will continue to be monitored and reviewed regularly in keeping with Corporate Governance standards.

**Signature**



**Date**

30/8/17

## Local Code of Corporate Governance - Annual Statement of Compliance 2016/17

**Name of Policy or Procedure:** Compliance with European Procurement Rules, Standing Orders for Regulation of Contracts, and Corporate Procurement Procedures.

**Responsible Officer:** Julie Whitelaw – Head of Corporate Services

**Stated Requirement in Code:** Annual Statement of Compliance

**Report required by:** Corporate Management Team August 2017 Meeting

Next report due April 2018

**Report by Head of Corporate Services on Statements of Compliance with arrangements**

In order to secure compliance for procurement activity, the council standing orders for contracts, which contain the procurement procedures, have been implemented across the council. These procedures provide guidance on how to procure and purchase goods, services and works while remaining compliant with the European Directive and the Public Contracts (Scotland) Regulations.

A Corporate Contract Management System (CCMS) is used to assist with recording and monitoring all contract activity (above £5,000 in value) across the council. This database includes details of contract start and end dates, anticipated spend values, supplier information, and identified supply risks.

During February 2017, all Heads of Services were called upon to submit a statement accounting for compliance within their respective service areas, and to provide information on any identified instances of non-compliance.

The council set a target in 2016/17 for 92% of its total spend (on requirements valued above £50k) to be captured under compliant aggregated contracts, and achieved a year end position of 93%. Over the past five years this result has steadily increased and is now 15.3% higher than the results achieved in 2012/13.

There were two reported instances of non-compliance in 2016/17 as follows:

1. Decoration Voucher Scheme:

The unusual nature of this requirement gives rise to significant challenges in designing and operating a compliant process. This activity is on the Procurement Plan for 2017/18, and strategy options to both ensure compliance and improve service levels and performance controls are currently under consideration. Alternative in-house options, such as the provision of paint-packs, are also under consideration.

2. Use of hotels to deliver the duties of the housing need service:

It is very difficult to secure contractual terms with hotels under standard procurement (tender) procedures, and it is not uncommon to encounter some non-compliance in this business area. To mitigate the use of hotels we have extended our work with the private sector through private sector leasing, increased

1  
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TT's from mainstream stock, and are in the process of buying back properties from the private market to supplement temporary stock. Risks are updated monthly and monitoring of progress takes place weekly.

An internal audit conducted in 2016/17 found that there were ineffective controls in place to ensure compliance with procurement procedures relating to Business Case Exemptions (BCEs). This included :-

- ineffective controls in place to ensure BCE forms are fully completed and properly authorised;
- ineffective controls in place to prevent the duplicate use of BCEs;
- ineffective controls in place to confirm the accuracy of BCEs recorded as "One Off";
- ineffective controls in place to ensure compliance with the procurement procedures rules for aggregated spend prior to the BCE being authorised;
- ineffective controls in place to ensure that the actual level of spend with the BCE supplier for the specific goods/works/services does not exceed the approved level of spend.

No significant risk of financial loss, fraud or regulatory non-compliance was identified.

The actions which have been agreed will mitigate the risk of procurement spend breaching the Council's Standing Orders for the Regulation of Contracts

A small number of contracts were extended beyond the provisions of original contract, typically to provide for continuity of supply whilst re-tendering procedures could be completed. Such instances were duly considered and approved on their own individual merits.

Work on strategy development in close collaboration with Services has continued to improve.

**Conclusions Drawn from Report**

None of the identified instances on non-compliance observed in 2016/17 presented a serious risk of significant financial loss or Regulatory breach.

**Matters for Forward Periods**

Standing Orders are due to be fully reviewed in 2017/18 and updates will take regard of improvements in process and controls which may be identified either by the Standing Orders Working Group itself, or the quarterly Procurement Board.

**Certificate by Head of Corporate Services**

I certify that, upon enquiry, during the financial year under review, apart from those issues identified in this statement, the Council's officers have complied with the EU Procurement Directive, Public Contracts (Scotland) Regulations 2015, Standing Orders for the Regulation of Contracts, and Corporate Procurement Procedures.

**Signature**



**Date**

30 August 2017

## Local Code of Corporate Governance - Annual Statement of Compliance 2016/17

### Name of Policy or Public Sector Equality Duty Procedure:

**Responsible Officer:** Julie Whitelaw – Head of Corporate Services

**Stated Requirement in Code:** Annual Statement of Compliance

**Report required by:** Corporate Management Team August 2017 Meeting

Next report due April 2018

### Report by Head of Corporate Services on Statements of Compliance with arrangements

The UK Government's Equality Act was introduced on 1 October 2010. The Act includes a positive duty to promote equality specifically focussed on public authorities.

The duty is in 2 parts - a duty in the Equality Act 2010 itself, often referred to as the 'general duty', and specific duties which are placed on public authorities by Scottish Ministers. The purpose of the specific duties is to enable the better performance of the general duty by adopting a positive, proactive and organised approach to improving outcomes for all.

The general duty in the Equality Act 2010 came into force on 5 April 2011. Since that date, Scottish public authorities have been subject to the general duty in the Equality Act 2010. Under this general duty they must have 'due regard' to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations.

The Public Sector Equality Duty requires equality to be considered as part of the functions of public authorities, including decision-making, in the design of internal and external policies and in the delivery of services, and for these issues to be kept under review.

The specific duties require public authorities to:

- Develop and publish a Mainstreaming Report;
- Publish equality outcomes and report progress;
- Assess and review policies and practices;
- Gather, and use publish employee information;
- Publish gender pay gap information;
- Publish statements on equal pay statement;
- Consider award criteria and contract conditions in relation to public procurement; and
- Publish in a manner that is accessible.

During 2016/2017 the Council has continued to focus on our legislative duty commitments in terms of mainstreaming equality into everything we do, with particular emphasis on actions to achieve our Equality Outcomes. Key actions taken forward to achieve these commitments include the continued roll out of mandatory equality and diversity training with 5071 employees having attended the training, introduction of an Employee Health and Wellbeing Framework, continued membership of the Stonewall Diversity Champion Programme and ongoing consultation and engagement with Community Equality Groups.

Service representatives on the council's Corporate Working Group for Equality continue to take lead responsibility for coordinating service level activity.

**Conclusions Drawn from Report**

The council has continued to manage the implementation of the Public Sector Equality Duty within the required legal framework.

**Matters for Forward Periods**

On or before the 29 April 2017 the council is legislatively required to produce and publish a Mainstreaming Report. This report details the progress we have made in mainstreaming equality into everything we do and the progress we have made in achieving our Equality Outcomes.

The Mainstreaming Report and Outcome Plan for 2017-2021 was approved by Council Executive on 6 June 2017.

**Certificate by Head of Corporate Services**

I certify that arrangements are currently in place for compliance with the Public Sector Equality Duty.

**Signature**



**Date**

30/6/17

## Local Code of Corporate Governance - Annual Statement of Compliance 2016/17

<b>Name of Policy or Procedure:</b>	<b>Disclosure of Information by Employees (Whistleblowing Policy &amp; Procedure) and Code of Conduct for Employees</b>	
<b>Responsible Officer:</b>	Julie Whitelaw - Head of Corporate Services	
<b>Stated Requirement in Code:</b>	Annual Statement of Compliance	
<b>Report required by:</b>	Corporate Management team	August 2017 Meeting
		Next report due April 2018
<b>Report by Head of Corporate Services on Statements of Compliance with arrangements</b>	<p><b>Overview</b></p> <p>The HR Policy &amp; Advice team is required to keep the council's employment policies under continuous review and all policies must be reviewed at least once every 5 years to ensure that they continue to be 'fit for purpose'. Specific reviews are also undertaken in response to changing service requirements, developments in legislation and as part of the council's Equality Impact Assessment (EIA) process.</p> <p><b>Annual Compliance Checklists</b></p> <p>Services were issued with Annual Compliance checklists for the purposes of seeking confirmation of compliance with the Whistleblowing Policy and Code of Conduct for Employees (the latter in particular, relating to registered declarations of interest, disclosure of personal information and working with councillors).</p> <p>All services have duly confirmed that they have arrangements in place to enable employees to report matters under the terms of the council's Whistle-Blowing Policy. Employees are reminded of those arrangements along with their responsibilities under the Code of Conduct through a variety of methods including induction, the performance review process, team meetings, one to one meetings and email reminders.</p> <p><b>Employee Information Briefing</b></p> <p>In line with the direction of the Employee Appeals Committee and as reported in the 2015/16 Statement of Compliance, a programme for roll-out of key council employment policies began in 2016. Employee Information Briefing (EIB) Scripts were developed for use by managers to brief employees on new or revised employment policies and to serve as reminders to employees of their responsibilities under existing employment policies.</p> <p><u>Code of Conduct</u></p> <p>An EIB script was issued on the Employee Code of Conduct in December 2016 which reminded employees of their responsibilities under the Code of specifically with regard to:</p>	

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- registering any private interests that may have an impact on their work with the council.
- disclosure of information
- contact with the media
- equality in service provision
- communicating with councillors
- political neutrality in discharging duties

#### Whistleblowing

An EIB script was issued on the Whistleblowing Policy in March 2017 which reminded employees of their responsibilities under Policy specifically with regard to:

- the nature and type of issue that should be reported under the Whistleblowing Policy
- The process for reporting a Whistleblowing complaint

#### **Protected Disclosures**

Sixteen disclosures issues were reported to the Audit Risk & Counter Fraud team during 2016/17 as summarised in the table below:

<b>Service Area</b>	<b>Number and Nature of Disclosures</b>	<b>Outcome</b>
Operational Services	<ul style="list-style-type: none"> <li>• 3 cases - Breach of council policy and procedures</li> <li>• 2 cases - Drug and Alcohol misuse</li> <li>• 1 case - Theft</li> </ul>	<ul style="list-style-type: none"> <li>• 4 cases – closed, no fraud/irregularity established</li> <li>• 2 cases - ongoing</li> </ul>
Education	<ul style="list-style-type: none"> <li>• 1 case - Breach of the Employee Code of Conduct</li> <li>• 1 case - PVG concerns</li> </ul>	<ul style="list-style-type: none"> <li>• 1 case – closed, no fraud/irregularity established</li> <li>• 1 case - ongoing</li> </ul>
Housing, Customer and Building Services	<ul style="list-style-type: none"> <li>• 1 case - Breach of the Employee Code of Conduct</li> <li>• 1 case - Drug and Alcohol misuse</li> <li>• 1 case – Theft</li> <li>• 1 case - Data Protection Breach</li> <li>• 1 case - Tenancy Fraud</li> <li>• 1 case - Failure to Declare Criminal Offences</li> </ul>	<ul style="list-style-type: none"> <li>• 3 cases – closed, no fraud or irregularity established</li> <li>• 2 cases – closed, fraud/irregularity established</li> <li>• 1 case - ongoing</li> </ul>
Social Policy	<ul style="list-style-type: none"> <li>• 1 case - Breach of Council Policy and Procedures</li> <li>• 1 case – Theft</li> </ul>	<ul style="list-style-type: none"> <li>• 2 cases – closed, no fraud/irregularity established</li> </ul>

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**Conclusions Drawn  
from Report**

The Whistleblowing Policy and Employee Code of Conduct continue to be 'fit for purpose'.

**Matters for Forward  
Periods**

HR Services will continue to work with the Audit, Risk and Counter Fraud team and Legal Services to ensure that advice to services continues to be comprehensive, relevant and fully cognisant of the latest developments in employment law and equality legislation.

**Certificate by Head of  
Corporate Services**

I certify that the council's existing policies and procedures in respect of whistle blowing are operating effectively and will continue to be monitored and reviewed regularly in keeping with Corporate Governance standards.

**Signature**



Date 30/8/17

DATA LABEL: INTERNAL ONLY

## Local Code of Corporate Governance - Annual Statement of Compliance 2016/17

<b>Name of Policy or Procedure:</b>	<b>1. Disciplinary Procedure and Code</b> <b>2. Procedure for Hearing Employee Grievances</b> <b>3. Policy and Procedure for Dealing With Complaints of Bullying &amp; Harassment</b>	
<b>Responsible Officer:</b>	Julie Whitelaw– Head of Corporate Services	
<b>Stated Requirement in Code:</b>	Annual Statement of Compliance	
<b>Report required by:</b>	Corporate Management Team	August 2017 Meeting
		Next report due April 2018
<b>Report by Head of Corporate Services on Statements of Compliance with arrangements</b>	<p><b>Overview</b></p> <p>The HR Policy &amp; Advice team is required to keep the council's employment policies under continuous review and to undertake a review of each policy at least once every 5 years to ensure that it continues to be 'fit for purpose'. Specific reviews are also undertaken in response to changing service requirements, developments in legislation and as part of the council's Equality Impact Assessment (EIA) process.</p> <p>This compliance statement provides details of how the council's Disciplinary, Grievance and Bullying &amp; Harassment processes have operated during 2016/17 together with measures for improving their effectiveness.</p> <p><b>Employee Information Briefings</b></p> <p>As reported in the 2015/16 Statement of Compliance, a programme of briefings for employees on key employment policies was put in place for 2016/17. Employee Information Briefing (EIB) Scripts were developed for use by managers to advise employees of new or revised employment policies and to serve as reminders to employees of their responsibilities under existing employment policies.</p> <p><u>Disciplinary Code</u></p> <p>An EIB script was issued on the Disciplinary Code in June 2016 and reminded employees of their responsibility to comply with the Code both while at work and outside of work where their conduct/behaviour could detrimentally affect the council or fellow employees.</p> <p><u>Bullying &amp; Harassment</u></p> <p>An EIB script was issued on the Code of Practice on Promoting Appropriate Working Relationships and Behaviour in December 2016. This briefing reminded employees of their responsibility to:</p> <ul style="list-style-type: none"> <li>• adopt a zero tolerance attitude of bullying and harassment in the workplace</li> <li>• support employees who experience bullying and harassment</li> <li>• comply with the Code by avoiding the types of behaviour cited</li> </ul>	

within its guidance.

- treat colleagues and customers with dignity and respect, taking care to avoid actions and words that may be construed by others as being hurtful or offensive.

### **Analysis of Cases**

During the financial year 2016/17, 40 cases were dealt with under the council's Disciplinary Procedures, 6 less than in 2015/16.

During the same period, 14 cases were dealt with under the Procedure for Dealing with Employee Grievances, which was the same as the number recorded in 2015/16.

Eight bullying and harassment cases were concluded during 2016/17, 5 fewer than in 2015/16.

Service Area	Number of Concluded Cases		
	Discipline	Grievance	Bullying & Harassment
Corporate Services	0	0	0
Education Services	7*	2	1
Finance & Property	3	0	1
Housing, Customer & Building Services	9	1	1
Operational Services	11	8	2
Planning, Economic Dev. & Regeneration	0	1	0
Social Policy (CHCP)	10	2	3
Total	40	14	8

\* 5 of the 7 cases relate to the former Area Services ( 3 Arts and 2 Sports & Leisure now West Lothian Leisure)

### **Discipline**

Of the 40 concluded disciplinary cases, 7 resulted in no formal disciplinary action being taken, 4 resulted in a Verbal Warning, 13 resulted in a Written Warning, 6 resulted in a Final Written Warning, 1 resulted in Punitive Action Short of Dismissal and 8 in dismissal. One employee resigned prior to the conclusion of the disciplinary process.

### **Grievance**

Of the 14 grievances, 2 were upheld, 2 not upheld and 1 withdrawn at Stage 1 of the process. At Stage 2 of the process 8 cases were not upheld and only one case upheld.

### **Bullying & Harassment**

Of the 8 formal Bullying and Harassment Cases, 7 were resolved out with the disciplinary process. One case proceeded to a disciplinary hearing however no formal disciplinary action was taken.



### **Appeals to Committee Against Dismissal and Stage 3 Grievances**

A total of 14 appeals/grievances were lodged at Stage 3 (Employee Appeals Committee). Of those 14 cases, 2 related to disciplinary matters and 12 to grievances. There were no Sickness Absence dismissal cases.

Both disciplinary cases were not upheld. Of the 12 grievance cases, 2 were upheld, 7 not upheld, a further 2 did not proceed and 1 was withdrawn by the appellant.

### **Employment Tribunal Cases**

During 2016/17, 8 employment tribunal cases were lodged against the council.

#### Withdrawn Claims

Of the 8 cases lodged, 2 relating to disability /sex discrimination/failure to make reasonable adjustments were withdrawn by the claimants.

#### Settled Claims

Of the remaining 6 cases, 2 relating to claims under the Fixed Term Worker Regulations and the Part-Time Working Regulations were settled and one other relating to disability discrimination and failure to make reasonable adjustments is in the process of being settled.

#### Ongoing Cases

Two claims relating to constructive dismissal/sex discrimination/disability discrimination are ongoing while a third claim for unfair dismissal will be the subject of a final hearing in May 2017.

#### **Conclusions Drawn from Report**

The council's disciplinary, grievance and bullying and harassment policies and procedures are operating effectively and comply with legal and corporate governance standards.


#### **Matters for Forward Periods**

HR Services will be working closely with Legal Services to ensure that advice to services continues to be comprehensive, relevant and fully cognisant of the latest developments in employment law and equality legislation.

#### **Certificate by Head of Corporate Services**

I certify that the council's existing policies and procedures in respect of discipline and grievance are operating effectively and will continue to be monitored and reviewed regularly in keeping with Corporate Governance standards.

Signature



Date 30/01/17

## Local Code of Corporate Governance - Annual Statement of Compliance 2016/17

<b>Name of Policy or Procedure:</b>	<b>1. Disciplinary Procedure and Code</b>  <b>2. Procedure for Hearing Employee Grievances</b>  <b>3. Policy and Procedure for Dealing With Complaints of Bullying &amp; Harassment</b>	
<b>Responsible Officer:</b>	Julie Whitelaw– Head of Corporate Services	
<b>Stated Requirement in Code:</b>	Annual Statement of Compliance	
<b>Report required by:</b>	Corporate Management Team	August 2017 Meeting
		Next report due April 2018
<b>Report by Head of Corporate Services on Statements of Compliance with arrangements</b>	<p><b>Overview</b></p> <p>The HR Policy &amp; Advice team is required to keep the council's employment policies under continuous review and to undertake a review of each policy at least once every 5 years to ensure that it continues to be 'fit for purpose'. Specific reviews are also undertaken in response to changing service requirements, developments in legislation and as part of the council's Equality Impact Assessment (EIA) process.</p> <p>This compliance statement provides details of how the council's Disciplinary, Grievance and Bullying &amp; Harassment processes have operated during 2016/17 together with measures for improving their effectiveness.</p> <p><b>Employee Information Briefings</b></p> <p>As reported in the 2015/16 Statement of Compliance, a programme of briefings for employees on key employment policies was put in place for 2016/17. Employee Information Briefing (EIB) Scripts were developed for use by managers to advise employees of new or revised employment policies and to serve as reminders to employees of their responsibilities under existing employment policies.</p> <p><u>Disciplinary Code</u></p> <p>An EIB script was issued on the Disciplinary Code in June 2016 and reminded employees of their responsibility to comply with the Code both while at work and outside of work where their conduct/behaviour could detrimentally affect the council or fellow employees.</p> <p><u>Bullying &amp; Harassment</u></p> <p>An EIB script was issued on the Code of Practice on Promoting Appropriate Working Relationships and Behaviour in December 2016. This briefing reminded employees of their responsibility to:</p> <ul style="list-style-type: none"> <li>• adopt a zero tolerance attitude of bullying and harassment in the workplace</li> <li>• support employees who experience bullying and harassment</li> <li>• comply with the Code by avoiding the types of behaviour cited</li> </ul>	

within its guidance.

- treat colleagues and customers with dignity and respect, taking care to avoid actions and words that may be construed by others as being hurtful or offensive.

### **Analysis of Cases**

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Service Area	Number of Concluded Cases		
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Operational Services	11	8	2
Planning, Economic Dev. & Regeneration	0	1	0
Social Policy (CHCP)	10	2	3
Total	40	14	8

\* 5 of the 7 cases relate to the former Area Services ( 3 Arts and 2 Sports & Leisure now West Lothian Leisure)

### Discipline

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### Bullying & Harassment

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### **Appeals to Committee Against Dismissal and Stage 3 Grievances**

A total of 14 appeals/grievances were lodged at Stage 3 (Employee Appeals Committee). Of those 14 cases, 2 related to disciplinary matters and 12 to grievances. There were no Sickness Absence dismissal cases.

Both disciplinary cases were not upheld. Of the 12 grievance cases, 2 were upheld, 7 not upheld, a further 2 did not proceed and 1 was withdrawn by the appellant.

### **Employment Tribunal Cases**

During 2016/17, 8 employment tribunal cases were lodged against the council.

#### Withdrawn Claims

Of the 8 cases lodged, 2 relating to disability /sex discrimination/failure to make reasonable adjustments were withdrawn by the claimants.

#### Settled Claims

Of the remaining 6 cases, 2 relating to claims under the Fixed Term Worker Regulations and the Part-Time Working Regulations were settled and one other relating to disability discrimination and failure to make reasonable adjustments is in the process of being settled.

#### Ongoing Cases

Two claims relating to constructive dismissal/sex discrimination/disability discrimination are ongoing while a third claim for unfair dismissal will be the subject of a final hearing in May 2017.

### **Conclusions Drawn from Report**

The council's disciplinary, grievance and bullying and harassment policies and procedures are operating effectively and comply with legal and corporate governance standards.

### **Matters for Forward Periods**

HR Services will be working closely with Legal Services to ensure that advice to services continues to be comprehensive, relevant and fully cognisant of the latest developments in employment law and equality legislation.

### **Certificate by Head of Corporate Services**

I certify that the council's existing policies and procedures in respect of discipline and grievance are operating effectively and will continue to be monitored and reviewed regularly in keeping with Corporate Governance standards.

Signature



Date 30/8/17

**Local Code of Corporate Governance - Annual Statement of Compliance 2016/17**

**Name of Policy or Breaches of the Law.  
Procedure:**

**Responsible Officer:** Julie Whitelaw – Monitoring Officer

**Stated Requirement in Code:** Annual Statement of Compliance

**Report required by:** Corporate Management Team August 2017 Meeting

Next report due April 2018

**Report by Head of Corporate Services on Statements of Compliance with arrangements**

Having consulted with the Heads of Service, the Governance Manager, the Chief Solicitor and the Audit and Risk Manager, I can confirm that I am not aware of any actual or potential breaches of the law by the council in 2016/17 which have or will have a material or significant impact on the operations or finances of the council.

In the course of my consultations, a number of instances were identified where improvements to the council's compliance with legislation were required. None of these breaches is considered to have a material or significant impact on the operations or finances of the council. Where such improvements were identified, steps have been, or are being taken, to deliver them, as outlined in the other relevant statements of compliance.

**Conclusions Drawn from Report**

There have been no material or significant breaches of the law by the council in 2016/17 which have or will have a material or significant impact on the operations or finances of the council.

**Matters for Forward Periods**

None.

**Certificate Monitoring Officer**

**by** The council is complying in all material respects with its legal requirements.

**Signature**

**Date**

23/8/17

## Local Code of Corporate Governance - Annual Statement of Compliance 2016/17

<b>Name of Policy or Procedure:</b>	<b>Protecting Vulnerable Groups</b>		
<b>Responsible Officer:</b>	Julie Whitelaw – Head of Corporate Services		
<b>Stated Requirement in Code:</b>	Annual Statement of Compliance		
<b>Report required by:</b>	Corporate Management Team	June 2017 Meeting	
<b>Review Date</b>	Next report due April 2018		

<b>Report by Head of Corporate Services on Statements of Compliance with arrangements</b>	<p>The Protection of Vulnerable Groups (PVG) Scheme continues to be the means by which the council ensures that unsuitable individuals are not employed to work with vulnerable groups.</p> <p><b>PVG Checking</b></p> <p>During the period 1 April 2016 to 31 March 2017, the council submitted a total of 2133 PVG scheme membership applications for employees or prospective employees and volunteers in regulated work. Assessments are conducted and reviewed annually by services to ensure that the correct posts are identified as regulated.</p> <p>The total number of applications processed comprises applications for employees and volunteers who are new to regulated work and also includes the routine 3 yearly re-checking of employees and volunteers who are already in regulated work with PVG scheme membership. The 3 yearly re-checking carried out by the council is in line with direction from the Care Inspectorate that re-checking should be carried out every 3 – 5 years. The measures taken by the council ensure that all staff in regulated positions have up to date PVG records and that no new staff were permitted to start work in such positions during 2016/17 without the appropriate PVG clearance.</p> <p>The table below shows a breakdown of the PVG applications re-charged to the relevant service areas during that period:</p> <table><tr><th></th><th>Education &amp; Cultural Services</th><th>Health and Social Care Partnership</th><th>Other Service Areas</th><th>Total</th></tr><tr><td>Number of PVG Applications</td><td>1088</td><td>981</td><td>64</td><td>2133</td></tr><tr><td>Percentage</td><td>51%</td><td>46%</td><td>3%</td><td>100%</td></tr></table> <p><b>Application of Policy and Procedure</b></p> <p>During 2016/17 the PVG referral panel was convened twice resulting in referral to Disclosure Scotland in both cases.</p> <p>The first referral followed an employee's dismissal in Social Policy for failure in professional practice including failure in risk management, child protection processes and maintaining acceptable records. The second referral followed the dismissal of a teacher for inappropriate conduct</p>		Education & Cultural Services	Health and Social Care Partnership	Other Service Areas	Total	Number of PVG Applications	1088	981	64	2133	Percentage	51%	46%	3%	100%
	Education & Cultural Services	Health and Social Care Partnership	Other Service Areas	Total												
Number of PVG Applications	1088	981	64	2133												
Percentage	51%	46%	3%	100%												

towards a child.

It was the decision of both panels that the criteria for referral to Disclosure Scotland had been met in each case. However as the individuals are no longer council employees, the council will not be notified of the decision by Scottish Ministers as to whether the individuals are listed as a result of the referrals.

In discharging its statutory obligations under the Act, the council's actions demonstrate that the council's Policy and Procedure on the Protection of Children and Protected Adults is being actively and appropriately applied.

Services were issued with Annual Compliance checklists for the purposes of seeking confirmation of compliance with the Policy and Procedure on the Protection of Children and Protected Adults. All services have duly confirmed that they have arrangements in place to ensure compliance with the policy.

**Conclusions Drawn from Report**

The council's arrangements for the protection of vulnerable groups continue to be robust and 'fit for purpose'.

**Matters for Forward Periods**

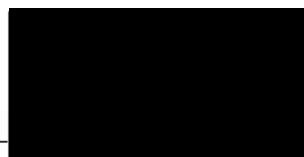
The council will continue to obtain PVG scheme membership updates every 3 years for employees in regulated work along with new PVG scheme membership records for employees new to regulated work. In doing so, the council will discharge its statutory obligations under the Protection of Vulnerable Groups (Scotland) Act 2007.

A Disclosure Scotland compliance audit is expected in 2018.

**Certificate by Head of Corporate Services**

I certify that the robust arrangements are currently in place to ensure compliance with the Protection of Vulnerable Groups (Scotland) Act 2007.

**Signature**



**Date**

30/8/17

**Local Code of Corporate Governance - Annual Statement of Compliance 2016/17**

<b>Name of Policy or Procedure:</b>	Anti Fraud and Corruption Policy
<b>Responsible Officer:</b>	Donald Forrest – Head of Finance and Property Services
<b>Stated Requirement in Code:</b>	<ol style="list-style-type: none"> <li>1. Annual statement of compliance</li> <li>2. Review Anti Fraud and Corruption Policy every administrative term</li> </ol>
<b>Report required by:</b>	Corporate Management Team June 2017 meeting
<b>Review Date</b>	The Anti Fraud and Corruption Policy was reviewed in 2015/16 and the revised policy was approved by Council Executive on 1 March 2016.
<b>Report by the Audit Risk and Counter Fraud Manager on the operation of the policy during 2016/17</b>	<p>All Heads of Service have confirmed compliance with the Anti Fraud and Corruption Policy during 2016/17.</p> <p>Financial Regulations require all allegations of fraud to be reported to the Head of Finance and Property Services. For this purpose the term fraud includes theft, corruption, embezzlement, and any other criminal offences deemed relevant, including the appropriate offences in relation to the Bribery Act 2010.</p> <p>The Audit, Risk and Counter Fraud Unit investigates referrals in accordance with the terms of the council's Anti Fraud and Corruption Policy and the unit's procedures for the investigation of suspected fraud and irregularity.</p> <p>During the year the unit received 39 referrals of which 16 were categorised as whistleblowing. All referrals are subject to a risk assessment and work is prioritised on the basis of those referrals considered to be highest risk. The outcome of the 16 whistleblowing referrals is set out separately in the council's Whistleblowing Statement of Compliance for 2016/17.</p> <p>The output from an investigation is normally a report for management setting out the facts of the matter and containing, where considered appropriate, recommendations for improvement in control. Where an investigation is considered to raise significant issues of concern, it is reported to the Audit and Governance Committee.</p>



Three investigations were reported to the Audit and Governance Committee, two on 20 June 2016 and one on 26 September 2016. Two of these investigations were referred to Police Scotland.

The Audit Risk and Counter Fraud Unit is responsible for administering the National Fraud Initiative (NFI) biennial data matching exercise. It is important to appreciate that a data match does not necessarily indicate wrongdoing. The 2016/17 matches were received in January 2017 and progress in investigating matches will be reported to the Audit and Governance Committee during 2017/18.

**Conclusions Drawn from Report**

It is concluded that the Anti-Fraud and Corruption Policy is operating effectively.

**Matters for Forward Periods**

At its meeting on 27 February 2017 the Audit and Governance Committee approved a counter fraud plan for 2017/18.

**Certificate by Head of Finance and Property Services**

On the basis of the statements provided by the Heads of Service, and the information provided by the Audit, Risk and Counter Fraud Manager, I certify that the council's Anti-Fraud and Corruption Policy has been complied with.

**Signature**



**Date** 21 June 2017

## Local Code of Corporate Governance - Annual Statement of Compliance 2016/17

<b>Name of Policy or Occupational Health and Safety Policy Procedure:</b>		
<b>Responsible Officer:</b>	Julie Whitelaw – Head of Corporate Services	
<b>Stated Requirement in Code:</b>	Annual Statement of Compliance	
<b>Report required by:</b>	Corporate Management Team	August 2017 Meeting
<b>Review Date</b>		Next report due April 2018
<b>Report by Head of Corporate Services on Statements Compliance arrangements</b>	<p>The council's Health and Safety Policy Statement sets out the framework for Health and Safety. It defines expectations and the arrangements to meet those expectations. The Health and Safety policy and the council's scheme of delegation sets out the roles and responsibilities of officers.</p> <p>Within the review period Health and Safety have carried out audits of safety management procedures. The focus in 2016-2017 was around compliance with incident recording procedures, the operation of swimming pools and the control of substances hazardous to health within Secondary schools. The findings and resulting action plans are agreed with, and subsequently provided to the manager of the area audited. Copies of the action plans are provided to the Head of Service. The Health and Safety team monitor progress by services against the audit actions plans.</p> <p>Monthly Health and Safety update reports are provided to the Corporate Management Team to inform them of safety issues/ concerns that have or could affect the working arrangements and services of West Lothian Council.</p> <p>Incident data is included in the information provided to the Corporate Management Team. This provides information on the reportable incidents, incidents of note, near misses and incidents of violence and aggression that have occurred within the previous month.</p> <p>The Health and Safety advisers provide monthly or quarterly reports to each service management team highlighting service relevant issues and will attend each service management meetings on a minimum of a quarterly basis. From 2017 each service will receive a monthly health and safety update report and annual report at the end of each financial year.</p> <p>The data analysis within these reports will also be accompanied with recommendations for actions.</p> <p>During the course of the year there have been 45 reports made to the Health and Safety executive (HSE) as per the requirements of the</p>	

Reporting of Incidents, Diseases and Dangerous Occurrences Regulations (RIDDOR) as shown in Table 1 below.

Table 1 – RIDDOR reportable incidents

HSE Reportable 2016/17 *(2015/16)	RIDDOR reportable incidents to the HSE	HSE Notices – Notification of Contravention / Fee For Intervention Improvement Notice
Social Policy	7	-
Corporate	0	-
HCBS	9	-
Operational	14	-
Education	14	-
Finance & Property Services	0	-
PED	0	-
Area Services**	1	-
<b>Total</b>	<b>45*(48)</b>	<b>*(2)</b>

\*\*Due to the very late reporting of an incident within what was Area Services an incident that occurred in January 2016 was not reported until April 2016. The incident has been logged under the service at the time the incident occurred, Area Services rather than the service under which the property operates now, HCBS. This late reporting is a direct breach of the timescales stipulated in the RIDDOR Regulations. On this occasion the HSE did not carry out any investigation of the reported incident.

During 2016/2017 there has been no Notification of Contraventions or any formal legal notices served on West Lothian Council.

#### Conclusions from Report

#### Drawn

The councils existing Occupational Health and Safety policy is operating effectively and will continue to be monitored and reviewed regularly in keeping with Governance standards.

#### Matters for Forward Periods

#### Forward

The Council should remain committed to embedding strong safety management practices throughout the organisation. Services should ensure there are clearly defined aims for health and safety outlined within a service health and safety action plan with clearly defined actions and completion requirements. Planning will allow them to meet organisational objectives and ensure that individual service needs are identified, resources allocated and issues addressed.

An online health and safety management system was implemented in all services in 2016/2017. This integrated software solution promotes consistency in the management and control of health and safety information and assists services in demonstrating due diligence. Currently not all services are utilising the full functionality of the software and Heads

of Service must continue to ensure relevant modules within the software are used to store the required health and safety information.

There is a continued need for all managers to ensure the systems for health and safety are complied with and properly managed within their areas.

The three year rolling program for the review of Corporate safety policy and procedures continued and in 2016/17, 9 revised or new procedures were published through My Toolkit. These covered Fire, Lifting Operations, Manual Handling, Noise, Vibration, Emergency Evacuation, Risk Assessment and Incident Reporting Guidance, Construction, Design and Management (CDM).

Services must ensure that their procedures are reflective of work carried out within that service, and, that the requirements of Corporate procedures are met. In 2017/18 a full review of the Occupational Health and Safety Policy will be undertaken.

Managers are required to ensure that those employees who have designated responsibility outlined within the service safety arrangements documentation are made aware of them and must demonstrate that monitoring is taking place to ensure responsibilities are carried out.

There is a requirement for Health and Safety and statutory compliance to be a standing item on the agenda of all team management meetings.

**Certificate by Head of Corporate Services**

In order to complete this statement of compliance I have consulted with Heads of Service and received written confirmation of their service compliance with policies and procedures relating to health and safety.

I certify that the existing Occupational Health and safety policy is operating effectively and will continue to be monitored and reviewed in keeping with Corporate Governance Standards.

**Signature**



**Date**

23/8/17

## Local Code of Corporate Governance - Annual Statement of Compliance 2016/17

**Name of Policy or Procedure:** Compliance with Regulation of Investigatory Powers (Scotland) Act 2000 and Regulation of Investigatory Powers Act 2000

**Responsible Officer:** James Millar – Governance Manager

**Stated Requirement in Code:** Annual Statement of Compliance

**Report required by:** Corporate Management Team

**Review Date** 31 March 2017

The Council may grant authorisation for Directed Surveillance in accordance with the provisions of the Regulation of Investigatory Powers (Scotland) Act 2000, where satisfied that to do so is necessary and proportionate for the purposes of prevention or detection of crime. The Council has further powers in relation to the collection of telecommunications data in terms of the Regulation of Investigatory Powers Act 2000. During the year to 31 March 2017, there were no grants of authorisation for Directed Surveillance. Three applications were received, all 3 applications were withdrawn following discussion with an Authorising Officer.

By comparison, during the year to 31 March 2016, there were 3 applications. Two applications were withdrawn. One application in relation to Directed Surveillance was granted in relation to Trading Standards Test Purchase.

The year on year trend indicates a static position in relation to the number of occasions in respect of which Directed Surveillance is sought and/or granted. The Council works in close partnership with Police Scotland in relation to work undertaken by the Safer Neighbourhood Team, and this appears to coincide with and be consistent with the general decline in the exercise of the Council's powers under the Regulation of Investigatory Powers (Scotland) Act 2000. The periodic use of Directed Surveillance by Trading Standards is likely to continue in implementation of Trading Standards statutory obligations.

There have been no authorisations or applications made in respect of the collection of telecommunications data during the year to 31 March 2017. By comparison to the previous year, there were 2 such applications made to the Sheriff Court at Livingston, both of which were granted.

There is unlikely to be any significant change in the use of powers under the Regulation of Investigatory Powers Act 2000 in respect of collection of telecommunications data. Such authorisations now require the authorisation of a Sheriff of competent jurisdiction in addition to authorisation by appropriate officer (Chief Solicitor) within the Council.

In June 2016 the Council was subject to inspection by the Office of Surveillance Commissioners. The OSC report following inspection was issued on 17 June 2017. The report was scrutinised by the Councils Governance and Risk Board (G & RB) and an Action Plan was approved to implement the 6 Recommendations contained in the Inspection report.

The Recommendations are as follows:-

- Recommendation 1 - review of Policy and Guidance documentation
- Recommendation 2 - detail of Authorising Officer authorisation
- Recommendation 3 – appointment of Senior Responsible Officer
- Recommendation 4 – procedures to report RIPSAs policy to elected members
- Recommendation 5 – amendment of cancellation forms

In relation to Recommendations 1 and 4, a draft revised Policy, including provisions for reporting to members, has been considered by the Governance & Risk Board and by Partnership & Resources Policy Development & Scrutiny Panel. It will be reported to Council Executive for approval in September 2017. Recommendation 2 will be implemented by Authorising Officers ensuring that when granting requests for Directed Surveillance, there is a clear explanation of the surveillance being authorised. A Senior Responsible Officer has been identified in accordance with Recommendation 3. Committee will be asked to approve amendments to the Scheme of Delegations. Recommendation 5 will be implemented by Authorising Officers on an authorisation by authorisation basis to ensure that the appropriate level of detail is included in each authorisation and that forms remain current. A new procedure and Guidance note for officers is being finalised following feedback from services most regularly using RIPSAs.

**Conclusions Drawn  
from Report**

The Council has appropriately exercised its statutory powers in relation to surveillance as regulated by the Regulation of Investigatory Powers (Scotland) Act 2000 and the Regulation of Investigatory Powers Act 2000 however the OSC inspection has identified 6 Recommendations which the Council has undertaken to implement to improve compliance arrangements. The Council is generally subject to inspection by the Office of Surveillance Commissioners every 3 years and provides annual returns to the OSC in relation to its exercise of its powers of surveillance.

**Matters for Forward  
Periods**

The OSC inspection report identified Recommended areas of improvement following the inspection in 2016. An action plan has been approved by the Councils Governance and Risk Board, and will progress against those actions will be monitored at the Board.

**Certificate by James  
Millar Governance  
Manager**

I certify that during the financial year to 31 March 2017, the Council has granted no applications authorising Directed Surveillance, in terms of the Regulation of Investigatory Powers (Scotland) Act 2000 and the Regulation of Investigatory Powers Act 2000.

**Signature**



**Date** 30 August 2017

## Local Code of Corporate Governance - Annual Statement of Compliance 2016/17

<b>Name of Policy or Occupational Health and Safety Policy Procedure:</b>		
<b>Responsible Officer:</b>	Julie Whitelaw – Head of Corporate Services	
<b>Stated Requirement in Code:</b>	Annual Statement of Compliance	
<b>Report required by:</b>	Corporate Management Team	August 2017 Meeting
<b>Review Date</b>		Next report due April 2018
<b>Report by Head of Corporate Services on Statements Compliance arrangements</b>	<p>The council's Health and Safety Policy Statement sets out the framework for Health and Safety. It defines expectations and the arrangements to meet those expectations. The Health and Safety policy and the council's scheme of delegation sets out the roles and responsibilities of officers.</p> <p>Within the review period Health and Safety have carried out audits of safety management procedures. The focus in 2016-2017 was around compliance with incident recording procedures, the operation of swimming pools and the control of substances hazardous to health within Secondary schools. The findings and resulting action plans are agreed with, and subsequently provided to the manager of the area audited. Copies of the action plans are provided to the Head of Service. The Health and Safety team monitor progress by services against the audit actions plans.</p> <p>Monthly Health and Safety update reports are provided to the Corporate Management Team to inform them of safety issues/ concerns that have or could affect the working arrangements and services of West Lothian Council.</p> <p>Incident data is included in the information provided to the Corporate Management Team. This provides information on the reportable incidents, incidents of note, near misses and incidents of violence and aggression that have occurred within the previous month.</p> <p>The Health and Safety advisers provide monthly or quarterly reports to each service management team highlighting service relevant issues and will attend each service management meetings on a minimum of a quarterly basis. From 2017 each service will receive a monthly health and safety update report and annual report at the end of each financial year.</p> <p>The data analysis within these reports will also be accompanied with recommendations for actions.</p> <p>During the course of the year there have been 45 reports made to the Health and Safety executive (HSE) as per the requirements of the</p>	



Reporting of Incidents, Diseases and Dangerous Occurrences Regulations (RIDDOR) as shown in Table 1 below.

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During 2016/2017 there has been no Notification of Contraventions or any formal legal notices served on West Lothian Council.

#### Conclusions from Report

**Drawn** The councils existing Occupational Health and Safety policy is operating effectively and will continue to be monitored and reviewed regularly in keeping with Governance standards.

#### Matters for Forward Periods

The Council should remain committed to embedding strong safety management practices throughout the organisation. Services should ensure there are clearly defined aims for health and safety outlined within a service health and safety action plan with clearly defined actions and completion requirements. Planning will allow them to meet organisational objectives and ensure that individual service needs are identified, resources allocated and issues addressed.

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of Service must continue to ensure relevant modules within the software are used to store the required health and safety information.

There is a continued need for all managers to ensure the systems for health and safety are complied with and properly managed within their areas.

The three year rolling program for the review of Corporate safety policy and procedures continued and in 2016/17, 9 revised or new procedures were published through My Toolkit. These covered Fire, Lifting Operations, Manual Handling, Noise, Vibration, Emergency Evacuation, Risk Assessment and Incident Reporting Guidance, Construction, Design and Management (CDM).

Services must ensure that their procedures are reflective of work carried out within that service, and, that the requirements of Corporate procedures are met. In 2017/18 a full review of the Occupational Health and Safety Policy will be undertaken.

Managers are required to ensure that those employees who have designated responsibility outlined within the service safety arrangements documentation are made aware of them and must demonstrate that monitoring is taking place to ensure responsibilities are carried out.

There is a requirement for Health and Safety and statutory compliance to be a standing item on the agenda of all team management meetings.

**Certificate by Head of Corporate Services**

In order to complete this statement of compliance I have consulted with Heads of Service and received written confirmation of their service compliance with policies and procedures relating to health and safety.

I certify that the existing Occupational Health and safety policy is operating effectively and will continue to be monitored and reviewed in keeping with Corporate Governance Standards.

**Signature**



**Date**

23/8/17

## APPENDIX 3

### CORPORATE GOVERNANCE STANDARDS 2016/17

GREEN (9 – 12)			
This year	Last year	Standard	Reasons for movement
12	12	1.1.1e Formal annual report against SOA	
12	12	1.1.1k Terms of reference for service plans.	
12	12	1.1.1L Service Plans reflect corporate objectives.	
12	12	1.1.4d Bi-annual financial statements.	
12	12	1.2.2c Committee Reports detailing complaints dealt with and analysed by outcome.	
12	12	1.2.2q Risks to service delivery are identified, captured and reported on.	
12	12	1.3.1a Budget and monitoring reports provided to committee that demonstrate compliance with the requirements of the Prudential Code.	
12	12	1.3.1b Prudential indicators approved by Council.	
12	12	1.3.1c Annual capital plan approved by Council Executive.	
12	12	1.3.1d Quarterly monitoring reports to committee.	
12	12	1.3.1i The annual budgeting and Management Planning process ensures compliance with Standing Orders, Scheme of Delegation, Financial Regulations and Council policy.	
12	9	2.1.1a Political management structure is approved by Council and available on the internet	Full review carried out and agreed at committee
12	8	2.1.1b Terms of reference for the administration of each committee reviewed every administrative term and update as required.	Full review carried out and agreed at committee
12	9	2.2.1d Established terms of reference and reporting arrangements of all committees and any sub-committees of the authority.	Full review carried out and agreed at committee
12	12	2.1.1e Governance arrangements reviewed annually and reported to senior management and committee.	
12	8	2.1.1h Standing Orders contain details of the responsibilities of Elected Members and officers.	Full review carried out and agreed at committee
12	8	2.1.1j LEADER of the COUNCIL: Published job description.	Full review carried out and agreed at committee

## GREEN (9 – 12)

This year	Last year	Standard	Reasons for movement
12	12	2.1.1m HEAD OF PAID SERVICE: Under Standing Orders an officer is appointed Head of Paid Service under s4 of the Local Government and Housing Act 1989 and is responsible to the authority for all aspects of operational management.	
12	12	2.1.1n MONITORING OFFICER: An officer is appointed as Monitoring Officer under S5 Local Government and Housing Act 1989.	
12	12	2.1.1o s95 OFFICER: An officer is appointed as Proper Officer under S95 of the Local Government (Scotland) Act 1973.	
12	7	2.1.1p ELECTED MEMBERS: Job descriptions for Members' role approved by Council. Reviewed every administrative term and updated as required.	Full review carried out and agreed at committee
12	7	2.1.1r ELECTED MEMBERS: Protocol for the best practice to be observed in multi member wards.	Full review carried out and agreed at committee
12	8	2.1.1y EMPLOYEES: Protocol in place detailing how to operate with Elected Members from multi member wards.	Full review carried out and agreed at committee
12	8	2.2.1e Standing Orders and Financial Regulations are regularly reviewed.	Full review carried out and agreed at committee
12	12	2.2.2e Chief Executive appointed Head of Paid Service under s4 of the Local Government and Housing Act 1989.	
12	7	2.2.3b Political management structure is clear and effective. Reviewed every administrative term and updated as required.	Full review carried out and agreed at committee
12	12	2.2.4b Appointment of a senior officer to the role of s95 officer.	
12	8	2.2.4c Schemes of Delegation, Standing Order and Financial Regulations which are consistent with statute	Full review carried out and agreed at committee
12	12	2.2.4d Authority's accounts are compiled in accordance with statutory and professional accounting standards.	
12	12	2.2.4e Budgetary control framework and procedures have been developed.	
12	12	2.2.4f Documentation showing that the budgeting / service planning process was followed for setting the budget	
12	12	2.2.4g Authority's accounts are supported by comprehensive papers.	
12	12	2.2.4h The accounts and working papers are approved in accordance with relevant timetable.	
12	12	2.2.4i Regular reporting to committee of financial position and performance, together	

## GREEN (9 – 12)

This year	Last year	Standard	Reasons for movement
		with projected position.	
12	12	2.2.4j Compliance with the standard expected by external audit as evidenced in their annual report to the Council including the Performance and Risk framework.	
12	12	2.2.4k Annual report of Head of Internal Audit.	
12	12	2.2.5a An officer is appointed to ensure that agreed procedures are followed and applicable statutes and regulations complied with. These duties are defined within their job description.	
12	9	2.2.5b Schemes of Delegation, Standing Order and Financial Regulations which are consistent with statute.	Full review carried out and agreed at committee
12	12	2.2.5c Internal audit reports highlight any material breaches of Standing Orders or Financial Regulations.	
12	9	2.3.1c Protocols for communications between officers and groups of and individual elected members.	Full review carried out and agreed at committee
12	12	2.3.2d Remuneration for Elected Members available for public inspection.	
12	12	2.3.2e Expenses for Elected Members information available for public inspection.	
12	12	2.3.2L Development of an Organisational Change Policy to ensure that change is communicated and managed effectively.	
12	12	2.3.3a Council wide financial and budget performance system in place which enable monitoring and reporting regularly during the financial year.	
12	12	2.3.3b Annual accounts produced within deadlines and certified without qualification.	
12	12	2.3.3c A schedule of main council and committee meetings is planned to ensure that members regularly meet on a formal basis to set the strategic direction of the authority and monitor service delivery.	
12	8	2.3.3d Committee remits focusing on strategic decisions and performance monitoring.	Full review carried out and agreed at committee
12	12	2.3.3e Corporate guidance developed for high level KPI's to reflect the results section of WLAM, which is reviewed annually.	
12	10	2.3.4f Major strategic documents approved within management and committee terms.	Many examples of committee approval for policies and strategies, management approval for procedures and guidelines
12	12	2.3.4L Report annually in Factfile on performance against targets and challenges in the Corporate Plan.	Factfile 2015

## GREEN (9 – 12)

This year	Last year	Standard	Reasons for movement
12	7	3.1.1b Standing orders in place and reviewed at least once every administrative term.	Full review carried out and agreed at committee
12	12	3.1.1c Financial Regulations in place and reviewed at least once every administrative term.	
12	12	3.1.1f Schedule of meetings published within defined timescales.	
12	10	3.1.1g Meetings held in public and minutes published unless there are good reasons for confidentiality.	Compliant, sound procedures to identify private reports, small number not taken in public for appropriate and competent reasons
12	11	3.1.1h Agendas and minutes of meetings published within defined timescales. Verification of minutes through content management.	Full compliance for committees
12	12	3.1.1j Members' Allowance Scheme arrangements approved by Council	
12	12	3.1.1k Published record of allowances.	
12	12	3.1.1L Annual Governance Statement produced.	
12	12	3.1.2a Anti-fraud and anti-corruption policies created and reviewed at least once every administrative term. Policies cover officers, elected members and customers.	
12	12	3.1.2h Pre-employment disclosure checks are undertaken and a risk assessment process in place.	
12	8	3.1.2k Protocol developed governing relationship between members and officers	Full review carried out and agreed at committee
12	12	3.1.2n Complaints procedure for officers	
12	10	3.1.2p Induction scheme developed and reviewed at least once per administrative term. Induction training carried out for members.	Development of post-election induction scheme through officer working group
12	12	3.1.2r Performance appraisal procedures.	
12	12	3.1.3a A corporate standard on equality has been developed, which influences activities at all levels. This standard is reviewed and reported against at least once per annum.	
12	12	3.1.3c Registers created for declarations of interest of Members	
12	8	Full review carried out and agreed at committee	Full review carried out and agreed at committee
12	10	4.1.1h Agendas and minutes of scrutiny meetings available for inspection.	Fully compliant via Coins and retention schedule
12	12	4.1.1j Put in place proper arrangements to satisfy the statutory review of financial and operational reporting processes.	

## GREEN (9 – 12)

This year	Last year	Standard	Reasons for movement
12	10	4.1.2a Decision making protocols.	Full review carried out and agreed at committee
12	11	4.1.2b Record of decisions and supporting materials as well as use of casting vote.	Full compliance for committees and PDSPs via COINS
12	11	4.1.2g Ratification of any urgent decisions taken by officers in accordance with standing orders.	Full compliance via COINS
12	9	4.1.2i Council Minutes record decisions effectively	Coins records; and review of Standing Orders
12	11	4.1.3c Record declarations being sought and made at all committee meetings.	Evidence shows full compliance
12	12	4.1.3d A register of Members Interests is maintained, reviewed and made available for inspection.	
12	12	4.1.3e Robust guidance available for Elected members on what constitutes a conflict of interest.	
12	12	4.1.4e Findings of Internal Audit are regularly reported to the Audit Committee.	
12	12	4.1.4f Findings of annual corporate risk assessment regularly reported to Audit Committee.	
12	12	4.1.4g Action plans derived from External Audit reports regularly reported to Audit Committee.	
12	9	4.2.1a Framework agreed between members and officers to ensure that the general information needs of members to support decision making is in place.	Full review carried out and agreed at committee
12	12	4.2.1c Calendar of dates for submitting, publishing and distributing timely reports.	
12	12	4.2.2c Ensure that a senior officer is made responsible to the authority for ensuring that appropriate advice is given on financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal control.	
12	12	4.3.1a Risk management is embedded in the Strategic Planning, Financial planning, Service Delivery, Policy making and review, Project management, Performance management. This is included in council the Standing Orders	
12	12	4.3.1b Risk management policy is adopted/approved by committee and reviewed and updated at least once every administrative term.	
12	12	4.3.1c Risk management strategy and risk management processes are adopted/approved by committee and reviewed and updated at least once per annum.	
12	12	4.3.1d Authority maintains and reviews a register of its corporate business risks, linking them to strategic business objectives and assigning ownership for each risk.	

## GREEN (9 – 12)

This year	Last year	Standard	Reasons for movement
12	9	4.3.1h A committee has specific responsibility included in its terms of reference to consider corporate risk management.	Remit of Audit & Governance Committee
12	12	4.3.1m Service management teams regularly review significant risks that could prevent the service and/or the authority from achieving its key business objectives.	
12	12	4.3.1p A report is provided annually to committee, to report on the most significant risks to the council and the effectiveness of the systems of internal risk control for these risks and other risks in general.	
12	12	4.3.1q Authority has conducted an annual review of the effectiveness of the system of internal control and has reported on this in the Statement on Internal Control (SIC).	
12	12	4.3.1r Sources of assurance to support the SIC have been identified and are reviewed by senior officers and members.	
12	12	4.3.1s There are action plans in place to address any significant control issues reported in the SIC.	
12	8	4.4.1a The constitution, remit and powers of the local authority are defined.	Full review carried out and agreed at committee.
12	12	4.3.2a Whistle blowing policy exists, which is approved by committee, updated regularly and is reviewed by committee at least once per administrative term.	
12	12	4.4.3a Monitoring Officer appointed in terms of s5 of the Local Government and Housing Act 1989.	
12	7	5.2.1e Roles and responsibilities for officers and elected members including job profile and personal specification for each role.	Full review carried out and agreed at committee
12	12	6.1.3a Authority publishes its accounts in accordance with the statutory requirements	
12	12	6.2.5b Annual report which provides details of both positive and negative performance in terms of outcomes specified in the Single Outcome Agreement	
12	12	6.2.5c Timely production of the annual financial statements	
12	12	6.3.1a Staff, trade unions and other relevant representatives are consulted and involved in decision making.	
11	11	1.1.1a ABCDE Scottish Government 15 national outcomes incorporated into the partnerships Single Outcome Agreement(NEW)	
11	11	1.1.1d Performance against SOA measures published on the intranet.	
11	10	1.1.1h A Corporate Plan detailing the vision for the council is produced each administrative term.	Review carried out via PDSP



## GREEN (9 – 12)

This year	Last year	Standard	Reasons for movement
11	11	1.1.1i The council's activities and achievements from the previous year are published together with and the planned initiatives for the current year.	
11	11	1.1.2e Customer experiences of services taken into consideration in planning process	
11	11	1.1.4a Formal annual report against SOA.	
11	11	1.1.4g Public reporting of corporate performance.	
11	11	1.1.4h Public reporting of service performance.	
11	11	1.2.2d Formally approved complaints policy, which is reviewed and the public are aware of it.	
11	11	1.2.2e Complaints system records actions taken to prevent re-occurrence.	
11	11	1.2.2h Corporate communication standard developed.	
11	11	1.2.2i Customer contact arrangements are in place to record customer comments, complaints and requests for service.	
11	11	1.3.1e Annual budgeting process that links priorities and resource allocation.	
11	11	1.3.1f Five year general services capital budget consultation with committee.	
11	11	1.4.2b Training is provided for all parties involved in the delivery of the plans	
11	11	2.1.1f Documented and approved process for holding officers to account for achieving agreed objectives and implementing strategy.	
11	11	2.1.1L CHIEF EXECUTIVE: Published job description.	
11	11	2.1.1u ELECTED MEMBERS: Annual review of operation of Code of Conduct reported to senior management and committee.	
11	11	2.2.1a Scheme of delegation (including scheme of delegation for each service).	
11	9	2.2.1c An effective and clear scheme of delegation is in place, including a formal section identifying matters reserved to Council, i.e. not delegated	Amendments made following management restructures, updated to June 2017
11	11	2.2.1f There are clear management processes to ensure compliance with Standing Orders, Scheme of Delegation Financial Regulations and Council policy	
11	11	2.2.2a Up to date job description for the chief executive which sets out their operational responsibilities	
11	11	2.2.2d A robust performance management system which enables all operations to be reported on in terms of meeting performance standards targets and levels of satisfaction.	

## GREEN (9 – 12)

This year	Last year	Standard	Reasons for movement
11	11	2.2.2f Contract of Employment and Scheme of Delegation reflect responsibility under s4 of the Local Government and Housing Act 1989.	
11	11	2.3.2c A scheme for member remuneration and allowances and personnel policies and conditions of service which ties in with the national scheme.	
11	11	2.3.3i Reports include detailed performance results both absolute and relative to peer authorities, clear indication of below, on or above target results, highlighting areas where corrective action is necessary.	
11	11	2.3.3L Performance measures and benchmarking are being used to describe and evaluate how the authority's asset base contributes to the achievement of corporate and service objectives, including improvement priorities.	
11	11	2.3.4j Community Planning Partnership Board meets to review progress at least once per year.	
11	11	3.1.1a Corporate values set and promoted through major corporate documents and other media.	
11	11	3.1.2i Compliance with Protection of Children legislation in respect of officers and members appointed to a childcare position	
11	11	4.2.2d Protocols are in place that require services to seek proper professional advice on the financial implications arising from committee reports.	
11	11	4.3.1a Ensure that risk management is embedded into the culture of the authority, with members and managers at all levels recognising that risk management is part of their jobs.	
11	11	4.3.1f Corporate risk register is supported by or incorporates a series of department/service risk registers that identify and assign lower level of operational risks.	
11	11	4.3.1i Regular risk management reporting to the responsible member committee which takes appropriate action to ensure that corporate business risks are being actively managed, including reporting to full council as appropriate.	
11	11	4.3.1L A senior management team regularly reviews the most significant risks that could prevent the authority achieving its key business objectives.	
11	11	4.3.1n Risk related issues identified by auditors and inspectors are captured, actioned and reviewed.	
11	11	5.2.3a External scrutiny is undertaken of the council's performance.	
11	11	5.3.1d Resident panel structure	

## GREEN (9 – 12)

This year	Last year	Standard	Reasons for movement
11	11	6.1.1a There is a community strategy in place which sets out what the goals and responsibilities of the community planning partnership are.	
11	11	6.1.3c Authority publishes a report for the public on the outcomes specified in the single outcome agreement which is accessible to the public	
11	11	6.2.1a A communication strategy is developed that establishes clear channels of communication with all sections of the community and other stakeholders, and puts in place proper monitoring arrangements to ensure that they operate effectively.	
11	11	6.2.2b Reports of council meetings available for inspection	
11	11	6.2.5a Public Performance Reporting which is accessible, user friendly and tailored to the needs of local communities.	
11	8	6.2.6a The council's stated values and standing orders and reporting standards ensure that the authority as a whole is open and accessible subject only to the need to preserve confidentiality where it is proper and appropriate to do so.	Compliance with and reporting on information management (DPA and FOISA) and access to council and committee meetings
10	10	1.1.1f Ten year Community Plan for West Lothian produced in conjunction with local partners in public services, the private sector, voluntary sector and communities. Inclusion of targets and challenges in the plan	
10	10	1.1.1m Communication Strategy for corporate objectives.	
10	10	1.1.2a Signed off purpose and vision statement	
10	10	1.1.2b Review of the authority's vision	
10	10	1.1.2d Assessment of impact of changes from vision document.	
10	10	1.1.4c Report against Corporate Plan	
10	10	1.1.4e Annual service users feedback report.	
10	10	1.1.4f Publication of Statutory performance indicators (SPI's) on an annual basis	
10	10	1.2.1a Agreed set of service quality standard measures.	
10	10	1.2.2b Performance trends are established and reported upon.	
10	10	1.2.2j Unified approach to complaint handling across the council, with a common point of entry and also across community planning partnerships and other forms of partnership working.	
10	10	1.2.2L An Audit Committee remit that covers financial controls.	

## GREEN (9 – 12)

This year	Last year	Standard	Reasons for movement
10	10	1.3.1h Annual monitoring reported to committee.	
10	10	1.3.1j Clear corporate instruction on how to measure VFM and the corporate requirement to monitor VFM.	
10	10	1.3.1m VFM programme for auditors which will determine improvement actions to be taken.	
10	10	1.3.1n Compare information about the economy, efficiency and effectiveness of services provided by similar organisations.	
10	10	1.3.1o Benchmarking is used to ensure that services are performing well.	
10	10	1.4.1a Plans are developed which ensure adequate and effective handling of recognised civil emergencies.	
10	10	2.1.1d Public document setting out authorities approach to governance.	
10	10	2.1.1t ELECTED MEMBERS: Annual training for elected members on the code of conduct for elected members, including the officer/member interface.	
10	10	2.1.1x EMPLOYEES: A code of conduct for employees is approved by the council. The code is reviewed each administrative term.	
10	10	2.3.2h Structured pay scales reflecting competence for officers.	
10	10	2.3.2i Competencies Incorporated into job grading process.	
10	10	2.3.2m Development of Job Evaluation and job matching procedures or adoption of recognised national standards	
10	10	2.3.3f Appropriate key performance indicators have been established and approved for each service element and included in the service plan.	
10	10	2.3.3g Regular reports on progress and delivery of KPI's, which are presented to managers and members.	
10	10	2.3.3h Performance committees receive performance reports which focus on responsibilities under the Corporate Plan.	
10	10	2.3.4g Corporate Plan produced, after consultation, which sets out the targets and challenges ahead.	
10	10	2.3.4k Review of progress against the Community Plan targets every two years and regular reporting of review outcomes.	

## GREEN (9 – 12)

This year	Last year	Standard	Reasons for movement
10	10	2.3.5e The activities and decisions of outside bodies to which the council has appointed a member as a representative are reported back to the appropriate forum within the council.	
10	8	2.3.6a Effective and clear scheme of delegation in place.	Amendments made following management restructures, updated to June 2017
10	10	2.3.6e The activities and decisions of outside bodies to which the council has appointed an officer as a representative are reported back to the appropriate forum within the council.	
10	10	3.1.1i Disclosure of senior officer emoluments.	
10	10	3.1.2c Code of Conduct for Employees	
10	10	3.1.2g Services are delivered by trained, experienced and appropriately qualified people	
10	10	3.1.2L Defined standards of personal behaviour, to which individual members, officers, and agents of the authority are required to subscribe. Methodology created for declarations of interest, conflict etc. Registers regularly audited.	
10	10	3.1.2m Complaints procedure for Elected Members developed and reviewed at least once every administrative term.	
10	10	3.2.1a Council statement of values	
10	10	3.2.2a Ethical standards are set and monitored against an appropriate standard or standards.	
10	10	3.2.3d Process for referral and responding to Standards Commission investigations.	
10	10	3.2.4a The council's values are considered when making decisions.	
10	10	4.1.1c As a committee report progresses through the committee structure, comments received at each stage are captured in the committee report for consideration at the next stage.	
10	10	4.1.1d Scrutiny work-plans are systematically driven by the authority's priorities.	
10	10	4.1.3b Standing orders in place that deal with procurement, ratification and execution of contracts.	
10	10	4.1.4a Terms of reference in place for Audit Committee.	
10	10	4.1.5a Complaints protocol and procedures in place.	

## GREEN (9 – 12)

This year	Last year	Standard	Reasons for movement
10	10	4.2.2e Ensure that a senior officer is made responsible to the authority for ensuring that appropriate advice is given on legal matters.	
10	10	4.3.1g Relevant training and guidance for all staff to enable them to take responsibility for managing risk within their own working environment.	
10	10	4.3.1t An appropriate committee has responsibility for the review and approval of the SIC and considers it separately from the accounts.	
10	10	5.1.1h Assessments of the skills of individual officers and a training & development plan developed for each officer	
10	10	5.3.1f Committees encourage stakeholders to attend and participate in meetings.	
10	10	5.3.2c OFFICERS: There is a training and development of current managers together with identification and training of future managers.	
10	10	5.3.2d OFFICERS: Investors in People reviews and personal development plans for officers	
10	10	6.2.3f Effective and well communicated comments and complaints procedure.	
10	10	6.2.6b Complying with the requirements of the Freedom of Information Act	
10	10	2.2.2b Established appraisals arrangements for the Chief Executive.	
10	10	2.2.2c Established appraisals arrangements for all senior directors.	
10	10	2.3.2j Process for structure setting, approving, grading and addressing appeals.	
10	10	3.2.1c Shared values are regularly and effectively communicated with Elected Members, officers, partners and community and the values form part of the decision making process.	
10	10	3.2.1d Shared values are affirmed within major corporate plans and strategies.	
10	10	5.2.3b Internal scrutiny is undertaken of the council's performance.	
10	10	6.2.3a Arrangements are in place to enable the authority to engage with all sections of the community effectively.	
10	10	6.2.3b Citizen consultations are undertaken by service areas in relation to specific issues and projects (e.g. capital project consultation)	
10	10	6.2.3d A management framework is in place that requires customer consultation with all sections of the community.	
9	9	1.1.1j Performance against Corporate Plan regularly reviewed by committee	

## GREEN (9 – 12)

This year	Last year	Standard	Reasons for movement
9	9	1.1.2c Review of governance code	
9	9	1.1.3b Documented record of process of determining and reviewing vision	
9	9	1.1.3g Maintenance of schedule of partnerships	
9	9	1.2.1e The A to Z of public council services containing standards for all services. Maintenance and updating of A to Z of public council services reviewed annually by a designated officer	
9	9	1.2.2a Regular reports produced on progress of service delivery.	
9	9	1.2.2k Regular testing of complaints handling procedure to ensure it meets consumer needs and expectations.	
9	9	1.2.2m A Performance Committee that covers non-financial controls.	
9	9	1.3.1L Monitoring of VFM captured WLAM.	
9	9	1.3.1r Consultation is undertaken before policies and plans are developed.	
9	9	1.3.1v An efficiency statement is produced and published on a regular basis	
9	9	2.1.1q ELECTED MEMBERS: Protocol contained in national Code of Conduct for Councillors.	
9	9	2.1.1v CHIEF OFFICERS: Contract of employment/job outline for Chief Officers reviewed every administrative term and updated as required.	
9	9	2.3.2f Remuneration information for officers available for public inspection.	
9	9	2.3.2k Managers decisions shaped by identifiable drivers such as modernisation of service, efficiency or best value.	
9	9	2.3.3j Committee reports on below par performance include SMART action plans to improve performance.	
9	9	2.3.3k Performance management systems are documented regularly, regularly reviewed and updated to take into account changes to organisation structure and new performance measurement frameworks (including the Scottish Governments National Performance Framework)	
9	9	2.3.4a A list of accountable bodies to consult has been produced in order to maintain an effective dialogue with those to whom we are accountable.	
9	9	2.3.4b Protocols for consultation with third parties.	

## GREEN (9 – 12)

This year	Last year	Standard	Reasons for movement
9	9	2.3.4h Community Plan produced, after consultation, in conjunction with local partners in public, private sector and voluntary sectors and with communities, which plan sets out the targets and challenges ahead.	
9	9	2.3.4i There is committee scrutiny and review to examine priority and performance against the twelve local challenges (as incorporated in the SOA).	
9	9	3.1.3b Registers created for declarations of interest of employees	
9	9	3.1.3d Develop procedures for identifying potential conflict and for dealing with conflict that arises.	
9	9	3.2.3f Complaint process re officers' behaviour developed and reviewed at least once every administrative term.	
9	9	3.2.3g Complaint process re agents' behaviour developed and reviewed at least once every administrative term.	
9	9	3.2.4b The council's values are considered in all committee reports.	
9	9	4.1.2c Formal statement which specifies the types of decisions that are delegated to officers and those that are reserved for members.	
9	9	4.1.2d Record of professional advice used in reaching decisions.	
9	9	4.1.3a Members and officers codes of conduct refer to a requirement to declare interests.	
9	9	4.1.3f Robust guidance available for officers on what constitutes a conflict of interest.	
9	9	4.1.3g Up to date register maintained of gifts and hospitality received for Elected Members. Audit of register undertaken at least once per administrative term.	
9	9	4.1.3j Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints that relate to conflicts of interest.	
9	9	4.1.4b Terms of reference in place for Performance Committee.	
9	9	4.1.4h Financial Strategy and Audit Risk Analysis Plan for coming year presented to Audit Committee.	
9	9	4.3.1e Corporate register includes risks which arise from and within partnerships.	
9	9	4.3.1o Risk analysis takes into consideration positive risks (opportunities) as well as negative risks (threats).	
9	9	4.4.3b There is a scheme of delegation which requires officers to comply with the law when carrying out their duties.	



## GREEN (9 – 12)

This year	Last year	Standard	Reasons for movement
9	9	4.4.3c Committee reports ensure that the legal implications of the recommendations with in the report are clearly spelled out	
9	9	5.1.2a Clear remits set out in Scheme of Delegation to officers.	
9	9	5.1.2b Scheme of Delegation to Officers has been communicated to staff, including those not delegated to take action.	
9	9	5.1.2c Contract of employment / job descriptions for Statutory Officers. Review every administrative term and update as required	
9	11	5.1.2d There is a job description / personal specification for each statutory officer role	Included in Scheme of Delegations, reviews required, especially CSWO per recent statutory guidance
9	9	5.1.3a Clear remits set out in Scheme of Delegation to officers.	
9	9	5.1.3e Training & Development plan for each Chief Officer	
9	9	5.2.1g Corporate Governance Working Group recommendations to senior management and to committee.	
9	9	5.2.3d A performance system is in place that captures targets set by committees and allows monitoring and reporting of performance against these targets.	
9	9	5.3.1h Encouraging citizens to be aware of the role of the local authority both as a service provider, as an employer and as organ of local democracy.	
9	9	6.1.1c Results from internal / external consultation exercises have been analysed and published	
9	9	6.2.1b Processes for dealing with competing demands within the community	
9	9	6.2.4a Develop a clear policy or framework for consultation and feedback	
9	9	2.3.6c Officer's responsibilities on outside bodies training provided generally at least once per administrative term.	
9	9	3.1.1d Scheme of Delegation in place and reviewed at least once every administrative term.	
9	9	4.2.2a Ensure that records are maintained of Committee meetings to demonstrate decision making, including advice tendered and supporting materials used.	
9	9	2.1.1i Published job descriptions for all officers and Elected Members.	
9	9	2.2.3a Job description for the Leader and Chief Executive that make respective roles clear	

## GREEN (9 – 12)

This year	Last year	Standard	Reasons for movement
9	9	2.3.4e Statutory procedures are followed where these exist.	
9	9	3.2.5a Develop guidance for partnership working, to include protocols, processes and guidance.	
9	9	4.1.1k Put in place proper arrangements to satisfy voluntary independent review of financial and operational reporting processes.	
9	9	5.1.1g Contract of employment/job description. Roles and responsibilities for officers including job profile and personal specification for each role.	
9	9	5.1.3b Scheme of Delegation to Officers has been communicated to staff, including those not delegated to take action.	
9	9	5.1.3c Contract of employment / job descriptions for Chief Officers. Review every administrative term and update as required	
9	9	5.1.3d There is a job description / personal specification for each chief officer role	
9	9	5.2.1a Contract of employment/job outline for senior officers.	
9	9	5.2.1f Investors in People reviews and personal development plans for officers	
9	9	5.3.2e OFFICERS: Career development and progression in place for employees.	
9	9	6.1.1b There is a local authority corporate strategy that supports and facilitates the delivery of the outcomes of the community strategy.	
9	9	6.1.3b At least annually there is a report against scrutiny activity.	
9	9	6.2.4b A communication strategy is developed that establishes clear channels of communication with all sections of the community and other stakeholders, and puts in place proper monitoring arrangements to ensure that they operate effectively.	

## AMBER (6-8)

This year	Last year	Standard	Reasons for movement
8	8	1.1.3a Fully Signed off and published Community Plan.	
8	8	1.1.3c Agreed role and scope of funded organisations contribution to tasks	
8	8	1.1.3d Agreed role and scope of contracted partner contribution to tasks	
8	8	1.1.3e Agreed role and scope of statutory partnership contribution to tasks	
8	8	1.1.3h Evidence of compatibility of partnership and local authority goals.	
8	8	1.2.1b Clear processes in place to hear the views of users and non-users from all backgrounds.	
8	8	1.2.1c Evidence that views have been taken into account in service planning delivery.	
8	8	1.2.1d Comparison and analysis of quality of service provided by similar organisations.	
8	8	1.2.2g Staff trained to deal with complaints and empowered to deal with them.	
8	8	1.4.2a Exercises are conducted that establish the effectiveness of the plans.	
8	8	2.2.1b Scheme of delegation to Community Planning Partnerships.	
8	8	2.3.2g Expenses for officers information available for public inspection.	
8	8	2.3.4d Evidence to support the quality of consultation e.g. breadth of promotion, diversity of participants and respondees.	
8	8	2.3.4m The Single Outcome Agreement (SOA) reflects the outcome measures to be delivered by the Community Plan. SOA reviewed at least every three years.	
8	8	2.3.6b There is guidance provided for Officers relating to effective working relationships between Officers and partners.	
8	8	2.3.7a A guide to partnership agreements is available to define partnership and provide guidance to ensure consistency of application and standards.	
8	8	3.1.1e Values incorporated into decision making process (see 3.2.1 below)	
8	8	3.1.2q Induction of new officer on standards of behaviour	
8	8	4.1.1b The role of scrutiny has been established through committee structures.	
8	8	4.1.1i Follow up requests in response to scrutiny undertaken by members.	
8	8	4.1.2e Committee reports requiring a decision include an assessment of risks associated with the decision.	

## AMBER (6-8)

This year	Last year	Standard	Reasons for movement
8	8	4.1.1f Record of meetings of groups established to scrutinise reports, data and findings.	
8	8	4.2.1b Description of pre-determined report formats for major decision making which includes option appraisals, risk analysis, financial, staffing and property implications, policy and legal implications, local impact analysis and reference to the vision, purpose	
8	8	4.2.2b Officers create and retain notes which record details of any legal and financial advice given.	
8	8	4.2.2f Protocols are in place that require services to seek proper professional advice on the legal implications arising from committee reports.	
8	8	4.3.1k Reports to support strategic policy decisions and project initiation documents include a risk assessment and the identification of mitigating action.	
8	8	4.4.2b Officers receive regular training relating to specific relevant legislation and the extent of their legal responsibilities.	
8	8	4.4.2c Officers ensure that a proper record is maintained of any legal advice issued by them.	
8	8	5.1.1a Induction programme which includes an introduction to the local environment and the sector, the authority's relationship with other bodies and the context for the authority's strategy	
8	8	5.1.1f Induction programme which includes an introduction to the local environment and the sector, the authority's relationship with other bodies and the context for the authority's strategy	
8	8	5.1.1i Access to update courses / information	
8	8	5.1.2e Training & Development plan for each Statutory Officer	
8	6	5.2.2d Senior management and committees review policy, decisions and any external advice sought	
8	8	5.3.1a Improving awareness of the local authority through partnership working.	
8	8	5.3.1e Participation in Community Councils is encouraged and maximised.	
8	8	5.3.1f Committees encourage stakeholders to attend and participate in meetings.	
8	8	5.3.1g Performance, Development and Scrutiny Panels encourage stakeholders to attend and participate	
8	8	6.1.2a Establish a database of stakeholders with whom the authority should engage and for what purpose. Database also records the effect of any changes made.	

## AMBER (6-8)

This year	Last year	Standard	Reasons for movement
8	8	6.2.3c Locality planning framework that encourages local citizens to become involved in the issues within their multi-member ward	
8	8	6.2.3e Disability Forum to engage with disabled citizens of West Lothian	
8	8	4.1.3h Up to date register maintained of gifts and hospitality received for officers. Audit of register undertaken at least once per administrative term.	
7	7	1.1.4b Report against Community Plan	
7	7	1.3.1q Corporate framework/guidance for assessing environmental impact of policies, plans and decisions.	
7	7	1.3.1w Programme of VFM exercises undertaken	
7	7	2.3.2b Roles and responsibilities of all senior officers, together with the terms of their remuneration and its review, are clearly defined in writing and reviewed annually.	
7	7	2.3.5b There is guidance provided for Members relating to effective working relationships between Members and partners.	
7	7	2.3.5d A document, which has been accepted by all partners, establishes all roles and responsibilities relating to the activities of the partnership.	
7	7	2.3.6d A document, which has been accepted by all partners, establishes all roles and responsibilities relating to the activities of the partnership.	
7	7	2.3.7c For each partnership there is a clear statement of principles and objectives, clarity and definition of roles and responsibilities, a statement of funding sources and accountability and a protocol for dispute resolution.	
7	7	3.1.2e There are contractual controls relating to the conduct of agents of the council.	
7	7	3.1.2f Protocols in place to ensure that relevant areas that are not covered in the standing orders are clarified and appropriately regulated.	
7	7	3.1.2o Complaints procedure for agents of the council	
7	7	3.2.5b Values are agreed with partners and reflected within the partnership agreement.	
7	7	4.1.1e Scrutiny is supported by documented evidence, option appraisal and data analysis.	
7	7	4.1.1g Evidence of improvements of proposals as a result of scrutiny.	
7	7	4.1.1L Ensure that the results of scrutiny and challenge are properly captured, reviewed and actioned. Ensure that actions and outcomes are reviewed to deliver positive	

## AMBER (6-8)

This year	Last year	Standard	Reasons for movement
		benefits are realised.	
7	7	4.1.2f Impact assessment and consequences of decisions should be reported back to members.	
7	7	4.4.2a Members receive regular training relating to specific relevant legislation and the extent of their legal responsibilities.	
7	7	5.1.1b Roles and responsibilities for elected members including job profile and personal specification.	
7	7	5.1.1c Training & development plan for each member	
7	7	5.1.1d Assessments of the skills of individual members	
7	7	5.1.1e Access to update courses / information	
7	7	5.2.1b Training plan in place for elected members.	
7	7	5.2.1c Roles with governance duties are identified. Specific training is provided.	
7	7	5.2.1d Training plan in place for elected members	
7	7	5.2.2a Job outlines, personal development plans, learning and development plans	
7	7	5.2.2b Training plan in place for elected members	
7	7	5.3.1c Area forum roles and responsibilities	
7	7	5.3.2f OFICERS: There is succession planning in place.	
7	7	6.2.2a There has been active promotion of meetings to the public.	
7	7	6.2.5d Making the findings of inspectors and regulators available to the public as well as the results of any self-assessments undertaken by the authority itself, which identify the areas where the authority needs to improve.	
7	7	4.4.3d Training for managers includes legislative requirements of the council.	
7	7	1.1.3f Agreed role and scope of other partners contribution to tasks.	
6	6	2.3.5c Members responsibilities on outside bodies training provided generally at least once per administrative term and specifically for those members who are appointed to a body each time a member is so appointed.	
6	6	4.1.2h Evidence of the use of option appraisals in reaching decisions.	

## AMBER (6-8)

This year	Last year	Standard	Reasons for movement
6	6	4.1.4c Members of the Audit and Performance Committees are independent of the executive function.	
6	6	4.1.4d Committee members training in place to ensure effective performance within the audit committee.	
6	6	4.3.1j Risk management awareness training for those members with specific responsibility for risk management and ultimately for all members	
6	6	4.4.3e Training for elected members includes legislative requirements of the council	
6	6	5.2.3e An Elected Member Appraisal system is in place which results in the production of a Personal Development Plan for each Elected Member.	
6	6	5.3.1b Stakeholder forums terms of reference	
6	6	5.3.2a ELECTED MEMBERS: There is a development programme in place for Elected Members.	
6	6	5.3.2b ELECTED MEMBERS: There is succession planning in place.	







## **GOVERNANCE & RISK COMMITTEE**

### **NEW GOVERNANCE FRAMEWORK AND CODE**

#### **REPORT BY GOVERNANCE MANAGER**

##### **A. PURPOSE OF REPORT**

To inform the committee of the intended transition to a revised Local Code of Corporate Governance produced in 2016 by CIPFA (Chartered Institute of Public Finance and Accountancy) and SOLACE (Society of Local Authority Chief Executives).

##### **B. RECOMMENDATIONS**

1. To note that the CIPFA/SOLACE Framework on which the council's current Local Code of Corporate Governance is based has been replaced by a new Framework with supporting guidance
2. To note that the adoption of the new Framework will ensure the council meets the requirements of legislation and guidance in relation to its governance arrangements
3. To note that the transition to the new Framework is to be carried out with a view to reporting under the new Code on governance activity in 2017/18
4. To agree future reporting arrangements on progress and adoption of a new Code

##### **C. SUMMARY OF IMPLICATIONS**

<b>I</b>	<b>Council Values</b>	Being honest, open and accountable
<b>II</b>	<b>Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)</b>	The council's Corporate Plan 2013/17 identifies governance and risk as one of three co-ordinated enablers underpinning the delivery of the Plan's priorities and outcomes. Code of Corporate Governance.
<b>III</b>	<b>Implications for Scheme of Delegations to Officers</b>	None
<b>IV</b>	<b>Impact on performance and performance Indicators</b>	None
<b>V</b>	<b>Relevance to Single Outcome Agreement</b>	None

<b>VI Resources - (Financial, Staffing and Property)</b>	Within existing resources
<b>VII Consideration at PDSP</b>	Not required
<b>VIII Other consultations</b>	Governance & Risk Board

## **D. TERMS OF REPORT**

### **1 Background**

- 1.1 A broad definition of governance is that it comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The council presently defines corporate governance as "the systems by which local government bodies are directed and controlled and how they lead their communities".
- 1.2 It is recognised that "good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes". Corporate governance is not directly about performance, or service standards, service delivery, or policy-making - it is about the systems which make sure these things can be done, that they can be done well and that they can be done in an open, transparent and accountable way.
- 1.3 The council's Corporate Plan 2013/17 identifies corporate governance and risk as one of the three co-ordinated enablers underpinning the delivery of the Plan's priorities and outcomes.

### **2 Current arrangements**

- 2.1 To make sure that the council adheres to the rules of good corporate governance, it maintains a Local Code of Corporate Governance which sets out the principles and other standards by which good governance should be judged. In June 2010 it adopted a revised Code of Corporate Governance based on a Framework called "Delivering Good Governance in Local Government", produced by CIPFA/SOLACE.
- 2.2 That Code is built around six over-arching principles of good governance for councils, and beneath those principles there are further sub-divisions in a hierarchy, at the bottom of which sit specific standards against which compliance with the Code can be measured.
- 2.3 The six over-arching principles are:-
  - Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
  - Members and officers working together to achieve a common purpose with clearly defined functions and roles
  - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
  - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
  - Developing the capacity and capability of members and officers to be effective
  - Engaging with local people and other stakeholders to ensure robust public accountability

### **3 New Framework**

- 3.1 The new Framework includes a modified and updated definition and description of governance:-
- Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved
  - To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times
  - Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders
- 3.2 The Framework recommends that a local code is adopted against which governance performance can be assessed. The expectation is that there will be some identifiable core document from which compliance can be assessed. It also indicates that some less formal arrangements may be acceptable to an organisation and its auditors. Regardless, to achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in the Framework.

#### **4 New principles and structure**

- 4.1 The new Framework sets out seven principles, rather than six, as the top layer in the hierarchy. The seven principles are:-
- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
  - B. Ensuring openness and comprehensive stakeholder engagement
  - C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
  - D. Determining the interventions necessary to optimise the achievement of the intended outcomes
  - E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
  - F. Managing risks and performance through robust internal control and strong public financial management
  - G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability
- 4.2 There is a narrative description of each principle. Each is broken down into its constituent elements, by reference to the words used in the principle itself. These are "sub-principles" and these are listed under (1), (2), etc. These are deconstructed further, by illustrations and descriptions of appropriate behaviour and practices. These are listed under (a), (b), etc.
- 4.3 Finally, there is a non-exhaustive list of some suggested sources or types of possible evidence on which an assessment may be based.
- 4.4 Appendix 1 shows this hierarchy for all seven principles, along with extracts from the guidance in and with the Framework. This hierarchy will provide the structure for a replacement for the current Code.

#### **5 Transition**

- 5.1 The need to move to the new Framework has been identified and reported on in the course of the annual reporting arrangements for 2016/17. The intention is to have a new Code in place to be used for reporting in 2018 on governance issues in 2017/18. The proposed content of the Code and the arrangements for implementing it and reporting on it will be developed by officers and brought to Council Executive for approval. They can be reported to this committee in advance of that for consideration and comment.
- 5.2 The new arrangements will be built around these principles and this structure. They will also have regard to their relevance to this council's structure and circumstances, and the advantages of an understandable, proportionate and useable approach.

## **E. CONCLUSION**

The transition to the new CIPFA/SOLACE Framework will enable the council to formally review its arrangements for monitoring and reporting on corporate governance and bring those arrangements up to date.

## **F. BACKGROUND REFERENCES**

- 1 "Delivering Good Governance in Local Government - Framework (CIPFA/SOLACE, 2016)
- 2 "Delivering Good Governance in Local Government - Guidance Notes for Scottish Authorities (CIPFA/SOLACE, 2016)

Appendices/Attachments: 1. Extracts from 2016 Framework

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## APPENDIX 1

### 2016 CIPFA/SOLACE FRAMEWORK

#### PRINCIPLES, SUB-PRINCIPLES, STANDARDS AND POSSIBLE EVIDENCE

There are seven principles set out. Principles A and B permeate implementation of principles C to G. Good governance is dynamic, and that an entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.

The seven principles are:-

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B. Ensuring openness and comprehensive stakeholder engagement
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
- F. Managing risks and performance through robust internal control and strong public financial management
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

There is a narrative description with each one.

Each principle is broken down into its constituent elements, by reference to the words used. These are "sub-principles" and are listed under (1), (2), etc.

These are deconstructed further, by illustrations and descriptions of appropriate behaviour and practices. These are listed under (a), (b), etc.

Finally, there are some suggested sources or types of "possible evidence". These are not exhaustive, and local practice may mean a different approach or a more comprehensive approach is taken.

#### **A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

#### **(1) Behaving with integrity**

(a) Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation

Possible evidence:-

- Codes of conduct
- Individual sign off with regard to compliance with code
- Induction for new members and staff on standard of behaviour expected
- Performance appraisals

(b) Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles)

Possible evidence:-

- Communicating shared values with members, staff, the community and partners

(c) Leading by example and using the above standard operating principles or values as a framework for decision making and other actions

Possible evidence:-

- Decision making practices
- Declarations of interests made at meetings
- Conduct at meetings
- Shared values guide decision making
- Develop and maintain an effective standards committee

(d) Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively

Possible evidence:-

- Anti-fraud and corruption policies are working effectively
- Up-to-date register of interests (members and staff)
- Up-to-date register of gifts and hospitality
- Whistleblowing policies are in place and protect individuals raising concerns
- Whistleblowing policy has been made available to members of the public, employees, partners and contractors
- Complaints policy and examples of responding to complaints about behaviour
- Changes/improvements as a result of complaints received and acted upon
- Members' and officers' code of conduct refers to a requirement to declare interests
- Minutes show declarations of interest were sought and appropriate declarations made

## **(2) Demonstrating strong commitment to ethical values**

(a) Seeking to establish, monitor and maintain the organisation's ethical standards and performance

Possible evidence:-

- Scrutiny of ethical decision making
- Championing ethical compliance at governing body level

(b) Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation

Possible evidence:-

- Provision of ethical awareness training

(c) Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values

Possible evidence:-

- Appraisal processes take account of values and ethical behaviour
- Staff appointments policy
- Procurement policy

(d) Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation

Possible evidence:-

- Agreed values in partnership working: Statement of business ethics communicates commitment to ethical values to external suppliers
- Ethical values feature in contracts with external service providers
- Protocols for partnership working

### **(3) Respecting the rule of law**

(a) Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations

Possible evidence:-

- Statutory provisions
- Statutory guidance is followed
- Constitution

(b) Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements

Possible evidence:-

- Job description/specifications
- Compliance with CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (CIPFA, 2016)
- Terms of reference
- Committee support

(c) Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders

Possible evidence:-

- Record of legal advice provided by officers

(d) Dealing with breaches of legal and regulatory provisions effectively

Possible evidence:-

- Monitoring officer provisions
- Record of legal advice provided by officers

- Statutory provisions

(e) Ensuring corruption and misuse of power are dealt with effectively

Possible evidence:-

- Effective anti-fraud and corruption policies and procedures
- Local test of assurance (where appropriate)

## **B. Ensuring openness and comprehensive stakeholder engagement**

Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

### **(1) Openness**

(a) Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness

Possible evidence:-

- Annual report
- Freedom of Information Act publication scheme
- Online council tax information
- Authority's goals and values
- Authority website

(b) Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided

Possible evidence:-

- Record of decision making and supporting materials

(c) Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear

Possible evidence:-

- Decision-making protocols
- Report pro-formas
- Record of professional advice in reaching decisions
- Meeting reports show details of advice given
- Discussion between members and officers on the information needs of members to support decision making
- Agreement on the information that will be provided and timescales
- Calendar of dates for submitting, publishing and distributing timely reports is adhered to

(d) Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action

Possible evidence:-



- Community strategy
- Use of consultation feedback
- Citizen survey

## **(2) Engaging comprehensively with institutional stakeholders**

(a) Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably

Possible evidence:-

- Communication strategy

(b) Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively

Possible evidence:-

- Database of stakeholders with whom the authority should engage and for what purpose and a record of an assessment of the effectiveness of any changes

(c) Ensuring that partnerships are based on: trust, a shared commitment to change, a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit

Possible evidence:-

- Partnership framework
- Partnership protocols

## **(3) Engaging with individual citizens and service users effectively**

(a) Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes

Possible evidence:-

- Record of public consultations
- Partnership framework

(b) Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement

Possible evidence:-

- Communications strategy

(c) Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs

Possible evidence:-

- Communications strategy
- Joint strategic needs assessment

(d) Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account

Possible evidence:-

- Communications strategy

(e) Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity

Possible evidence:-

- Processes for dealing with competing demands within the community, for example a consultation

(f) Taking account of the impact of decisions on future generations of tax payers and service users

Possible evidence:-

- Reports
- Joint strategic needs assessment

### **C. Defining outcomes in terms of sustainable economic, social, and environmental benefits**

The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.

#### **(1) Defining outcomes**

(a) Having a clear vision, which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation's overall strategy, planning and other decisions

Possible evidence:-

- Vision used as a basis for corporate and service planning

(b) Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer

Possible evidence:-

- Community engagement and involvement
- Corporate and service plans
- Community strategy

(c) Delivering defined outcomes on a sustainable basis within the resources that will be available

Possible evidence:-

- Regular reports on progress

(d) Identifying and managing risks to the achievement of outcomes

Possible evidence:-

- Performance trends are established and reported upon
- Risk management protocols

(e) Managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available

Possible evidence:-

- An agreed set of quality standard measures for each service element are included in service plans
- Processes for dealing with competing demands within the community

## **(2) Sustainable economic, social and environmental benefits**

(a) Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision

Possible evidence:-

- Capital investment is structured to achieve appropriate life spans and adaptability for future use so that resources are spent on optimising social, economic and environmental wellbeing - capital programme; capital investment strategy

(b) Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints

Possible evidence:-

- Discussion between members and officers on the information needs of members to support decision making
- Record of decision making and supporting materials

(c) Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs

Possible evidence:-

- Record of decision making and supporting materials
- Protocols for consultation

(d) Ensuring fair access to services

Possible evidence:-

- Protocols ensure fair access and statutory guidance is followed

## **D. Determining the interventions necessary to optimise the achievement of the intended outcomes**

Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.

### **(1) Determining interventions**

(a) Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided

Possible evidence:-

- Discussion between members and officers on the information needs of members to support decision making
- Decision making protocols
- Option appraisals
- Agreement of information that will be provided and timescales

(b) Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts

Possible evidence:-

- Financial strategy

### **(2) Planning interventions**

(a) Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets

Possible evidence:-

- Calendar of dates for developing and submitting plans and reports that are adhered to

(b) Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered

Possible evidence:-

- Communication strategy

(c) Considering and monitoring risks facing each partner when working collaboratively, including shared risks

Possible evidence:-

- Partnership framework
- Risk management protocol

(d) Ensuring arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances

Possible evidence:-

- Planning protocols

(e) Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured

Possible evidence:-

- KPIs have been established and approved for each service element and included in the service plan and are reported upon regularly

(f) Ensuring capacity exists to generate the information required to review service quality regularly

Possible evidence:-

- Reports include detailed performance results and highlight areas where corrective action is necessary

(g) Preparing budgets in accordance with objectives, strategies and the medium term financial plan

Possible evidence:-

- Evidence that budgets, plans and objectives are aligned

(h) Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy

Possible evidence:-

- Budget guidance and protocols
- Medium-term financial plan
- Corporate plans

### **(3) Optimising achievement of intended outcomes**

(a) Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints

Possible evidence:-

- Feedback surveys and exit/ decommissioning strategies
- Changes as a result

(b) Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term

Possible evidence:-

- Budgeting guidance and protocols

(c) Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage

Possible evidence:-

- Financial strategy

(d) Ensuring the achievement of 'social value' through service planning and commissioning

Possible evidence:-

- Service plans demonstrate consideration of 'social value'
- Achievement of 'social value' is monitored and reported upon

## **E. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.

### **(1) Developing the entity's capacity**

(a) Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness

Possible evidence:-

- Regular reviews of activities, outputs and planned outcomes

(b) Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently

Possible evidence:-

- Utilisation of research and benchmarking exercises

(c) Recognising the benefits of partnerships and collaborative working where added value can be achieved

Possible evidence:-

- Effective operation of partnerships which deliver agreed outcomes

(d) Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources

Possible evidence:-

- Workforce plan
- Organisational development plan

### **(2) Developing the capability of the entity's leadership and other individuals**

(a) Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained

Possible evidence:-

- Job descriptions
- Chief executive and leader pairings have considered how best to establish and maintain effective communication

(b) Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body

Possible evidence:-

- Scheme of delegation reviewed at least annually in the light of legal and organisational changes

- Standing orders and financial regulations which are reviewed on a regular basis

(c) Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority

Possible evidence:-

- Clear statement of respective roles and responsibilities and how they will be put into practice

(d) Developing the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by: -

- ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged
- ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis
- ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external

Possible evidence:-

- Access to courses/information briefings on new legislation
- Induction programme
- Personal development plans for members and officers. For example, for members this may include the ability to scrutinise and challenge; recognise when outside expert advice is required; promote trust; work in partnership; lead the organisation; act as a community leader
- Efficient systems and technology used for effective support
- Arrangements for succession planning

(e) Ensuring that there are structures in place to encourage public participation

Possible evidence:-

- Residents' panels
- Stakeholder forum terms of reference
- Strategic partnership frameworks

(f) Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections

Possible evidence:-

- Reviewing individual member performance on a regular basis taking account of their attendance and considering any training or development needs
- Peer reviews

(g) Holding staff to account through regular performance reviews which take account of training or development needs

Possible evidence:-

- Training and development plan

- Staff development plans linked to appraisals
- Implementing appropriate human resource policies and ensuring that they are working effectively

(h) Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing

Possible evidence:-

- Human resource policies

## **F. Managing risks and performance through robust internal control and strong public financial management**

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability.

It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

### **(1) Managing risk**

(a) Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making

Possible evidence:-

- Risk management protocol

(b) Implementing robust and integrated risk management arrangements and ensuring that they are working effectively

Possible evidence:-

- Risk management strategy/ policy formally approved, adopted, reviewed and updated on a regular basis

(c) Ensuring that responsibilities for managing individual risks are clearly allocated

Possible evidence:-

- Risk management protocol

### **(2) Managing performance**

(a) Monitoring service delivery effectively including planning, specification, execution and independent post implementation review



Possible evidence:-

- Performance map showing all key activities have performance measures
- Benchmarking information
- Cost performance (using inputs and outputs)
- Calendar of dates for submitting, publishing and distributing timely reports that are adhered to

(b) Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook

Possible evidence:-

- Discussion between members and officers on the information needs of members to support decision making
- Publication of agendas and minutes of meetings
- Agreement on the information that will be needed and timescales

(c) Ensuring an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible

Possible evidence:-

- The role and responsibility for scrutiny has been established and is clear
- Agenda and minutes of scrutiny meetings
- Evidence of improvements as a result of scrutiny
- Terms of reference
- Training for members
- Membership

(d) Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement

Possible evidence:-

- Calendar of dates for submitting, publishing and distributing timely reports that are adhered to

(e) Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements)

Possible evidence:-

- Financial standards, guidance
- Financial regulations and standing orders

### **(3) Robust internal control**

(a) Aligning the risk management strategy and policies on internal control with achieving objectives

Possible evidence:-

- Risk management strategy
- Audit plan
- Audit reports

(b) Evaluating and monitoring risk management and internal control on a regular basis

Possible evidence:-

- Risk management strategy/ policy has been formally approved and adopted and is reviewed and updated on a regular basis

(c) Ensuring effective counter fraud and anti-corruption arrangements are in place

Possible evidence:-

- Compliance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)

(d) Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor

Possible evidence:-

- Annual governance statement
- Effective internal audit service is resourced and maintained

(e) Ensuring an audit committee or equivalent group/ function, which is independent of the executive and accountable to the governing body provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment, and that its recommendations are listened to and acted upon

Possible evidence:-

- Audit committee complies with best practice – see Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013)
- Terms of reference
- Membership
- Training

#### **(4) Managing data**

(a) Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data

Possible evidence:-

- Data management framework and procedures
- Designated data protection officer
- Data protection policies and procedures

(b) Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies

Possible evidence:-

- Data sharing agreement
- Data sharing register
- Data processing agreements

(c) Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring

Possible evidence:-

- Data quality procedures and reports

- Data validation procedures

#### **(5) Strong public financial management**

(a) Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance

Possible evidence:-

- Financial management supports the delivery of services and transformational change as well as securing good stewardship

(b) Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls

Possible evidence:-

- Budget monitoring reports

### **G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

#### **(1) Implementing good practice in transparency**

(a) Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate

Possible evidence:-

- Website

(b) Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand

Possible evidence:-

- Annual report

#### **(2) Implementing good practices in reporting**

(a) Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way

Possible evidence:-

- Formal annual report which includes key points raised by external scrutineers and service users' feedback on service delivery
- Annual financial statements

(b) Ensuring members and senior management own the results reported

Possible evidence:-

- Appropriate approvals

(c) Ensuring robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement)

Possible evidence:-

- Annual governance statement

(d) Ensuring that this Framework is applied to jointly managed or shared service organisations as appropriate

Possible evidence:-

- Annual governance statement

(e) Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other, similar organisations

Possible evidence:-

- Format follows best practice

### **(3) Assurance and effective accountability**

(a) Ensuring that recommendations for corrective action made by external audit are acted upon

Possible evidence:-

- Recommendations have informed positive improvement

(b) Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon

Possible evidence:-

- Compliance with CIPFA's Statement on the Role of the Head of Internal Audit (2010)
- Compliance with Public Sector Internal Audit Standards

(c) Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations

Possible evidence:-

- Recommendations have informed positive improvement

(d) Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement

Possible evidence:-

- Annual governance statement

(e) Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met

Possible evidence:-

- Community strategy



**GOVERNANCE & WORK COMMITTEE****WORKPLAN – 9 OCTOBER 2017**

<b>9 October 2017</b>		
External auditors' report on annual accounts and financial statements	Auditors' annual report considered by full council in September and referred on. Consideration of governance elements only	On agenda
Security risks associated with terrorist attacks, especially Civic Centre	Requested at committee in June	On agenda
Cyber security risks	Requested at committee in June	On agenda
Code of Corporate Governance Annual Report	Annual report to Council Executive, referred on to this committee	On agenda
Chosen service's risk management arrangements	Service(s) appearing on a rota basis - Finance & Property Services	On agenda
Revised CIPFA/SOLACE Corporate Governance Framework	Translation of existing Code to new Framework	On agenda
<b>8 January 2018*</b>		
Chosen service's risk management arrangements	Service(s) appearing on a rota basis – Social Policy	
Corporate high risks and serious risks	Bi-annual consideration (also in June)	
Health & Safety Service risks	Considered to merit separate consideration	
Review of committee's operation and effectiveness	Self-scrutiny and critique of initial meetings and arrangements, recommended by auditors	
<b>26 March 2018*</b>		
Risk Management Annual Plan	Start-of-year plan for approval for 18/19	
Chosen service's risk management arrangements	Service(s) appearing on a rota basis – Planning, Economic Development & Regeneration	

Code of Corporate Governance – follow-up	Progress against actions agreed at October meeting	
Corporate Business Continuity Planning	End-of-process review/scrutiny	
<b>18 June 2018*</b>		
Internal Audit Annual Report	Includes findings of review of system of internal control which must precede and inform the approval of the annual governance statement	
Annual Governance Statement	Statutory requirement for it to be approved for inclusion in the unaudited accounts before the end of June	
Risk Management Annual Report	End-of-year report on completion on annual plan 17/18	
Corporate high risks and serious risks	Bi-annual consideration (also in January)	
Chosen service's risk management arrangements	Service(s) appearing on a rota basis – Operational Services	

\*Meeting dates are subject to any changes determined by Council Executive on 10 October 2017