



West Lothian
Council

Audit and Governance Committee

West Lothian Civic Centre
Howden South Road
LIVINGSTON
EH54 6FF

4 February 2015

A meeting of the **Audit and Governance Committee** of West Lothian Council will be held within **Council Chambers, West Lothian Civic Centre, Livingston** on **Monday 9 February 2015 at 2:00 p.m.**

For Chief Executive

BUSINESS

1. Apologies for Absence
2. Order of Business, including notice of urgent business
3. 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.
4. Confirm Draft Minute of Meeting of the Audit and Governance Committee held on Monday 01 December 2014 (herewith).

Public Items for Decision

5. Internal Audit Plan 2015/16 - Report by Audit and Risk Manager (herewith)
6. Risk Management Plan 2015/16 - Report by Audit and Risk Manager (herewith)
7. Counter Fraud Plan 2015/16 - Report by Audit and Risk Manager (herewith)
8. Internal Audit Charter - Report by Audit and Risk Manager (herewith)

Public Items for Information

9. The Accounts Commission's National Report on Community Planning - Report by Chief Executive (herewith)
10. Audit Scotland Report on the Impact of Welfare Reforms on Council Rent Arrears in Scotland - Report by Head of Housing, Construction and Building Services (herewith)
11. Audit Scotland Annual Audit Plan 2014/15 - Report by Audit and Risk Manager (herewith)
12. The Local Authority Accounts (Scotland) Regulations 2014 - Report by Audit and Risk Manager (herewith)

NOTE **For further information please contact James Millar on 01506 281613 or email james.millar@westlothian.gov.uk**

MINUTE of MEETING of the AUDIT AND GOVERNANCE COMMITTEE of WEST Lothian Council held within Council Chambers, West Lothian Civic Centre, Livingston, on 1 December 2014.

Present – Councillors Harry Cartmill (Chair), John McGinty, William Boyle, Carl John, Danny Logue substituting for Jim Dixon and Elaine McAtamney

Apologies – Councillor Jim Dixon

In Attendance – Graham Hope (Chief Executive); Donald Forrest (Head of Finance and Estates); Julie Whitelaw (Head of Corporate Services); Ann Jack (Civic Centre Admin Manager); Kenneth Ribbons (Audit and Risk Manager); Donna Adam (Strategic Resource Manager); Pamela Blair (Admin Assistant); Tim Ward (Senior Manager); Alan Bell (Senior Manager); Bill Smith (Senior Finance Admin Officer); Joanna Anderson (Community Planning Development Officer); Marjorie Mackie (Construction and Design Manager); Jim Cameron (Head of Schools with Education Support); David McConnell, Inire Evon, Peter Lyndsay (Audit Scotland).

1. DECLARATIONS OF INTEREST

Agenda Item 10 – Audit Scotland Follow Up Report on Arm's Length Organisations – Councillor Willie Boyle declared a non-financial interest in that he was a Council Appointed member of the Board of West Lothian Venture Group Ltd to which a dispensation applied.

Agenda Item 10 – Audit Scotland Follow Up Report on Arm's Length Organisations – Councillor Harry Cartmill declared a non-financial interest in that he was a Council Appointed member of the Board of West Lothian Leisure Ltd for which a dispensation applied.

Agenda Item 10 – Audit Scotland Follow Up Report on Arm's Length Organisations – Councillor John McGinty declared a non-financial interest in that he was a Council Appointed member of the Board of West Lothian Ventures Group Ltd for which a dispensation applied.

2. MINUTE

The Audit and Governance Committee approved the minute of its meeting held on 29 September 2014 as a correct record. The minute was thereafter signed by the Chair.

3. REPORT BY THE ACCOUNTS COMMISSION ON WEST Lothian COMMUNITY PLANNING PARTNERSHIP

The committee considered a report (copies of which had been circulated) by the Chief Executive providing an update on the findings of the recent Accounts Commission audit report on West Lothian Community Planning Partnership, and plans for responding to recommendations.

The report advised that the Accounts Commission published its audit

report on West Lothian Community Planning Partnership on 23 October 2014 and several key findings were detailed in Appendix 1 to the report.

The Chief Executive advised that the Community Planning Partnership Board met on 17 November 2014 and agreed the following:-

- Arrangement of a special meeting of the Community Planning Partnership Board in January or February 2015 to discuss in detail the findings and recommendations of the report and to incorporate any actions required into the partnership's existing self-assessed development plan.
- To invite representatives from the Accounts Commission to the next Community Planning Partnership Board meeting on 9 March 2015.
- Arrangement of a Celebrating Community Planning event in spring or early summer to highlight areas of particular strength and to learn from invited speakers and other Community Planning Partnerships who were examples of good practice.

The report concluded that the Accounts Commission found West Lothian Community Planning Partnership to be a strong, mature partnership which was making good progress in delivering outcomes for West Lothian. The Partnership was recognised as being particularly strong in terms of its approach to co-locating services and was effectively supported by a dedicated staff resource.

The Accounts Commission recognised that West Lothian Community Planning Partnership had some areas for improvement which included; strengthening its focus on scrutiny of contribution of individual partners; to make best use of performance information and reporting locally to ensure partners were progressing towards better and clearer alignment of their priorities.

The report recommended that the committee:-

1. Note the findings of the Accounts Commission's report;
2. Note the recommendations made by the Accounts Commission; and
3. Note the Community Planning Partnership's plans for responding to the findings and recommendations and further developing the partnership.

Decision

1. To agree the recommendations of the report.
2. Agreed that a report would be brought to a future meeting of the committee in relation to progress against the Action Plan to be agreed through the Community Planning Partnership Board.

4. INTERNAL AUDIT OF SECTION PAYMENTS

The committee considered a report (copies of which had been circulated) by the Audit and Risk Manager providing details of the outcome of an internal audit of section payments made by Social Policy.

The report advised that in accordance with the annual internal audit plan for 2014/15 an audit of section payments made by Social Policy was undertaken.

The Internal Audit Report stated that payments were made under the Children (Scotland) Act 1995 and that there were four types of payments made under the Act dependent on whether the child was looked after or not. Payments were initiated by social works in the Children and Families Team and processed by the administrative teams at each of the social work centres.

Appendix 1 to the report contained full details of the audit as well as the action plan which set out the audit findings and agreed actions. A separate memorandum was issued to the Head of Finance and Estates in relation to the implications for the service and a further action plan was appended to that document.

The report recommended that the committee note that control was considered to be unsound.

Decision

To note the terms of the report and agree the recommendations.

5. INTERNAL AUDIT OF ADMINISTRATION OF MEDICATION WITH SOCIAL POLICY UNITS

The committee considered a report (copies of which had been circulated) by the Audit and Risk Manager providing details of an internal audit of the administration of medication within Social Policy units.

The Audit and Risk Manager advised that in accordance with the annual internal audit plan for 2014/15, an audit of the administration of medication within Social Policy units was undertaken. The audit involved visiting a sample of eight units to determine whether effective medication arrangements were in place. The audit involved following up previous recommendations by Gallagher Bassett risk consultant.

Appendix 1 to the report contained the Internal Audit Report on Social Policy Administration of Medication as well as the action plan which set out the audit findings and agreed action plan.

The report recommended that the committee note that control required improvement.

Decision

To note the terms of the report and agree the recommendations.

6. INTERNAL AUDIT OF FIRE SAFETY IN SOCIAL POLICY UNITS

The committee considered a report (copies of which had been circulated) by the Audit and Risk Manager providing details of an internal audit of fire safety arrangements within Social Policy.

The Audit and Risk Manager advised that in accordance with the annual internal audit plan for 2014/15 an audit of fire safety arrangements within Social Policy units was undertaken. The audit involved visiting a sample of twenty units to determine whether effective fire safety arrangements were in place

Appendix 1 to the report contained details of the audit findings and agreed action. A number of additional findings ranked low were not included in the report and were communicated separately to Social Policy.

The report recommended that the committee not that control required improvement.

Decision

To note the terms of the report and agree the recommendations.

7. REPORT TO MEMBERS AND THE CONTROLLER OF AUDIT ON THE 2013/14 AUDIT

The committee considered a report (copies of which had been circulated) by the Head of Finance and Estates advising of the outcome of the 2013/14 audit and providing a summary of the key points arising from the Auditor's Report. Appendix 1 to the report provided full details of the West Lothian Council Annual report on the 2013/14 audit.

The report advised that the 2013/14 audit by Audit Scotland addressed to members of the council was simultaneously forwarded to the Controller of Audit and formed part of the audit process. The Auditor's report covered the financial statements, financial position, governance and accountability and Best Value, use of resources and performance. This mirrored Audit Scotland's approach to local authority audits, which concentrated on the key risks and priorities facing organisations audited.

The Head of Finance and Estates explained that the unaudited Statement of Accounts for year ended 31 March 2014 was submitted to the Control of Audit on 23 June 2014 in advance of the statutory deadline of 30 June 2014. These accounts were subject of a report to the Council Executive on 19 June 2014.

The external audit of the Accounts and the signing of the Independent

Auditor's Report were completed by the target date of 30 September 2014.

The key messages contained in the auditor's report outlined the Auditor's conclusions on key outcomes from 2013/14 audit and the outlook for future audits as follows:-

- There was an unqualified opinion on the financial statements;
- The council had sound governance arrangements in place, systems of internal control operated effectively, the council had an effective internal audit function and sound anti-fraud arrangements;
- Financial management remains strong with a robust budget setting process in place and during 2013/14 there was a £3.569 million underspend against service budgets;
- The Auditor noted that the General Fund balance had reduced by £2.641 million to £22.571 million and at 31 March 2014, the uncommitted General Fund balance was £2 million;
- Performance remained high in 2013/14. The auditor noted that the council had a well-developed framework in place for monitoring and reporting performance against strategic priorities.

The report went on to provide brief details on the following:

- Financial Statements
- Financial Position
- Governance and accountability
- Best Value, Use of Resources and Performance

The Auditor concluded that in common with other councils West Lothian faced key challenges of reducing budgets, an ageing population with higher levels of need and the public expectation of high quality services. The Auditor noted that as choices on how to address funding gaps became increasingly difficult; councils would have to focus on making the very best use of all available resources and to challenge existing ways of doing things. He considered that a strong and effective performance management framework would be critical to success of the council achieving its key priorities.

The report recommended that the committee note the Auditor's 2013/14 Audit Report.

Decision

To note the terms of the report and agree the recommendation.

8. AUDIT SCOTLAND FOLLOW UP REPORT ON ARM'S LENGTH ORGANISATIONS

The committee considered a report (copies of which had been circulated) by the Head of Finance and Estates providing details of the outcome of Audit Scotland's follow-up report on arm's length organisations. Appendix 1 to the report contained full details of the Follow-up report on Arm's length external organisations: are you getting it right.

The report advised that Audit Scotland had undertaken a high level assessment of the governance arrangements that the council had in place for overseeing its arm's length external organisations.

Audit Scotland focussed on West Lothian Leisure which was included within the council's group accounts. While West Lothian Leisure had responsibility for leisure services delivery, the council remained accountable for the proper use of public funds and the delivery of best value.

Audit Scotland concluded that the governance arrangements in respect of West Lothian Leisure were well established. Overall, the council had a clear and well-structured governance framework for monitoring the performance of West Lothian Leisure and for reporting on the activities of other significant outside bodies.

The report recommended that the committee note that Audit Scotland had concluded that the council had a clear and well-structured governance framework for monitoring the performance of West Lothian Leisure and for reporting on the activities of other significant outside bodies.

Decision

To note the terms of the report and agree the recommendations.

9. INTERNAL AUDIT PROGRESS REPORT

The committee considered a report (copies of which had been circulated) by the Audit and Risk Manager providing details of the progress on the internal audit plan for 2014/15.

The report advised that this involved reaching an opinion as to the effectiveness of control over key risks to the council. The report provided a list of work that had been undertaken, completed, or in progress.

The report also advised that other work included:-

- A number of planned risk based audits which would not require to be carried out as alternative assurance had or would be received.
- Business continuity – subject of a report by Audit Scotland, submitted to the Audit and Governance Committee on 29 September.

- Management of asbestos – processes and procedures were due to be reviewed by Gallagher Bassett risk consultant in January 2015.

Reactive work was not included within the annual audit plan and was undertaken at the request of the Audit and Governance Committee or senior council officers. Any risk based audits which were not completed would be considered for inclusion in the annual audit plan for 2015/16.

The report went on to advise that the current internal audit complement stood at approximately four fte, including a contribution of audit work from Community Benefits and Compliance Officer. In addition two counter fraud officers were to be retained to develop the council's corporate counter fraud function.

In conclusion the report advised that progress on the 2014/15 annual audit plan would continue to be monitored in the light of the incidence of reactive work and the availability of staff resources.

The report recommended that the committee note the progress on the 2014/15 internal audit plan, the main items of work undertaken to date and the risks to the completion of the plan.

Decision

To note the terms of the report and agreed the recommendations.

10. PRIVATE SESSION

The committee resolved under Section 50(A)(4) of the Local Government(Scotland) Act 1973, that the public be excluded from the meeting during consideration of the following item of business on the ground that it involved the likely disclosure of exempt information as defined in paragraphs 1 and 14 of Schedule 7A to the Act.

11. INVESTIGATION INTO TRAINING INVOICES

The committee considered a report (copies of which had been circulated) by the Audit and Risk Manager providing details of an investigation into the payment of training invoices.

The report advised that an investigation was conducted into the payment of training invoices. The results of the audit were contained in Appendix 1 to the report.

Following a further review another investigation was carried out details of which were contained in Appendix 2 to the report.

Following the investigations and in accordance with council policy, appropriate steps were taken and an action plan put in place, together with agreed officer action.

The report recommended that the committee note the contents of the report and the agreed improvement actions contained in the action plan.

Decision

To note the terms of the report and agreed the recommendation.



AUDIT AND GOVERNANCE COMMITTEE

INTERNAL AUDIT PLAN 2015/16

REPORT BY AUDIT AND RISK MANAGER

A. PURPOSE OF REPORT

To inform the Audit and Governance Committee of the 2015/16 internal audit plan.

B. RECOMMENDATION

That the Audit and Governance Committee approves the 2015/16 internal audit plan.

C. SUMMARY OF IMPLICATIONS

I Council Values	Being honest, open and accountable. Making best use of our resources.
II Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)	None.
III Implications for Scheme of Delegations to Officers	None.
IV Impact on performance and performance Indicators	None.
V Relevance to Single Outcome Agreement	Our public services are high quality, continually improving, efficient and responsive to local people's needs.
VI Resources - (Financial, Staffing and Property)	The plan is based on the available staff resource.
VII Consideration at PDSP	None.
VIII Other consultations	Audit and Governance Committee members, senior officers including the Head of Finance and Estates, internal audit staff, Audit Scotland.

D. TERMS OF REPORT

The Public Sector Internal Audit Standards (PSIAS) require that a risk based audit plan be prepared. The Internal Audit Plan for 2015/16 sets out the planned internal audit work for the financial year to 31 March 2016 and is attached as an appendix.

Audits are included within the plan on the basis of an assessment of risk based on the corporate risk register, discussions with managers, and local knowledge of the council and its operations. Where risks are derived from the corporate risk register, the risk register reference is set out in the plan.

Audit Scotland have been consulted to ensure that the internal audit plan is co-ordinated with their programme of work.

The appended an extract from Covalent sets out the council's high risks as recorded in the corporate risk register. There are 10 high risks, and internal audit or risk management work has been taken, or is proposed, as per the extract.

E. CONCLUSION

The internal audit plan ensures that internal audit work is properly planned and focuses on areas of greatest risk.

F. BACKGROUND REFERENCES

None.

Appendices/Attachments: (1) Internal Audit Plan 2015/16 (2) Council High Risks

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Kenneth Ribbons
Audit and Risk Manager

Date of meeting: 9 February 2015



WEST LOTHIAN COUNCIL

AUDIT RISK AND COUNTER FRAUD UNIT

INTERNAL AUDIT PLAN

2015 / 16



INVESTORS
IN PEOPLE

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West Lothian
Council

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INTRODUCTION

- 1.1 The Local Authority Accounts (Scotland) Regulations 2014 require that councils operate a professional and objective internal audit service in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the Public Sector Internal Audit Standards (PSIAS).
- 1.2 The PSIAS require that a risk based audit plan be prepared for a period of no longer than one year. This annual audit plan fulfils this requirement, and plays an important role in ensuring that there is an effective system of financial and non financial control within the council, and that the effectiveness of control over key risks is systematically reviewed.
- 1.3 The plan is prepared after consultation with the Audit and Governance Committee, the Chief Executive, Depute Chief Executives, Heads of Service including the Head of Finance and Estates, the Chief Legal Officer, and internal audit staff. There is also liaison with Audit Scotland, the council's external auditor.
- 1.4 Audits are included within the plan on the basis of assessed risk derived from the corporate risk register, discussions with managers, and local knowledge of the council and its operations. Where risks are derived from the corporate risk register, the risk register reference is shown.
- 1.5 The PSIAS requires that I explain how internal audit's resource requirements have been assessed, and also requires me to provide an annual opinion on the council's framework of governance, risk management and control. I have assessed internal audit's resource requirements as being the level of resource that would be sufficient to enable me to provide an annual evidence based opinion. I am satisfied that the current level of resource is sufficient to enable me to do this.
- 1.6 The PSIAS also requires that I include in my plan my approach to using other sources of assurance. In addition to my internal audit work, in providing my annual evidence based opinion I will have regard to:
 - the work of Audit Scotland which is placed before the Audit and Governance Committee as a matter of course;
 - the outcome of work undertaken by Gallagher Bassett, the council's risk consultant;
 - the work of internal officer bodies such as the Governance and Risk Board, Corporate Governance Working Group and Delegation Working Group;
 - the Chief Legal Officer's annual report on the council's Code of Corporate Governance.
- 1.7 The Head of Finance and Estates has a statutory duty under Section 95 of the Local Government (Scotland) Act 1973 to ensure that the council has made arrangements for the proper administration of its financial affairs, and for safeguarding income and expenditure. The annual audit plan assists the Head of Finance and Estates to discharge this responsibility.
- 1.8 Progress in completing the annual audit plan is reported to the Audit and Governance Committee and to the Head of Finance and Estates.

Kenneth Ribbons
Audit and Risk Manager

SUMMARY OF RESOURCES AND AUDIT ACTIVITIES 2015/16

1. RESOURCES - DAYS AVAILABLE

Aggregate Days Available		1071	
Less			
Annual Leave / Public Holidays	135		
Sickness	4		
Non - Audit Time			
Election	<u>3</u>		
		<u>142</u>	
Available Days		929	100%
Non - Chargeable Time			
Management / Administration	166		
Training, Performance Review etc.	<u>18</u>		
		<u>184</u>	
Available Audit Days		<u>745</u>	<u>80%</u>

2. SUMMARY OF PLANNED AUDIT ACTIVITIES

Audit Activities

Risk Based Audit			
• Carry forward 2014/15	20		
• Audit work 2015/16 (see page 3)	555		
• Follow up of previous recommendations	25		
• External organisations (see page 14)	<u>30</u>		
		630	85%
Reactive Work		90	12%
Other Work			
• Grant Claims	10		
• Governance and Delegation Working Groups	<u>15</u>		
		<u>25</u>	<u>3%</u>
TOTAL AUDIT ACTIVITIES		<u>745</u>	<u>100%</u>

RISK BASED AUDITS - SUMMARY

	Allocated Days
Council Wide	175
Area Services	20
Corporate Services	15
Education Services	80
Finance and Estates	75
Housing, Construction and Building Services	50
Operational Services	80
Planning and Economic Development	20
Social Policy	40
TOTAL	<u>555</u>

RISK BASED AUDITS

Where audits are derived from the corporate risk register, the risk register reference is shown.

COUNCIL – WIDE RISKS

	Audit Days Allocated
System of Internal Control	
<u>Objective</u> To conduct a review of the council's systems of internal control, as required by the Local Authority Accounts (Scotland) Regulations 2014	20
Information Security (COR007)	
<u>Objective</u> To review the adequacy and effectiveness of the council's information asset register. To follow up on previous recommendations in relation to internet and email security.	20
Corporate Governance	
<u>Objective</u> To conduct an audit of governance matters as agreed with the Corporate Governance Working Group.	20
Retrospective Ordering (CPU002)	
<u>Objective</u> Review monthly processes in place for each service. This audit will involve meetings with each Head of Service to discuss the actions taken each month upon receipt of the retrospective order report	30
Financial Limits(CPU002)	
<u>Objective</u> Review the current position within the council regarding financial limits and make recommendations to the Executive Management Team for improved controls for the authorisation of transactions within purchase to pay systems.	20
Quick Quote (CPU002)	
<u>Objective</u> Perform six monthly review of Quick Quote system.	20
Procurement Business Case Exemptions (CPU002)	
<u>Objective</u> Review of compliance with the council wide Business Case Exemptions for procurement contracts.	15

Workforce Planning (WLC001b)

Objective

To review the effectiveness of controls in place in relation to workforce planning. 15

Financial Strategy and Balanced Budget (WLC012)

Objective

To conduct a review of the processes in place for delivering a balanced revenue budget for the period from 2015 to 2018. 15

TOTAL 175

AREA SERVICES

	Audit Days Allocated
Physical or Verbal Abuse of Staff (CIS003)	
<u>Objective</u>	
To review controls in place at the main cash collection offices to minimise risks of staff injury.	10
Theft of Money (CIS001)	
<u>Objective</u>	
To review controls over cash security in the main cash collection offices.	10
TOTAL	<u>20</u>

CORPORATE SERVICES

Audit Days Allocated

Corporate Health and Safety

Objective

To conduct a review of the council's corporate health and safety processes and procedures, to ensure compliance with legislation and minimise risks to staff.

15

TOTAL

15

EDUCATION SERVICES

	Audit Days Allocated
Fire Safety (ED020)	
<u>Objective</u> To review the controls for ensuring that effective fire safety risk assessments are undertaken in schools, and that improvements are identified and acted upon.	20
SEEMIS (Education Management Information Software) (ED001)	
<u>Objective</u> To review the arrangements for ensuring that information is accessible, held securely, and that appropriate recovery and back up arrangements are in place.	20
Child Protection (COR006)	
<u>Objective</u> To review the implementation of policies and procedures to ensure that effective child protection arrangements are in place within schools.	20
Procurement (WLC020)	
<u>Objective</u> To follow up on the internal control issues and agreed action plan submitted to the Audit and Governance Committee on 1 December 2014.	20
TOTAL	<u>80</u>

FINANCE AND ESTATES

	Audit Days Allocated
Housing Benefit (WLC016)	
<u>Objective</u> To review the controls for ensuring that claims are processed on time and within required accuracy levels.	20
Council Tax Discounts / Exemptions (WLC020)	
<u>Objective</u> To review the controls for ensuring that council tax discounts and exemptions are only applied to those genuinely entitled, and are removed timeously.	20
Treasury Management (FE005 / WLC020)	
<u>Objective</u> To review control over payments to ensure that payments are accurate and correct, and in accordance with treasury management policy.	15
Follow Up of PECOS (CPU002)	
<u>Objective</u> Follow up review of the progress made in implementing the improvements actions from the previous audit of PECOS	10
Carbon Reduction Commitment Energy Efficiency Scheme	
<u>Objective</u> To review the return submitted under this scheme in relation to the council's energy consumption.	10
TOTAL	<u>75</u>

HOUSING, CONSTRUCTION AND BUILDING SERVICES

	Audit Days Allocated
Open Contractor - Ordering, Receipting & Invoice Matching (CPU002)	
<u>Objective</u> Review the Ordering, Receipting and Invoice Matching process for the Open Contractor system within Housing, Construction and Building Services. Including follow up review of the progress made in implementing the improvements actions from the previous audit.	30
Construction Services – Management of Capital Projects (Csg002)	
<u>Objective</u> To review the management of capital projects by Construction Services to ensure that projects are progressed timeously and effectively and slippage minimised.	20
TOTAL	<u>50</u>

OPERATIONAL SERVICES

	Audit Days Allocated
Implementation of the Certification of Death (Scotland) Act 2011	
<u>Objective</u> To review the arrangements for implementing the above act, and to review compliance with the act once it comes into force in May 2015.	20
Damage to Underground Services (RTS004)	
<u>Objective</u> To conduct a review of controls in place which aim to minimise the risk of damage to underground services.	15
Tree Risks / Highways Inspections	
<u>Objective</u> To follow up on the implementation of recommendations made by the Gallagher Bassett risk consultant in relation to tree risks and highways inspections.	15
MOT Income	
<u>Objective</u> To review the administration of MOT income, including charging arrangements and collection of income.	15
Follow Up of Trapeze (CPU002)	
<u>Objective</u> Follow up review of the progress made in implementing the improvement actions from the previous audit of PECOS	10
Weather Related Damage (NLCS201) / Injury or Death in Cemeteries (NLCS005)	
<u>Objective</u> To review progress in implementing controls to minimise the risks.	5
TOTAL	<u>80</u>

PLANNING AND ECONOMIC DEVELOPMENT

Audit Days Allocated

Business Support – Economic Growth Plan

Objective

To conduct a review of controls over funding to ensure that payments are accurate and effective.

20

TOTAL

20

SOCIAL POLICY

Audit Days Allocated

Section Payments – Children Act (SP013)

Objective

To conduct further audit work in relation to section payments, and to follow up on previous recommendations made, as reported to Audit and Governance Committee on 1 December 2014.

20

Payments to Outside Bodies (CPU003 and SP007)

Objective

To conduct audit work on payments to other outside bodies to ensure that these are made in accordance with council policies, procedures and procurement rules.

20

TOTAL

















40





EXTERNAL ORGANISATIONS

	Audit Days Allocated
Improvement Service Objectives to be agreed with the management of the Improvement Service.	15
West Lothian Leisure Objectives to be agreed with the management of West Lothian Leisure.	15
TOTAL	<u>30</u>

Council High Risks

Generated on: 02 February 2015 09:48

Risk Title	Gross Risk Score	Traffic Light Icon	Current Impact	Current Likelihood	Current Risk Score	Traffic Light Icon	Head of Service	Action
WLC001b Workforce planning - failure to achieve workforce planning objectives	20		4	3	12		J Whitelaw	Included in 2015/16 audit plan.
CPU003 Breaches of council Standing Orders, policies and procedures for the procurement of contracts	16		3	4	12		D Forrest	Included in 2015/16 audit plan.
NLCS005 Injury or death by falling onto spiked railings around headstones or graves or by unsafe memorialisation	16		4	3	12		J Jack	Follow up of progress as part of 2015/16 audit plan.
SP013 Section Payments - Failure to make correct and accurate payments to clients	16		3	4	12		Jennifer Scott	Included in 2015/16 audit plan.
CF001 Assault or injury to staff, or malicious allegation, by service user	15		3	4	12		Jennifer Scott	Audited 2012/13 – will be kept under review during 2015/16.
FE002 Failure to maintain WLC2 activities in the event of an emergency / disaster	15		4	3	12		D Forrest	Business continuity plans will be reviewed as part of 2015/16 risk management work plan.
CIS003 Physical or verbal abuse of staff	12		3	4	12		S Field	Included in 2015/16 audit plan.
HCBS004 Increase in use of hotel and bed and breakfast accommodation	12		3	4	12		A Shaw	Will be kept under review during 2015/16.

Risk Title	Gross Risk Score	Traffic Light Icon	Current Impact	Current Likelihood	Current Risk Score	Traffic Light Icon	Head of Service	Action
NLCS201 Weather related damage: storm, flood, water damage	12		4	3	12		J Jack	Follow up of progress as part of 2015/16 audit plan.
RTS004 Damage to underground services by WLC employees or contractors employed by WLC	12		4	3	12		J Jack	Included in 2015/16 audit plan.



AUDIT AND GOVERNANCE COMMITTEE

RISK MANAGEMENT PLAN 2015/16

REPORT BY AUDIT AND RISK MANAGER

A. PURPOSE OF REPORT

To inform the Audit and Governance Committee of the 2015/16 risk management plan.

B. RECOMMENDATION

That the Audit and Governance Committee approves the 2015/16 risk management plan.

C. SUMMARY OF IMPLICATIONS

I. Council Values	Being honest, open and accountable. Making best use of our resources.
II. Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)	None.
III. Implications for Scheme of Delegations to Officers	None.
IV. Impact on performance and performance indicators	Effective management of risk is a pre-requisite for effective performance management.
V. Relevance to Single Outcome Agreement	Our public services are high quality, continually improving, efficient and responsive to local people's needs.
VI. Resources (Financial, Staffing and Property)	The plan is based on the available staff resource.
VII Consideration at PDSP	None.
VIII Other consultations	Risk Management Working Group, Governance and Risk Board.

D. TERMS OF REPORT

The risk management plan for 2015/16 sets out the main areas of planned work on risk management, including business continuity planning, and is attached as an appendix to this report.

The objective of risk management work is to ensure that effective processes are in place for managing risk at both a corporate and service level. This is carried out by ensuring that up to date and effective guidance is provided to services, by facilitating and participating in the work of the Risk Management Working Group and Governance and Risk Board, and by reporting on risks to the Governance and Risk Board and Executive Management Team. In addition, follow up work on the implementation of the Gallagher Bassett risk consultant's recommendations is planned. A review of services' compliance with the revised risk management procedures issued in December 2014 is also planned.

The objective of business continuity work is to ensure that business continuity plans are up to date and effective. Testing of WLC1 (risk to life and limb) business continuity plans is currently on schedule to be completed by April 2015. The corporate business continuity plan is reviewed on an annual basis. Further work on the review of WLC2 (significant impact) business continuity plans will be undertaken during 2015/16, and feedback provided to services.

E. CONCLUSION

The risk management plan for 2015/16 is an essential component of the council's risk management arrangements. Progress will be reported to the Governance and Risk Board and Audit and Governance Committee.

F. BACKGROUND REFERENCES

None.

Appendices/Attachments: Risk management plan 2015/16

Contact Person: Kenneth Ribbons – Kenneth.ribbons@westlothian.gov.uk Tel No. 01506 281573

Kenneth Ribbons
Audit and Risk Manager

Date of meeting: 9 February 2015

Risk Management Plan 2015/16

Item	Task	Detail	Target Date
1.	Risk Management Working Group	Organise quarterly meetings, liaise with group members as appropriate, prepare action notes and undertake any agreed actions.	Ongoing during 2015-16
2.	Governance and Risk Board	Organise six meetings per year, liaise with group members as appropriate, prepare action notes and undertake any agreed actions.	Ongoing during 2015-16
3.	Executive Management Team	Report on high and strategic risks six times per year and undertake any agreed actions.	Ongoing during 2015-16
4.	Gallagher Bassett Risk consultant	Follow up of previous Gallagher Bassett risk consultant recommendations. Review of the potential for further risk consultancy assignments.	31 March 2016
5.	Risk management policy / strategy	Update and approval of risk management policy / strategy (carry forward from 2014/15).	30 September 2015
6.	WLC1 business continuity test programme	Chair monthly Project Board and liaise with project manager to ensure successful outcome.	30 April 2015 (as approved by IT Programme Board)
7.	WLC1 business continuity test programme	Follow up on recommendations made.	31 March 2016
8.	WLC2 business continuity plans	Review of plans and feedback to services.	31 March 2016
9.	Corporate business continuity plan	Review and maintain up to date.	CMT approval by 30 November 2015
10.	Corporate business continuity plan	Conduct a test of the corporate business continuity plan.	30 November 2015
11.	Risk management arrangements	Conduct a high level review of the council's arrangements to determine whether risk management is effectively embedded.	31 March 2016

Item	Task	Detail	Target Date
12.	Health and Social Care integration.	To maintain an overview of risks in relation to Health and Social Care integration and liaise with management as required.	31 March 2016



AUDIT AND GOVERNANCE COMMITTEE

COUNTER FRAUD PLAN 2015/16

REPORT BY AUDIT AND RISK MANAGER

A. PURPOSE OF REPORT

To inform the Audit and Governance Committee of the 2015/16 counter fraud plan.

B. RECOMMENDATION

That the Audit and Governance Committee approves the 2015/16 counter fraud plan.

C. SUMMARY OF IMPLICATIONS

- | | |
|--|--|
| I. Council Values | Being honest, open and accountable. Making best use of our resources. |
| II. Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment) | Fraud investigations are undertaken in accordance with the council's Anti-Fraud and Corruption Policy. |
| III. Implications for Scheme of Delegations to Officers | None. |
| IV. Impact on performance and performance indicators | None. |
| V. Relevance to Single Outcome Agreement | Our public services are high quality, continually improving, efficient and responsive to local people's needs. |
| VI. Resources (Financial, Staffing and Property) | The plan is based on the available staff resource. |
| VII. Consideration at PDSP | None. |
| VIII. Other consultations | Head of Finance and Estates, audit risk and counter fraud staff. |

D. TERMS OF REPORT

On 3 June 2014 I reported to the Audit and Governance Committee on the council's revised counter fraud arrangements. The specialist investigative resource within the council's Revenues Unit transferred to the Audit and Risk Management Unit on a temporary basis, pending transfer to the Department for Work and Pensions (DWP) Single Fraud Investigation Service (SFIS).

On 1 February 2014 three counter fraud staff transferred to SFIS. Two counter fraud staff have been retained within the Unit on a permanent basis. Based on this resource a counter fraud plan for 2015/16 has been prepared, which is attached as an appendix.

The main elements of the counter fraud plan are to:

- record, assess and investigate fraud referrals;
- administer the 2014 National Fraud Initiative (NFI) data matching exercise, risk assess data matches, and investigate them as appropriate;
- maintain the council's whistleblowing hotline, and investigate allegations.

E. CONCLUSION

The counter fraud plan sets out the counter fraud work to be undertaken during 2015/16. Progress will be reported to the Head of Finance and Estates and the Audit and Governance Committee.

F. BACKGROUND REFERENCES

Report to the Audit and Governance Committee 3 June 2014: Corporate Counter Fraud Arrangements

Report to the Audit and Governance Committee 29 September 2014: The National Fraud Initiative in Scotland

Appendices/Attachments: Counter Fraud Plan 2015/16

Contact Person: Kenneth Ribbons – Kenneth.ribbons@westlothian.gov.uk Tel No. 01506 281573

Kenneth Ribbons
Audit and Risk Manager

Date of meeting: 9 February 2015

Counter Fraud Plan 2015/16

Item	Task	Detail	Target Date
1.	Fraud Investigations	Record and assess all referrals and investigate as appropriate.	Ongoing during 2015/16
2.	National Fraud Initiative (NFI)	Administer the biennial NFI data matching initiative, risk assess data matches, and investigate as necessary. Following review of the matches some investigative work on lower risk matches may be delegated to services.	Ongoing during 2015/16
3.	Whistleblowing Hotline	Maintain hotline, respond to and record calls, and investigate as appropriate. Raise awareness with services.	Ongoing during 2015/16
4.	Data Matching	Develop the council's in house data matching capabilities independently of the NFI.	31 March 2016
5.	Counter fraud policies and procedures	Review policies and procedures to ensure that they continue to be effective. This will include consideration of a separate fraud reporting policy for identified fraud in relation to Council Tax Reduction Scheme (CTRS), Council Tax discounts and exemptions, and Non Domestic Rates relief.	31 March 2016
6.	Counter fraud advice and information	Liaise with services to disseminate counter fraud advice and information. Raise awareness of the whistleblowing hotline with services.	31 March 2016



AUDIT AND GOVERNANCE COMMITTEE

INTERNAL AUDIT CHARTER

REPORT BY AUDIT AND RISK MANAGER

A. PURPOSE OF REPORT

To inform the Audit and Governance Committee of the internal audit charter.

B. RECOMMENDATION

That the Audit and Governance Committee approves the internal audit charter.

C. SUMMARY OF IMPLICATIONS

I Council Values	Being honest, open and accountable. Making best use of our resources.
II Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)	None.
III Implications for Scheme of Delegations to Officers	None.
IV Impact on performance and performance Indicators	None.
V Relevance to Single Outcome Agreement	Our public services are high quality, continually improving, efficient and responsive to local people's needs.
VI Resources - (Financial, Staffing and Property)	None.
VII Consideration at PDSP	None
VIII Other consultations	Head of Finance and Estates, internal audit and counter fraud staff.

D. TERMS OF REPORT

The Public Sector Internal Audit Standards (PSIAS) require that the purpose, authority and responsibility of internal audit must be formally defined in an internal audit charter. The charter attached as an appendix fulfils this function and replaces the previously prepared mission statement and terms of reference that were approved by the (then) Audit Committee in December 2010.

The internal audit charter covers matters such as internal audit's purpose, scope, responsibilities, objectives, organisational status, independence, and authority. The charter is important in that it clearly sets out the arrangements for securing internal audit's independence, and sets out the right of internal audit staff to receive documents, information and explanations from officers and members of the council.

E. CONCLUSION

The internal audit charter acts as a framework for the provision of an effective internal audit service.

F. BACKGROUND REFERENCES

Report to Audit and Governance Committee 5 March 2013: Public Sector Internal Audit Standards (PSIAS)

Appendices/Attachments: Internal Audit Charter

Contact Person: Kenneth Ribbons – Kenneth.ribbons@westlothian.gov.uk Tel No. 01506 281573

Kenneth Ribbons
Audit and Risk Manager

Date of meeting: 9 February 2015



**West Lothian
Council**

WEST LOTHIAN COUNCIL AUDIT, RISK AND COUNTER FRAUD UNIT

INTERNAL AUDIT CHARTER

3 February 2015

1. INTRODUCTION

- 1.1 The Local Authority Accounts (Scotland) Regulations 2014 paragraph 7(1) require the council to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing.

2. PURPOSE

- 2.1 The council has established an internal audit function which independently reviews the council's risk management, control and governance processes.

3. STANDARDS

- 3.1 Internal audit operates in accordance with the Public Sector Internal Audit Standards (PSIAS).
- 3.2 The PSIAS represents a common set of internal audit standards for all internal audit service providers in the public sector. The PSIAS came into force on 1 April 2013 and comprises a definition of internal auditing, code of ethics and professional standards. Compliance with the PSIAS is mandatory.
- 3.3 The PSIAS requires that the chief audit executive periodically reviews the internal audit charter and presents it to senior management and the board for approval.
- 3.4 In this context the "chief audit executive" is the Audit and Risk Manager, "senior management" is the Head of Finance and Estates and "the board" is the Audit and Governance Committee.

4. SCOPE

- 4.1 Internal audit's remit extends to the council's entire risk management, control and governance processes, both financial and non-financial.

5. RESPONSIBILITIES AND OBJECTIVES

- 5.1 The council's Audit and Risk Manager has responsibility for the internal audit, risk management and counter fraud functions.
- 5.2 Internal audit provides assurance by conducting audits of the council's risk management, control and governance processes based on an assessment of risk.
- 5.3 Internal audit's objectives are set out in the council's Financial Regulations and are to review, appraise and report on the:
- effectiveness of systems of financial and non-financial control;
 - extent of compliance with council policies, plans and procedures;
 - extent of compliance with regulations and legislation;

- degree to which assets are properly accounted for and safeguarded;
- suitability and reliability of management data and performance information;
- effectiveness of management in discharging its responsibilities for ensuring value for money.

5.4 Subject to the agreement of senior management, internal audit may also provide internal audit and consultancy services to external third parties.

5.5 The Audit and Risk Manager prepares an annual risk based internal audit plan and reports on performance in completing the plan.

5.6 The Audit and Governance Committee is responsible for overseeing the work of internal audit and monitoring its overall performance.

5.7 The Audit and Risk Manager prepares an annual report which includes an opinion on the council's risk management, control and governance processes. The council takes this into account when reviewing the effectiveness of its system of internal control.

6. ORGANISATIONAL STATUS AND INDEPENDENCE

6.1 The Audit and Risk Manager independently and objectively reports on the council's risk management, control and governance processes.

6.2 The Audit and Risk Manager reports administratively to the Head of Finance and Estates. The PSIAS requires the Audit and Risk Manager to report functionally to the Audit and Governance Committee. Functional reporting is defined as that which enables the Audit and Risk Manager to ensure that internal audit fulfils its responsibilities. This is achieved by the Audit and Governance Committee:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- receiving reports in the Audit and Risk Manager's name;
- reviewing internal audit reports;
- receiving reports from the Audit and Risk Manager on internal audit's performance.

6.3 The Audit and Risk Manager has the right of direct access to the Chief Executive and Chair of the Audit and Governance Committee in relation to any matter within his remit.

6.4 The Audit and Risk Manager may consult with the Monitoring Officer at any time about any matter within his remit.

6.5 Audit reports are issued in the Audit and Risk Manager's name and in addition to the nominated point of contact, audit reports are circulated to:

- relevant Heads of Service;
- the Head of Finance and Estates;
- Audit Scotland.

- 6.6 The Audit and Risk Manager also has the right to send audit reports to the Chief Executive, Depute Chief Executives and Monitoring Officer for consideration.

7. AUTHORITY

- 7.1 The Local Authority Accounts (Scotland) Regulations 2014 require that any officer or member of a local authority must, as required by those undertaking internal auditing:

- make available such documents of that authority which relate to its accounting and other records for the purpose of internal auditing; and
- supply such information and explanation as those undertaking internal auditing consider necessary for that purpose.

- 7.2 The council's Financial Regulations provide internal audit staff with the authority, subject to any necessary prior consultations to:

- enter at all reasonable times any council premises or land;
- access all records, documents and correspondence relating to any aspect of internal audit's remit;
- require and receive such explanations as are necessary concerning any matter under examination;
- require any employee of the council to produce cash, stores or any other council property under that person's control.

- 7.3 The council's Financial Regulations require that whenever any matter arises which involves or is thought to involve a fraud, theft or irregularity that affects the affairs of the council, the Head of Finance and Estates is notified. The Audit Risk and Counter Fraud Unit's "Procedures for the Investigation of Suspected Fraud and Irregularities" set out the processes for investigating referrals.

- 7.4 The Audit and Risk Manager takes account of the outcome of counter fraud work when preparing the risk based internal audit plan.

8. MANAGEMENT RESPONSIBILITIES

- 8.1 Responsibility for internal control rests with managers, who must ensure that proper internal control arrangements are in place. Internal audit's role is to evaluate the effectiveness of such internal control arrangements. Management is responsible for accepting and implementing audit recommendations, and bears any risk arising from not taking action. Internal audit is not a substitute for an effective system of internal control implemented by management.

9. RESOURCES

- 9.1 Responsibility for resourcing the internal audit function rests with senior management, specifically the Head of Finance and Estates.

- 9.2 The Head of Finance and Estates ensures that resources are sufficient to enable internal audit to conduct a regular review of the council's risk management, control and governance processes, based on an assessment of risk. The Audit and Risk Manager is responsible for managing the resource provided and providing an effective internal audit service.

10. CONSULTING AND COUNTER FRAUD WORK

- 10.1 Internal audit may from time to time provide consulting services. Consulting services are generally provided at the request of senior management and are defined as advice, information or training in relation to risk management, control and governance processes.
- 10.2 The Audit and Risk Manager has responsibility for the council's counter fraud function. It may be necessary, from time to time, for internal audit staff to provide assistance to the council's counter fraud officers. This may involve undertaking investigations to establish the facts, interviewing witnesses, or taking referrals on the council's whistle blowing hotline.
- 10.3 Counter fraud work will generally include a report which sets out the facts of the matter insofar as this can be determined, and include where appropriate recommendations for improvement in control.

11 CONFLICTS OF INTEREST

- 11.1 The council's Employee Code of Conduct sets out the required standards of conduct for all employees and includes provisions for the declaration of interests and gifts / hospitality.
- 11.2 In addition, internal audit staff are required to disclose any potential conflicts of interest which may affect their audit work, for example previous employment with the council, relatives employed with the council, etc.
- 11.3 The Audit and Risk Manager is responsible for the corporate risk management and counter fraud functions. Alternative sources of assurance are sought in relation to the effectiveness of these functions, for example by utilising the work of other council internal audit teams, or relying on the work of Audit Scotland.

Kenneth Ribbons
Audit and Risk Manager
3 February 2015



AUDIT AND GOVERNANCE COMMITTEE

THE ACCOUNTS COMMISSION'S NATIONAL REPORT ON COMMUNITY PLANNING

REPORT BY CHIEF EXECUTIVE

A. PURPOSE OF REPORT

To update members of the Audit and Governance Committee on the findings of the Accounts Commission national audit report on Community Planning, and plans for responding to recommendations.

B. RECOMMENDATION

It is recommended that the Committee:-

1. Notes the findings and recommendations of the Accounts Commission's national report
2. Notes the Community Planning Partnership's plans for responding to the findings and recommendations and for further developing the partnership

C. SUMMARY OF IMPLICATIONS

I Council Values	Focusing on our customers' needs; being honest, open and accountable; providing equality of opportunities; making best use of our resources; working in partnership
II Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)	None
III Implications for Scheme of Delegations to Officers	None
IV Impact on performance and performance Indicators	None
V Relevance to Single Outcome Agreement	This report outlines the effectiveness of Community Planning Partnerships ability to deliver their Single Outcome Agreements.
VI Resources - (Financial, Staffing and Property)	This report outlines the effectiveness of Community Planning Partnerships in achieving

outcomes within resources.

VII Consideration at PDSP

Not applicable

VIII Other consultations

The Community Planning Partnership were consulted and engaged throughout the West Lothian Community Planning Partnership audit process.

D. TERMS OF REPORT

The Accounts Commission published their national report on Community Planning, '*Turning Ambition into Action*' on 27 November 2014.

This report assesses progress locally and nationally, in the context of the agenda for improvement set out in the Statement of Ambition for Community Planning, and identifies opportunities for further improvement. This is based on their assessment of local progress in their audits of five Community Planning Partnerships (CPPs) in 2014 (including West Lothian) and follow-up work in three CPPs audited in 2012/13.

The report contains several key findings and recommendations for the National Community Planning Group, the Scottish Government, COSLA and CPPs to consider. These are listed in Appendix 1.

The Accounts Commission have found that there is a strong sense of renewed energy nationally and locally to improving Community Planning since the publication of the Statement of Ambition in 2012. Partners are now taking a more active part in sharing ownership of priorities, understanding what resources are available and recognising the importance of prevention. However, leadership, scrutiny and challenge remain inconsistent. There is also a lack of a coherent national framework for assessing performance and pace of improvement of CPPs and central government bodies and the NHS need to be more consistently held to account for contributions to Community Planning. The National Community Planning Group needs to work with the Scottish Government and COSLA on what their new approach to Community Planning means in practice for CPPs and how successful delivery will be measured.

The Audit and Governance Committee received a report in December 2014 on plans for responding to the findings and recommendations in the Accounts Commission's audit report on the West Lothian CPP, published in October 2014. Some of the recommendations for CPPs in the national report refer to areas where the Accounts Commission recognised that the West Lothian CPP is already doing well. The other national recommendations for CPPs are in-line with the areas for improvement outlined in the West Lothian CPP audit report.

The CPP should also consider implications of the recommendations for the National Community Planning Group, the Scottish Government and COSLA outlined in the national report.

The findings and recommendations of the West Lothian CPP audit report and the national audit report will be considered and incorporated into the partnership's existing self-assessed development plan at a special meeting of the CPP.

Representatives from the Accounts Commission are also to be invited to the next CPP Board meeting on 9 March 2015 to further discuss key findings. A

Celebrating Community Planning event will be arranged in early summer to highlight areas of particular strength and to learn from invited speakers and other CPPs who are examples of good practice in areas we can improve in. The event will be open to a wide range of partners.

E. CONCLUSION

The Accounts Commission have found that there is a strong sense of renewed energy nationally and locally to improving Community Planning since the publication of the Statement of Ambition in 2012. Partners are now taking a more active part in sharing ownership of priorities, understanding what resources are available and recognising the importance of prevention. However, the Accounts Commission have outlined some areas for improvement for CPPs, as well as for the National Community Planning Group, the Scottish Government and COSLA.

There are already plans in place for taking forward Community Planning development and continuous improvement in West Lothian with consideration of the West Lothian CPP audit report findings and recommendations. The findings and recommendations from the national report will also be considered.

F. BACKGROUND REFERENCES

National Community Planning Audit Report by the Accounts Commission, November 2014: http://www.audit-scotland.gov.uk/docs/central/2014/nr_141127_community_planning.pdf

West Lothian Community Planning Audit report by the Accounts Commission, October 2014. http://www.audit-scotland.gov.uk/docs/central/2014/nr_141023_west_lothian_cpp.pdf

Report to the Audit and Governance Committee in December 2014: *Report by the Accounts Commission on West Lothian Community Planning Partnership*

Appendices/Attachments: Appendix 1 – Key Messages and Recommendations

Contact Person: Lorraine Gillies, Community Planning Development Manager, 01506 281690

Graham Hope
Chief Executive

09 February 2015

Appendix 1: Key Messages and Recommendations

Key messages

1. Since the publication of the Statement of Ambition, there is a strong sense of renewed energy nationally and locally to improving community planning. Community planning continues to become more of a shared enterprise, with more active participation by partners and evidence of more shared ownership of the priorities in Single Outcome Agreements (SOAs). Although aspects of community planning are improving, leadership, scrutiny and challenge are still inconsistent. There is little evidence that CPP boards are yet demonstrating the levels of leadership and challenge set out in the Statement of Ambition.
2. The Scottish Government and the National Community Planning Group (NCPG) have taken steps to promote the importance of community planning across government and in partner organisations. The National Community Planning Group is now starting to focus its activity on the areas where national leadership is most needed. It recently issued a set of key principles that are intended to set out an ambitious but realistic improvement agenda for community planning that draws on the practical experience of implementing the Statement of Ambition by CPPs. It now needs to set out what this refocused approach to community planning means for the Statement of Ambition, its expectation of CPPs and how success in implementing these principles will be assessed. Alongside that, the Scottish Government needs to demonstrate a more systematic approach to implementing its outcomes approach by clarifying the links between longer-term outcomes, its priorities and performance measures across all policy areas.
3. Many CPPs are still not clear about what they are expected to achieve and the added value that can be brought through working in partnership. Although SOAs have improved, many still do not set out the specific improvements CPPs are aiming to achieve. They also lack a focus on how community planning will improve outcomes for specific communities and reduce the gap in outcomes between the most and least deprived groups in Scotland. This reflects a wider ambiguity both nationally and locally about the extent to which the focus of community planning should be on local needs or about delivering national priorities. CPPs need to use local data to help set relevant, targeted priorities for improvement that will address inequalities within specific communities.
4. CPPs are starting to better understand what resources they have available to deliver their SOA. They have begun to identify how partners use their resources, such as money and staff, in particular priority areas or specific communities. But discussions about targeting these resources at their priorities and shifting them towards preventative activity are still in the early stages. CPPs do not yet know what a strategic approach to prevention will look like, and in many areas the evidence base for this is underdeveloped. The current pace and scale of activity is contributing to an improved focus on prevention but is unlikely to deliver the radical change in the design and delivery of public services called for by the Christie Commission.
5. At present, there is no coherent national framework for assessing the performance and pace of improvement of CPPs. This means that there is no overall picture of how individual CPPs are performing and what progress is being made towards the effective implementation of the Statement of Ambition. The Scottish Government is now starting to use existing performance management and accountability arrangements to monitor the contribution of public bodies to

community planning. But it is not yet consistently holding central government bodies or the NHS to account for their performance within CPPs.

6. The Statement of Ambition places community planning at the core of public service reform, but many CPPs are not clear about what their specific role in these programmes should be. While some CPPs have a good overview of public service reform in their area, CPP oversight of and engagement with some important aspects of reform, such as the integration of health and social care services and national reform programmes such as the Early Years Collaborative, remains underdeveloped. Scottish Government guidance is not clear enough about the specific role that CPPs should play in the implementation of public service reforms.

Recommendations

The National Community Planning Group should:

- set out what its refocused approach to community planning means for the Statement of Ambition and its performance expectations of CPPs

The Scottish Government and COSLA should:

- clarify their performance expectations for CPPs in the context of the National Community Planning Group's refocused approach to community planning
- develop a national framework for assessing and reporting progress in improving community planning and implementing the Statement of Ambition
- work with the Improvement Service and other national improvement agencies to establish and coordinate a programme of well-targeted, practical support that will help CPPs to implement the Statement of Ambition effectively

The Scottish Government should:

- ensure that future guidance on the implementation of public service reform programmes is clear about the specific role that CPPs should play and the contribution they are expected to make in supporting improved outcomes
- implement its outcomes approach more systematically across all policy areas
- ensure that its review of national performance measurement arrangements streamlines approaches and creates a stronger prevention and outcome focus
- hold central government bodies and the NHS to account more consistently for their performance within CPPs
- review the role of location directors

CPPs should:

- strengthen the effectiveness of the leadership, challenge and scrutiny role at CPP board level
- streamline local partnership working arrangements and ensure they are aligned with local improvement priorities

- ensure that local community planning arrangements are clear about who is responsible for:
 - agreeing the priorities of the CPP and SOA
 - allocating resources and coordinating activity
 - implementing activity
 - scrutinising performance and holding partners and others to account for their performance
- work with the new health and social care integration joint boards to develop services that meet the needs of local people and support SOA priorities
- set clearer improvement priorities focused on how they will add most value as a partnership, when updating their SOA
- use local data on the differing needs of their communities to set relevant, targeted priorities for improvement
- start to align and shift partners' resources toward agreed prevention and improvement priorities



AUDIT AND GOVERNANCE COMMITTEE

AUDIT SCOTLAND REPORT ON THE IMPACT OF WELFARE REFORMS ON COUNCIL RENT ARREARS IN SCOTLAND

REPORT BY HEAD OF HOUSING, CONSTRUCTION AND BUILDING SERVICES

A. PURPOSE OF REPORT

To provide the Audit and Governance Committee with a summary of the *Impact of Welfare Reforms on Council Rent Arrears in Scotland* report published by Audit Scotland in September 2014.

B. RECOMMENDATION

It is recommended that the Audit and Governance Committee notes the key messages included in Audit Scotland's report and the council's position on these.

C. SUMMARY OF IMPLICATIONS

I Council Values	Being honest, open and accountable
	Making best use of our resources
II Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)	None
III Implications for Scheme of Delegations to Officers	None
IV Impact on performance and performance Indicators	None
V Relevance to Single Outcome Agreement	Our public services are high quality, continually improving, efficient and responsive to local people's needs
VI Resources - (Financial, Staffing and Property)	None
VII Consideration at PDSP	None
VIII Other consultations	None

D. TERMS OF REPORT

D.1 Introduction

In September 2014, Audit Scotland published a report, "The Impact of Welfare Reforms on Council Rent Arrears in Scotland." The report included a review of the underlying factors impacting on rent arrears, highlighted council initiatives to mitigate the effect of welfare reform (WR) on rent arrears, reviewed revisions to council policies in response to WRs and highlighted where current and impending WRs may impact on rent arrears in the future. The report had a particular focus on the removal of the spare room subsidy (RSRS) or 'bedroom tax'.

D.2 Rent Arrears

The introduction of the RSRS in April 2013 meant that where a tenant had more bedrooms than is deemed necessary, then they were considered to be under-occupying the property. Tenants in receipt to Housing Benefit (HB) would therefore have a reduction in their eligible rent for HB of 14% for one extra bedroom, and 25% for two or more extra bedrooms.

In order to determine what impact the RSRS had on rent arrears Audit Scotland analysed current and former tenants' arrears data for the period 2011/12 to 2013/14, in respect of the 26 councils that have housing stock.

The report identified that the volume of former tenant arrears remained relatively static between 2013 and 2014 at between £22.1 million and £22.2 million and concluded that there did not appear to have been any significant impact on former tenants as a result of welfare reforms.

As for current tenants the report determined that even taking into account rent increases and changes in housing stock, there was an increase in current tenant arrears. This was based on the table below:

	Gross Rent Charged	Rent Arrears	% of Rent Arrears to Gross Rent
2011/12	£952,637,415	£24,362,341	2.6%
2012/13	£988,667,716	£28,194,660	2.9%
2013/14	£1,032,336,268	£35,068,060	3.4%

A variety of factors had been given by councils as contributing factors to the increases in arrears and included:

- the combination of WRs such as RSRS, the benefit cap, the increase in non-dependant deduction charges, benefit sanctions, changes to Employment Support Allowances and tax credits
- additional pre-action requirements (PARS) introduced in April 2012 that landlords must satisfy before serving a legal notice
- where it was known the council had a 'no eviction' policy the ultimate sanction of evicting the tenants appeared to have been removed
- the downturn in the economy and high unemployment in some areas
- tenants that were not engaging with the council or prioritising their rent payments
- resource pressures due to additional amounts to be collected as a result of the RSRS as well as the reallocation of resources to engage with tenants affected by the RSRS
- a DHP budget that did not allow full mitigation of the RSRS in some areas

D.3 Write Offs and Bad Debts

Current tenant rent arrears are normally pursued by councils and only written off in exceptional circumstances, for example where the tenant has been sequestered. The report identified there had not been a significant increase in write offs in 2013/14 and concluded that WRs had no discernible impact in this area and the increase in rent arrears was not directly linked to a reduction in the level of write off.

Audit Scotland sought what actions councils were taking to mitigate the impact of WR and asked what changes had been made to the bad debt calculation. Of the 26 councils only five stated they had increased bad debt provisions in mitigation of an expected increase in rent arrears.

D.4 Voids

A 'void' is a property that does not have a current tenancy. Before the RSRS was introduced, councils were concerned that there was a lack of suitable and available one bedroom housing stock to enable customers to downsize. However, the report concluded that, based on 23 councils reporting no significant impact on voids, that WRs had no discernible effect on the loss of rental from voids.

D.5 Discretionary Housing Payment (DHP)

DHP is available to council and non-council tenants and may be awarded when a council considers that a HB claimant requires further financial assistance towards their housing costs.

As a result of WRs, the UK Government significantly increased DHP for Scottish councils from £4.2 million in 2012/13 to £18.2 million in 2013/14. During 2013/14 the Scottish Government also provided Scottish councils with an additional £20 million of funding to help mitigate the impact of WRs.

The total value of DHP awards made to claimants was £29.4 million in 2013/14. Therefore despite a significant amount of effort and resources employed by councils, £8.8 million was not spent. A large part of the underspend can be attributed to an over provision for rural councils, and the report suggests a review of funding distribution methodology is required.

From 2014/15 additional funding for DHP from the UK Government and the Scottish Government has provided additional funding to mitigate the RSRS for all affected tenants.

D.6 Policies and Incentives

Councils have kept elected members up to date with the WR agenda as well as their impact and as a result changes have been made to council policies that cover the award of DHP, collecting rent arrears, and the allocation of social housing. A number of council initiatives were also referred to in the report where councils had taken action to mitigate the impact of WRs.

D.7 Long Term Plans

The report determined that there had been no significant impact on council's long term housing plans and strategies. It did raise a key concern for councils on the combined impact of the introduction of Universal Credit and how they will deliver their statutory duty to homeless households.

The report also highlighted that there were other areas of WR that would cause concern going forward and that many households are, or will be, likely affected by more than one change.

D.8 West Lothian Council Position

In line with the national trend WLC experienced a higher level of rent arrears, rising from £998,000 in 2012/13 to £1.3 million in 2013/14. This increase was in a year when the council had approved a rent freeze to assist tenants. The estimated loss of HB as a result the RSRS was £1.3 million for council tenants alone in 2013/14. There is a council wide task group dealing specifically with rent arrears issues.

There has not been a noticeable impact on voids for the council as a result of WRs.

WLC was one of the five councils that increased bad debt provision in anticipation of higher rent arrears.

WLC was one of the 13 councils that spent in excess of 90% of their DHP budget with an outturn of 99% for 2013/14. A pragmatic approach has been adopted by the council to ensure the Scottish Government funding for 2014/15 has been applied to tenants affected by the RSRS. In addition to this the Council Executive, at its meeting on 22 December 2014, approved the use of one-off funding to address legacy 'bedroom tax' arrears from 2013/14.

The council is preparing for the introduction of Universal Credit and a working group has been established to take this forward. Planning will be vital to prepare our tenants, staff and services for what will be an added challenge for rent payment and collection.

E. CONCLUSION

Audit Scotland's report on *The Impact of Welfare Reforms on Council Rent Arrears in Scotland* provided evidence that WRs are having an impact on rent arrears for councils, especially with the RSRS. Additional DHP funding had gone some way to reduce this impact. The report concluded that at this stage there was not a significant impact on councils' long term housing plans or strategies but highlighted that there were further WRs still to impact, most notably Universal Credit and this would make rent collection more challenging.

West Lothian has responded positively to the challenge of WRs particularly in rent arrears through its task group approach, maximising DHP spend and approving a rent freeze in the first year of the RSRS. These positive steps have ensured rent arrears increases are minimised and that advice and assistance is available to those tenants affected.

F. BACKGROUND REFERENCES

None

Appendices/Attachments: Audit Scotland Report – The Impact of Welfare Reforms on Council Rent Arrears in Scotland (September 2014)

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Date: 9 February 2015

The impact of welfare reforms on council rent arrears in Scotland



Prepared for the Accounts Commission
25 September 2014

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

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Introduction

1. The UK Government has introduced a number of welfare reforms since 2010. Many of these reforms impact upon household income and housing benefit (HB). The most significant reform introduced to date with a potential direct impact on social housing rents is the removal of the spare room subsidy (RSRS), also known as the 'bedroom tax', which was introduced in April 2013.
2. From April 2013 all working age tenants renting from a local authority, housing association or other registered social landlord receive HB based on the number of people in their household and the size of their accommodation. This means those tenants whose accommodation is larger than they need might lose part of their HB. Those with one spare bedroom could lose 14% of their eligible rent and those with two or more spare bedrooms could lose 25%.
3. For the purpose of this study, Audit Scotland looked at local authority rent arrears to determine the extent to which the RSRS and other welfare reforms have impacted on rent arrears in Scotland. We reviewed the published housing statutory performance indicators (SPIs) for all Scottish councils with housing stock for the period 2011/12 to 2012/13. In order to compare these SPIs before and after the introduction of the RSRS, a questionnaire was devised and issued to each council in March 2014 requesting the same information for 2013/14.
4. This report details the findings of our analysis of this data and includes a review of the underlying factors impacting on rent arrears, highlights council initiatives to help mitigate the effect of welfare reforms on rent arrears, and details revisions that councils have made to their housing policies in response to welfare reforms. Finally, the report highlights where current welfare reforms as well as those still to be introduced, may impact on rent arrears in the future.

Key messages

5. In 2012/13 the value of rent arrears for all Scottish councils was £28.2 million which was an increase of approximately 16% on 2011/12 levels. Following the introduction of the RSRS in April 2013, rent arrears increased further to £35.1 million by 31 March 2014, which represents an increase of approximately 24% on 2012/13 levels. A number of reasons for the increase in 2013/14 have been suggested by councils. These include:
 - the combination of welfare reforms such as the reduction in HB due to the RSRS, a restriction on the amount of benefit that can be received (the benefit cap), the increase in non-dependent deduction charges, benefit sanctions, changes to Employment Support Allowance (ESA) and tax credits
 - councils announcing 'no eviction' policies appearing to have removed the ultimate sanction for non-payment of rent
 - additional pre-action requirements introduced in August 2012 that landlords must satisfy before serving a legal notice on a tenant
 - the downturn in the economy and a high unemployment rate in some areas
 - tenants not engaging with councils or prioritising their rent payments.
6. Discretionary housing payments (DHPs) provide financial assistance towards housing costs and are available to benefit claimants of both council and other landlords. DHP funding has risen significantly from £4.2 million in 2012/13 to £38.2 million in 2013/14. Despite a significant amount of effort and resources employed by councils, only £29.4 million of this funding was spent. Without the additional DHP funding, rent arrears for council tenants could have potentially been up to £49 million at the end of 2013/14.
7. Councils have revised internal policies and introduced a wide range of initiatives to help support tenants to pay rent and with welfare reform in general. Initiatives have been introduced around money advice, digital inclusion and helping people gain skills to increase job opportunities.
8. Looking forward, future reforms such as Universal Credit (UC), direct payments to claimants, and the fact that many households are, or might be affected by more than one welfare reform change, are likely to make rent collection even more challenging.

Background

9. The UK Government's Emergency Budget in June 2010 and the October 2010 Comprehensive Spending Review introduced a number of reforms with the aim to fight poverty, support the most vulnerable in society, and help people break the cycle of benefit dependency.
10. This is the biggest reform of the UK welfare system for 60 years and has resulted in a number of significant changes to how councils deliver services. Part of this agenda included reductions in welfare spending spread across different areas of benefits with only pensioners being exempt from the changes. The Scottish Government estimates that the impact of the changes over the six year period 2010/11 to 2015/16 could reduce the Scottish welfare bill by around £6 billion. The Scottish Parliament's Welfare Reform Committee's statistical update in respect of the RSRS showed that, at the end of November 2013, there were 71,694 households in Scotland with more bedrooms than deemed necessary (under-occupation). This equates to one in eight of all households in the social rented sector.
11. The various welfare reforms can lead to tenants experiencing severe financial difficulties and in respect of council tenants, this can lead to increased rent arrears and additional costs to councils seeking to recover these arrears.
12. Of the thirty two Scottish councils, twenty six have housing stock and the income derived from these properties is used to maintain and improve current properties, build new properties, and service debt. Councils prepare long term housing strategies and these plans, and the decisions emerging from them, are based on financial assumptions such as inflation, borrowing costs and significantly, rental income. Any reduction in rental income could seriously impact housing strategies to improve and maintain housing stock.
13. In order to help mitigate the impact of the RSRS in 2013/14, £18.2 million was provided by the UK Government in the form of additional DHP funding for Scotland. The Scottish Government also provided £20 million to help mitigate the impact of the RSRS.

Impact of welfare reforms

Rent Arrears

14. Rent arrears are the amount of rent due but not paid to the landlord on time. It includes current tenants arrears which is money owed by existing tenants, and former tenant arrears which is money owed by people who are no longer tenants, for example where the tenant has been evicted, has abandoned the property, or had their tenancy terminated.
15. The introduction of the RSRS in April 2013 means that where a tenant has more bedrooms than is deemed necessary they are considered to be under-occupying the property. Tenants in receipt of HB would therefore receive a reduction in the amount of rent eligible for HB of 14% for one extra bedroom, and 25% for two or more extra bedrooms.
16. Although there are some exceptions, the UK Government estimated that the average council tenant would need to find an extra £14 per week to meet their rent commitment. As there is a national shortage of one-bedroom council properties to allow tenants to downsize, it was anticipated that the implementation of this welfare reform would result in an increase in the value of rent arrears as tenants found it difficult to meet the additional rental charge.
17. In order to determine to what extent welfare reforms have impacted on rent arrears, Audit Scotland analysed current and former rent arrears data for the period 2011/12 to 2013/14, in respect of the 26 councils that have council housing stock.

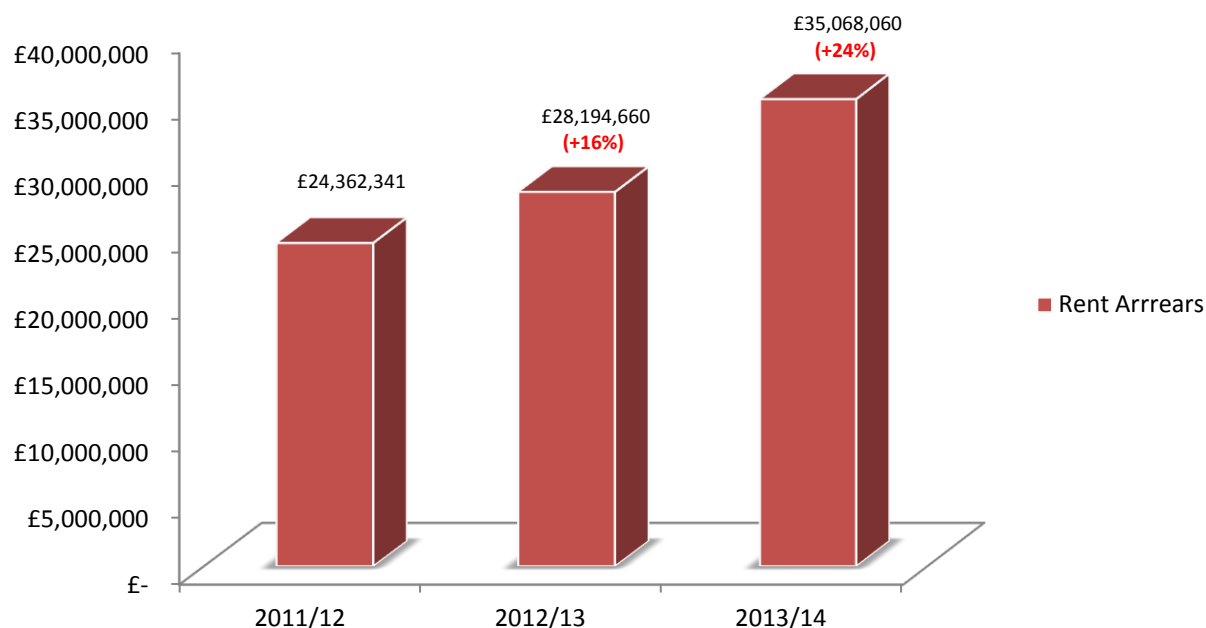
Former Tenant Arrears

18. Our review identified that the value of former tenant arrears remained relatively static between 31 March 2013 and 31 March 2014 at between £22.1 million and £22.2 million. £6.5 million of former tenant arrears were written off in 2013/14, which was largely in line with the £6.6 million of former tenant arrears written off in 2012/13. In view of this, we have excluded former tenant arrears from our analysis as there does not appear to have been any significant impact in this area as a result of welfare reforms.

Current Tenant Arrears

19. Exhibit 1 below shows the change in the value of current tenant rent arrears in Scotland during the period 2011/12 to 2013/14.

Exhibit 1: Change in the value of rent arrears in Scotland after RSRS introduced in April 2013



Source: Audit Scotland & Scottish Councils

20. This exhibit shows an increase in current tenant rent arrears of approximately £3.8 million from 2011/12 to 2012/13 and, following the RSRS in April 2013, a further increase of approximately £7 million, which represents a 24% increase on 2012/13.
21. In order to establish the possible reasons for the change in the value of current rent arrears and to determine the impact of the government's welfare reforms we looked at the gross annual rent charge in the housing revenue account for all Scottish councils. This is the value of the total rental income available to councils as revenue from its housing stock.
22. The gross annual rent charge may change due to factors such as rent charges being increased in council budgets, or an increase or decrease in the number of council houses. It could be expected that if rent arrears remained at a constant percentage of the gross rent charged then actual arrears could rise as the gross rent charged rises.
23. However, when we compared the increase in the gross annual rent charge for 2013/14 of 4.4%, to the increase in rent arrears of 24%, we concluded that the increase in rent arrears is not solely due to an increase in rental charges. The 4.4% increase in the gross annual rent charge was broadly similar to the 3.8% increase in 2012/13.
24. Exhibit 2 below shows the increase in the value of current tenant rent arrears as a percentage of the gross rent charge.

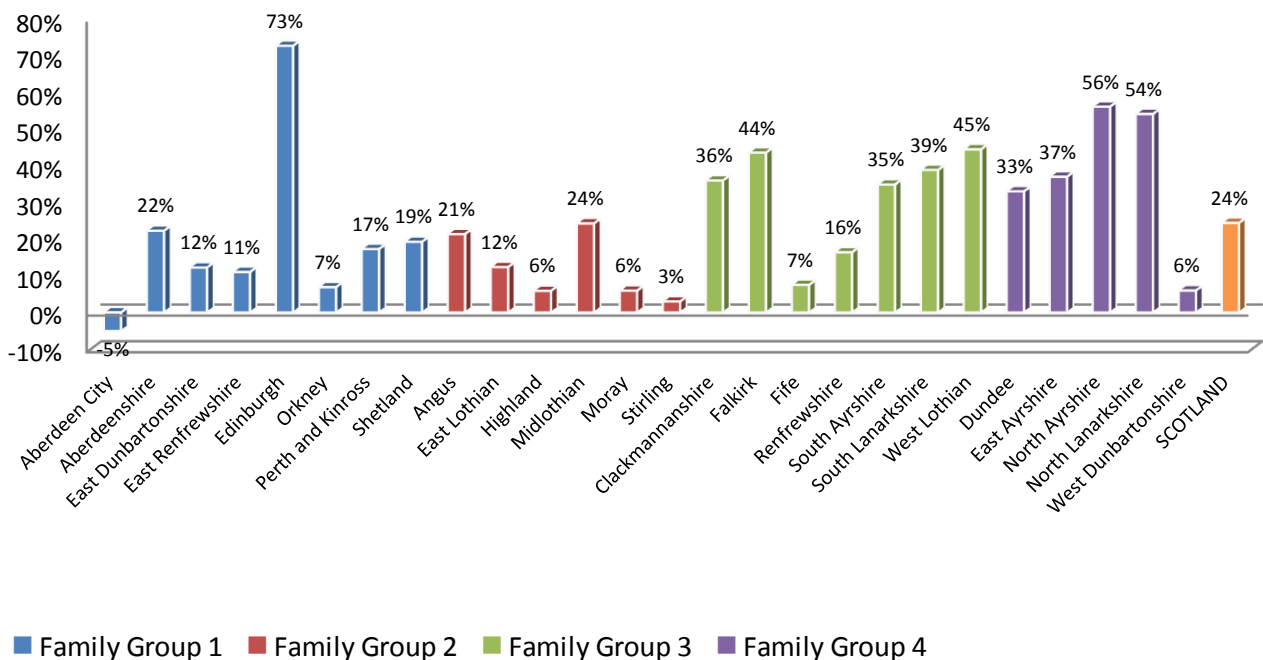
Exhibit 2: Rent arrears as a percentage of gross rent charged

	Gross rent charged	Rent arrears	%
2011/12	£952,637,415	£24,362,341	2.6%
2012/13	£988,667,716	£28,194,660	2.9%
2013/14	£1,032,336,268	£35,068,060	3.4%

Source: Audit Scotland & Scottish Councils

25. The table above illustrates an increasing trend in the percentage of rent charged that has not been paid.
26. Exhibit 3 below shows the increase in current tenant rent arrears for each council in Scotland in 2013/14. Councils have been grouped in accordance with the family groups established by the local government benchmarking framework for housing services.

**Exhibit 3: Increase in rent arrears in 2013/14
following the RSRS in April 2013**



Source: Audit Scotland & Scottish Councils

27. The exhibit above shows a wide variance in the percentage change of rent arrears across Scotland ranging from Aberdeen City Council, where rent arrears dropped by 5%, to the City of Edinburgh Council where rent arrears increased by 73%, which equates to approximately £1.5 million. This variance may be explained in part by local economic factors and various different initiatives introduced by councils to ensure rent arrears levels remained as low as possible. The distribution methodology used to allocate the increased DHP funding and the additional Scottish Government funding to each council appears to also have had a varying impact across councils as some councils appear to have had more funding than was required.

The increased DHP funding provided during 2013/14 is discussed later in this report under *Discretionary Housing Payments*.

28. There were a number of factors that councils stated contributed to the increase in rent arrears. These included:
- the combination of welfare reforms such as the reduction in HB due to the RSRS, the benefit cap, the increase in non-dependent deduction charges, benefit sanctions, changes to Employment Support Allowance and tax credits
 - additional pre-action requirements introduced in August 2012 that landlords must satisfy before serving a legal notice on a tenant
 - where it was known that a council had announced a 'no eviction' policy the ultimate sanction of evicting the tenant for non-payment of rent appeared to have been removed
 - the downturn in the economy and a high unemployment rate in some areas
 - tenants that were not engaging with the council or prioritising their rent payments
 - resource pressures due to the additional amounts to be collected as a result of the impact of the RSRS, as well as reallocation of resources to engage with tenants affected by the RSRS
 - a DHP budget that did not allow full mitigation of the RSRS in some areas. The percentage of tenants qualifying for HB and DHP varies across councils.

Write-Offs

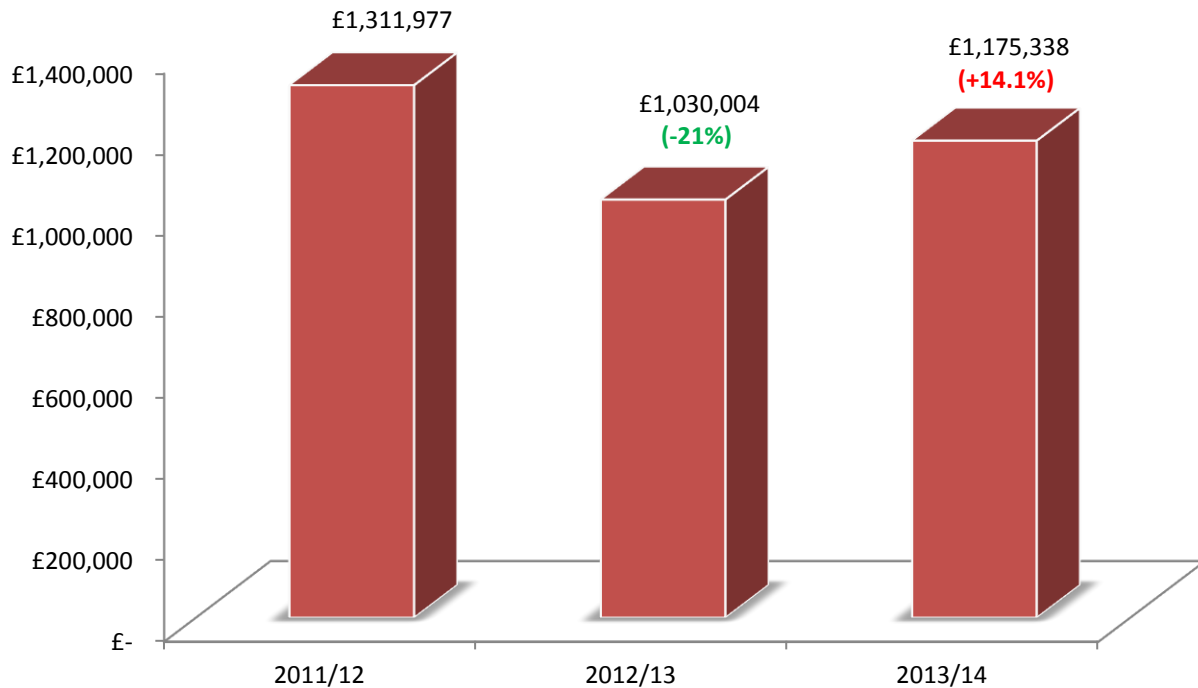
29. A write-off of council house rent would normally be considered when a tenant has failed to pay their rent, accrued a debt and, despite the council's best efforts, the full amount due has not been paid.
30. All councils endeavour to recover all debts however councils have different, locally agreed, write-off policies. There are a number of valid reasons why rental debt could be deemed irrecoverable and subsequently written off. These include:
- the tenant has died and there is no next of kin
 - the council's external debt recovery agents deem the debt irrecoverable
 - the tenant has been declared bankrupt.
31. Writing off debt reduces the amount of rent arrears outstanding. Therefore not writing off irrecoverable debt on a regular basis can cause rent arrears to rise. We reviewed the level of debt written off to try to establish if welfare reforms have had an impact on write-offs or, if the level of write-offs have had any impact on the increased rent arrears levels.

Current tenants

32. Current tenant rent arrears are normally pursued by councils and only written off in exceptional circumstances, for example, where the tenant has been sequestered. Of the 26 Scottish councils with housing stock, seven had not written off any current tenant rent arrears in 2011/12, 2012/13 or 2013/14. Of the remaining 19 councils, only one (Renfrewshire) stated that the increase in the amount of current tenant arrears written off was a result of the RSRS.

33. Exhibit 4 below shows the change in the value of current tenant rent arrears written off in Scotland from 2011/12 to 2013/14. As this exhibit shows, following a reduction in the value of rent arrears written off in 2012/13, there has not been a significant increase in write offs in 2013/14 and we conclude therefore that welfare reforms have had no discernible impact in this area, and that the increase in rent arrears in 2013/14 is not directly linked to a reduction in the write-off level of current tenant arrears during the year.

Exhibit 4: Amount of current tenant rent arrears written off (Scotland)



Source: Audit Scotland & Scottish Councils

Bad Debt Impairment

34. The amount of housing rent debt on council balance sheets is the total amount expected to be collected from tenants. In order to recognise that some of this debt will not be recovered and will have to be written off during the course of the year, councils estimate the debt that is unlikely to be recovered as 'bad debt'. In order to be prudent, councils need to show a realistic figure for the value of debts that are unlikely to be recovered during the year and recognise a bad debt impairment for those debts.
35. In order to establish what action councils were taking to mitigate the impact of the welfare reforms, we asked if any changes had been made to the bad debt impairment calculation for 2013/14 on the basis that councils had concerns that the RSRS would affect rental income. However, of the 26 councils with council properties, only five (19%) stated that they had increased their bad debt impairment in mitigation of an expected increase in rent arrears arising from the welfare reforms.

36. Therefore, based on the remaining 21 councils (81%) that told us that they had not increased their bad debt impairment, or changed their methodology, we conclude that the RSRS has not adversely affected councils bad debt impairment planning or estimation decisions so far.
37. However, we consider that, going forward, this is an area that councils should be proactively looking at in more detail as additional welfare reforms are implemented, and councils become more aware of the impact of these changes.

Voids

38. A 'void' is a property that does not have a current tenancy. As no rental income is received for void properties, it is in the best interests of councils to minimise the number of void properties in order to maximise rental income.
39. Before the RSRS was introduced, councils were concerned that there was a lack of suitable and available one bedroom housing stock to enable customers to downsize. Concerns were raised that this would result in difficulties in letting properties with more than one bedroom, and that this would result in lost rental income from these 'voids'.
40. In order to determine what impact the RSRS has had on the value of rent lost to 'voids' in 2013/14 we analysed data for the periods 2011/12, 2012/13 and 2013/14 provided to Audit Scotland by the 26 councils that had council housing stock. We also asked these councils to provide an explanation, where appropriate, if the increase in rent lost to voids was a direct result of the RSRS introduced in April 2013.
41. Exhibit 5 below details the total value of rent lost to voids for the 26 councils.

Exhibit 5: Value of rent lost to voids 2011/12 - 2013/14

Year	Value of rent lost to voids (£)	% of gross annual rent charged	Change over previous year (£)
2011/12	£12,368,686	1.3%	N/A
2012/13	£12,309,222	1.2%	-£59,464
2013/14	£13,097,700	1.3%	£788,478

Source: Audit Scotland & Scottish Councils

42. Of the 26 councils, 17 (65%) reported an increase in the value of rent lost to voids between 2012/13 and 2013/14 in the range of 1.6% to 70.7%. However, only three of the 17 councils (18%) reported that this increase was directly related to the RSRS with increased rent lost to voids of 1.6% in Renfrewshire (£21,200), 11.8% in North Ayrshire (£16,608), and 34.9%, in Falkirk (£165,094). All of these councils stated that the letting of larger properties, particularly three bedroom properties, was becoming harder.

43. One council (North Ayrshire) stated that there had been a 75% increase in the turnover of three bedroomed properties in 2013/14, and that there was low demand from applicants on the housing register for some of these houses. The council also stated that it would have concerns should this trend continue. Renfrewshire Council stated that there had been no significant impact in respect of voids, but that some larger properties were becoming less popular and requiring more offers before being let, while Falkirk Council advised that there had been a movement in demand which had resulted in a number of three bedroom properties becoming harder to let and that this had been reinforced by the growth in the value of rent lost to voids in 2013/14.
44. In conclusion, based on the 23 (88%) councils that reported no significant impact on rental income as a result of the RSRS we consider that this aspect of the government's welfare reforms has had no discernible effect on the loss of rental income so far. However, we consider that this is an area that councils will need to continue to monitor going forward.

Discretionary Housing Payments

45. DHPs are governed by The Discretionary Housing Payment (Grants) Order 2001 and may be awarded when a council considers that a HB claimant requires further financial assistance towards their housing costs. DHP is available to council tenants and non-council tenants and can therefore help prevent rent arrears from rising. Traditionally, DHP has been considered to be a temporary solution to a difficulty in meeting housing costs and not a means of partially funding rent on an on-going basis.
46. Councils receive UK Government funding for DHP each year from the DWP. This funding may be topped up from council resources to an overall DHP cash limit. The Discretionary Housing Payment (Grants) Order 2001 stated that the overall cash limit for DHP was two and a half times the UK Government contribution at the beginning of the financial year.
47. In March 2014, the DWP amended the Grants Order to increase the cash limits for Scottish councils by just over £7 million to £40.7 million.
48. As a result of welfare reforms, the UK Government significantly increased funding for DHP for Scottish councils from £4.2 million in 2012/13 to £18.2 million in 2013/14, an increase of 333%. This includes £1.1 million of transitional funding which councils could decide to use to pay additional DHPs or for other initiatives, for example preventing homelessness. During 2013/14 the Scottish Government also provided Scottish councils with an additional £20 million of funding to help mitigate the impact of welfare reforms.

49. Total funding for DHP in 2013/14 was £38.2 million as shown in exhibit 6 below.

Exhibit 6: DHP Funding for 2013/14

UK Government funding (A)	Rural Funding (B)	Reserve Fund Award (C)	Honouring Official Error	Transitional Funding	Scottish Government funding	Total	Overall cash limit (2.5xA+ B+C)
£10.1m	£3.4m	£2.8m	£0.8m	£1.1m	£20m	£38.2m	£40.7m

Source: Audit Scotland, Scottish Government, DWP & Scottish Councils

50. The total value of DHP awards made to claimants was £29.4 million in 2013/14. Therefore, despite a significant amount of effort and resources employed by councils, £8.8 million (23%) of DHP funding was not spent. If the assumption is made that all transitional funding was used for purposes other than DHP payments, the underspend would be £7.7 million. Appendix A shows the percentage of underspent funding across all councils. The percentage of funding not spent varies across councils with some councils spending all funding received with others spending less than 30%.
51. Similarly when comparing DHP spend against cash limits, £29.4 million was awarded in DHP payments against an overall revised cash limit of £40.7 million.
52. It may appear surprising that DHP funding has not been fully used to support tenants requiring financial assistance to make rent payments and keep rent arrears to a minimum. However, reasons provided by councils for the underspend included:
- difficulty in planning and devising DHP policies and guidance as a result of the sporadic nature of the additional funding provided at various points during the year
 - the DWP increasing the cash limit one week before the end of the financial year
 - some of the funding, for example the bid funding, was announced late in the financial year
 - not all tenants in arrears qualify for DHP, and some were unwilling or unable to engage
 - funding that was more than required in some areas.
53. It is interesting to note that all of the twelve councils that received additional funding due to being the least densely populated areas in Scotland had underspends ranging from £91,000 in Shetland to £1.03 million in Aberdeenshire. The total DHP underspend compared to total funding was £6.4 million (51%) in respect of these twelve councils.
54. This would indicate that the amount of funding provided to these rural councils was significantly more than required and compared to other councils, where DHP spend has met or exceeded 100% of the funding, it would suggest a review of the funding distribution methodology is required.

55. Exhibit 7 below shows the amount of DHP underspend for the twelve councils in receipt of rural funding along with the percentage change in rent arrears, where applicable, for these councils.

Exhibit 7: DHP Funding for 2013/14				
Council	Total DWP & Scottish Government funding	DHP underspend	% of funding not spent	% increase in current tenant arrears
Aberdeenshire	£1.50 m	£1.03m	69%	22%
Angus	£1.04m	£0.59m	57%	21%
Argyll & Bute	£0.97m	£0.57m	59%	N/A - no housing stock
Comhairle nan Eilean Siar	£0.28m	£0.19m	40%	N/A - no housing stock
Dumfries & Galloway	£1.72m	£0.71m	41%	N/A - no housing stock
Highland	£2.58m	£0.49m	19%	6%
Moray	£0.63m	£0.45m	71%	6%
Orkney	£0.17m	£0.09m	53%	7%
Perth & Kinross	£1.32m	£0.91m	69%	17%
Scottish Borders	£1.18m	£0.69m	58%	N/A - no housing stock
Shetland Islands	£0.18m	£0.09m	50%	19%
Stirling	£1.11m	£0.63m	57%	3%
	£12.5m	£6.4m	51%	

Source: Audit Scotland, Scottish Government, DWP & Scottish Councils

56. As previously mentioned, the total value of DHP awards made to claimants was £29.4 million in 2013/14. Looking specifically at the DHP awarded to council tenants, of the 26 councils with council housing stock, 24 were able to split their DHP awards between council tenants and other tenants. The total DHP awarded to council tenants for the councils able to provide a split was £12 million.
57. Although the increase in rent arrears shown in exhibit 2 is significant, the true arrears figures if DHP payments had not been made to council tenants during the year is much higher. Exhibit

8 below shows the potential impact on rent arrears had the DWP and Scottish Government not provided additional funding. We have assumed that for the two councils unable to split their DHP payments, half of the payments were paid to council tenants.

Exhibit 8: Actual value of rent arrears in Scotland in 2013/14 if increased DHP funding was not available



Source: Audit Scotland & Scottish Councils

58. Notwithstanding this, assuming the same increase in rent arrears of 16% that was reported in 2012/13, and taking account of the DHP payments made, Scottish councils rent arrears were still approximately £2.4 million higher in 2013/14 after the introduction of the RSRS.
59. Appendix B looks specifically at the arrears in the 24 councils able to split their DHP awards between council tenants and other tenants. The appendix shows the amount of rent paid by DHP and the current tenant arrears after DHP has been awarded.
60. In May 2014, the UK government offered to transfer the power to set the DHP cash limit to the Scottish Government. The legal and parliamentary process to transfer this power is likely to take until autumn 2014 to be complete.
61. By devolving the setting of the cash limit to the Scottish Government, this will allow the Scottish Government to increase their funding for DHP. For 2014/15, the UK government has announced DHP funding of £15.2 million for Scottish councils. In addition, the Scottish Government has agreed £35 million of DHP funding and has indicated that this additional funding should mitigate the impact of the RSRS for all affected tenants.
62. It should be remembered that DHP funding is of a temporary nature and DHP funding could revert back to levels similar to those in 2012/13. Therefore uncertainty remains for those tenants and councils currently relying on DHP assistance to help meet rent charges.

Reductions in DHP funding could have a significant impact on rental income, rent arrears and strategic housing plans for both council and other landlords.

Policies

63. Councils have kept elected members up to date with the welfare reform agenda as well as the impact in their local areas and the actions taken to mitigate any adverse impact on local residents. As a result, changes have been made to council policies that cover the award of DHP, collecting rent arrears, and the allocation of social housing. Policy revision proposals have been developed by officers and presented to elected members through relevant committees for approval.
64. A number of councils have reviewed their rent arrears policies and made announcements to clearly articulate that there will be no evictions where rent arrears have accrued as a result of under occupancy or the benefit cap, and the tenant is engaging with the council and taking reasonable steps to meet their rent commitment. However, it is extremely difficult for councils to identify the cause of rent arrears in many cases as the RSRS might only be one of a range of financial challenges being faced by a tenant. In setting such policies, councillors and officials need to be mindful of their responsibilities to safeguard council finances.
65. Although this has been reported by the media as a significant policy change by councils, and may appear in some cases to have removed the ultimate sanction for non-payment, it is not a fundamental change from previous debt management activity. Councils have always tried to engage with tenants who are in arrears and will avoid taking eviction proceedings wherever possible. In most cases, eviction proceedings are the last resort and only taken after all reasonable efforts to help the tenant have failed.
66. Although councils retain the right to evict tenants in arrears who do not engage with them, they are very aware of their legal duty to provide, often costly, housing support to those residents assessed as unintentionally homeless.
67. DHP policies now include more generous and extended awards following the receipt of additional funding with priority for those affected by under occupancy or the benefit cap. Some councils rolled 2013/14 awards over to June 2014 until 2014/15 funding was clarified.
68. Some councils have also included the requirement to provide welfare reform information to all new tenants.
69. In addition, some housing allocation policies now include incentives to encourage downsizing, additional points being awarded to those on the housing waiting list that are under-occupying, and amended size criteria to mirror that of DWP.

Initiatives

70. To help mitigate the impact of the welfare reforms, councils and other stakeholder organisations have implemented a number of initiatives. The more widespread ones are:
 - offering money advice and maximising household income

- working with credit unions - as an example North Ayrshire Council and five other Ayrshire landlords have created a partnership with a credit union to help tenants set up bank accounts and manage household budgets. Angus and Clackmannanshire councils have undertaken similar work
- employment initiatives and helping to build skills - such as:
 - The Highland Council supporting its residents to gain digital skills
 - West Dumbarton Council's Working4U services which helps people to gain skills and education to increase job opportunities
 - Angus Council reviewing arrangements at its libraries to promote digital inclusion
 - South Lanarkshire Council referring its Tenant Liaison Team's customers to specialist training and employability services
- facilitating mutual exchanges via a national direct home swap service for social housing tenants who want to swap or exchange their property.

Long term plans

71. At this point in time welfare reform changes have had no significant impact on council's long term housing plans and strategies. Consideration is been given as to how the shortage of one bedroom properties will be addressed and similarly how stocks of family sized houses where currently demand is generally low will be managed.
72. A key concern for most councils is the combined impact of the introduction of UC and restrictions on rent levels, and how they will deliver their statutory duty to homeless households. North Ayrshire Council has undertaken an options appraisal to determine how services could continue to be delivered beyond 2015/16 while others prefer to wait for clear guidance from DWP as to how temporary accommodation will be treated under UC arrangements.

Looking forward

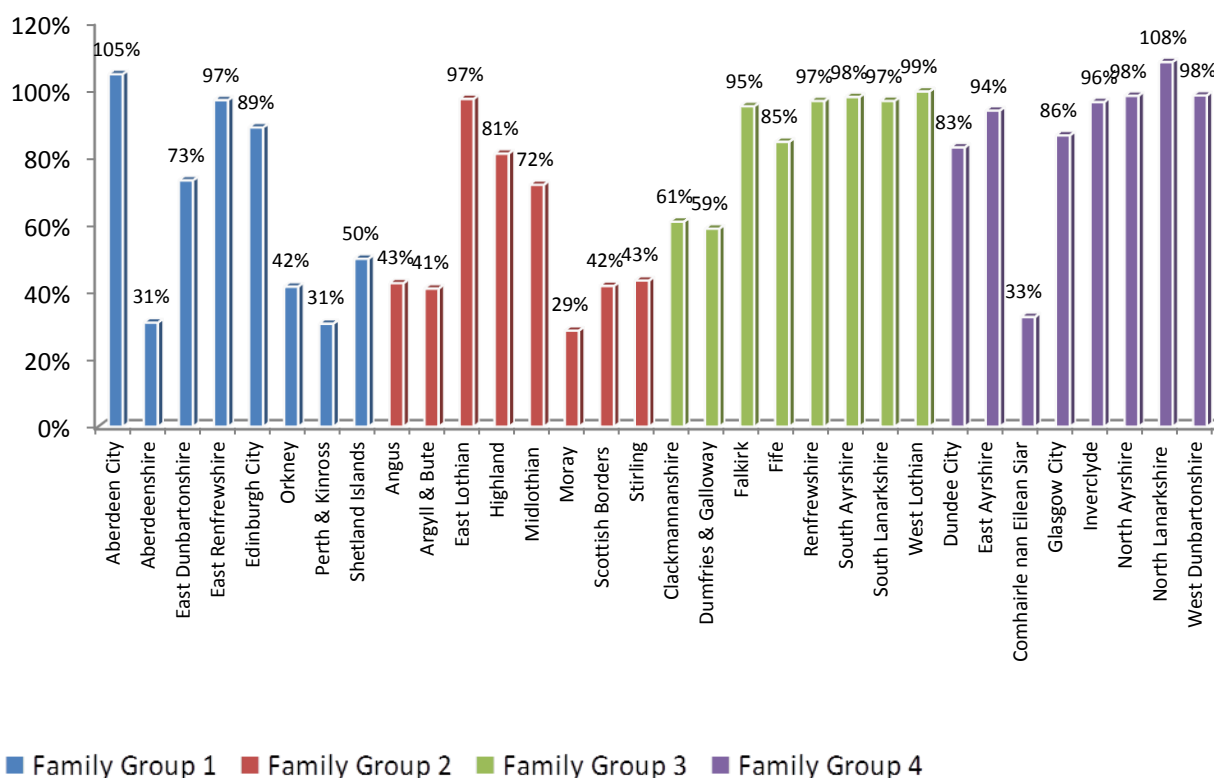
73. Looking forward there are other areas of welfare reform that cause concern. Not least the fact that many households are or, are likely to be, affected by more than one change which will make rent collection more difficult as these changes are implemented.
74. The movement of customers from Disabled Living Allowance to Personal Independent Payments and Incapacity Benefit to ESA, benefit sanctions, and importantly the introduction of UC and direct payments to claimants are likely to make rent collection more challenging.
75. Acknowledging the huge and adverse impact welfare reform will have on communities, action to mitigate this has been coordinated at Community Planning level in Scottish Borders and Orkney Islands councils while Fife Council is developing arrangements to integrate Welfare Reform within local Community Planning.

76. The uncertainty around UC migration makes workforce and resource planning extremely difficult for all councils and their services.
77. In East Ayrshire Council elected members have requested a targeted study on Jobseeker's Allowance and ESA sanctions, to understand the impact of this locally.
78. Scottish Borders Council raised several concerns around the continued reliance on DHP in terms of:
 - uncertain future funding
 - added administration burden
 - tenant expectation.
79. South Ayrshire Council is engaged in ongoing dialogue with colleagues from DWP regarding the proposed Local Support Services Framework and work is underway to map the current provision of advice and information services, the role of partners and the capacity across the council area to support digital inclusion in the future.

Appendix A

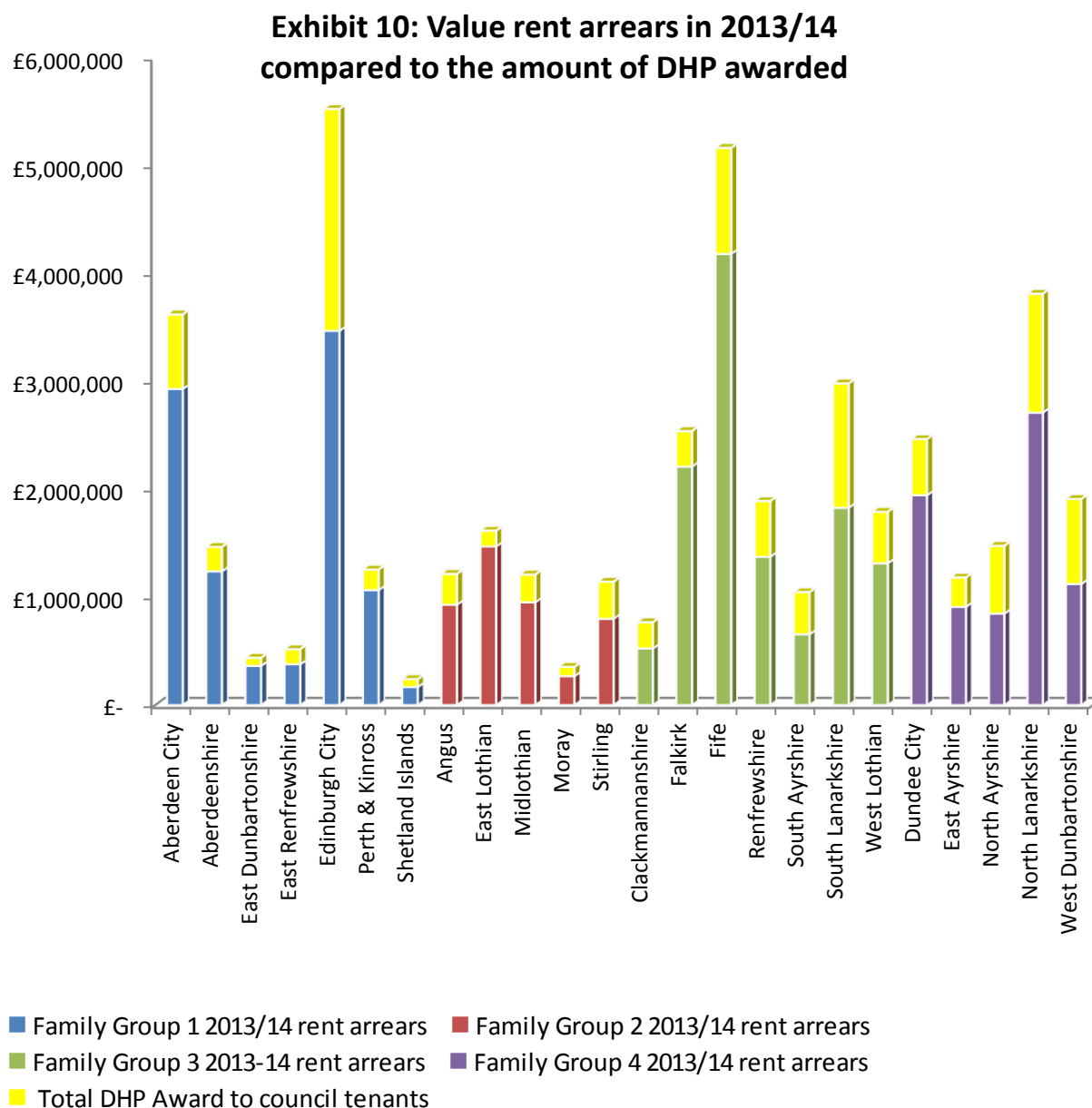
80. Exhibit 9 below details individual Scottish councils DHP spend as a percentage of the total funding available and illustrates the significant variance across Scotland. DHP spend ranging from 29% to 108% might be considered indicative of local economic circumstances and in the distribution formula with some councils apparently receiving significantly more funding than was required. Councils in receipt of rural funding are shown in blue.
81. Only 13 of the 32 councils spent in excess of 90% of their DHP budget with ten councils unable to spend more than 50% of their allocation.
82. Councils have been grouped in accordance with the family groups established by the local government benchmarking framework for housing services.

Exhibit 9: Percentage of council DHP spend to total funding



Appendix B

83. Exhibit 10 below shows rent arrears and DHP awarded to council tenants in 2013/14 for the 24 councils able to split DHP awards between council tenants and other tenants. Again, councils have been grouped in accordance with the family groups established by the local government benchmarking framework for housing services where appropriate.





AUDIT AND GOVERNANCE COMMITTEE

AUDIT SCOTLAND ANNUAL AUDIT PLAN 2014/15

REPORT BY AUDIT AND RISK MANAGER

A. PURPOSE OF REPORT

To inform the Audit and Governance Committee of Audit Scotland's 2014/15 annual audit plan.

B. RECOMMENDATION

That the Audit and Governance Committee notes Audit Scotland's planned 2014/15 audit work.

C. SUMMARY OF IMPLICATIONS

I Council Values	Being honest, open and accountable. Making best use of our resources.
II Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)	Audit Scotland's responsibilities are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice.
III Implications for Scheme of Delegations to Officers	None.
IV Impact on performance and performance Indicators	None.
V Relevance to Single Outcome Agreement	Our public services are high quality, continually improving, efficient and responsive to local people's needs.
VI Resources - (Financial, Staffing and Property)	None.
VII Consideration at PDSP	None.
VIII Other consultations	Head of Finance and Estates.

D. TERMS OF REPORT

Audit Scotland's audit plan sets out the work they propose to undertake in relation to their 2014/15 audit. As Audit Scotland set out in their plan, auditors in the public sector give an independent opinion on the financial statements. They also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, they aim to support improvement and accountability.

Page 10 of Audit Scotland's plan comprises a section on the main financial statements risk areas identified. Appendix II of the plan identifies a range of risks facing the council, the related sources of assurance, and the proposed audit work to secure additional assurance.

Audit Scotland's agreed fee is set out in page 12 of their plan and takes into account the risk exposure of the council, the management assurances in place, and the level of reliance they plan to take from the work of internal audit. They have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2015.

Audit Scotland have concluded that overall, internal audit operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation, standards and reporting procedures in place. Audit Scotland plan to place reliance on our internal audit work as part of their audit of the financial statements.

E. CONCLUSION

Audit Scotland's annual audit plan sets out their planned work in relation to the 2014/15 audit.

F. BACKGROUND REFERENCES

None.

Appendices/Attachments: Audit Scotland Annual Audit Plan 2014/15

Contact Person: Kenneth Ribbons – Kenneth.ribbons@westlothian.gov.uk Tel No. 01506 281573

Kenneth Ribbons
Audit and Risk Manager
Date: 9 February 2015



West Lothian Council

Annual Audit Plan 2014/15

Prepared for West Lothian Council

January 2015

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

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Summary

Introduction

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

audit is required of all registered charities where the local authority is the sole trustee. West Lothian Council has thirteen trusts having charitable status with total assets of £316,000. Accordingly, we will perform the audit of the council's charitable trusts in parallel with the audit of the council's financial statements.

Summary of planned audit activity

4. Our planned work in 2014/15 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the state of affairs of West Lothian Council as at 31 March 2015 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2014 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
- an audit of the financial statements and provision of an opinion for the charitable trusts where the local authority is the sole trustee
- reporting the findings of the shared risk assessment process in a Local Scrutiny Plan. This will summarise identified scrutiny risks and/or any changes to the Local Area Network's (LAN's) assessment since last year
- a review and assessment of West Lothian Council's governance and performance arrangements in a number of key areas including: review of adequacy of internal audit, ICT reviews, BV review areas, governance statement, other performance and governance work
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts , Non Domestic Rates Return, Housing Benefit return certification, Criminal Justice certification and Education Maintenance Allowance certification.
- reporting of National Fraud Initiative arrangements and results.

Responsibilities

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

Responsibility of the appointed auditor

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

Responsibility of the Head of Finance and Estates

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

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

- maintaining proper accounting records
- preparing financial statements which give a true and fair view of the state of affairs of West Lothian Council as at 31 March 2015 and its expenditure and income for the year then ended.

Format of the accounts

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

Audit Approach

Our approach

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

Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

13. We plan to place formal reliance on aspects of the work of internal audit in the following areas, to support our audit opinion on the financial statements:
- Council tax: Billing and collection
 - Accounts payable
14. In respect of our wider governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:
- Carbon Reduction Commitment - Returns

Materiality

15. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
16. Based on our knowledge and understanding of West Lothian Council we have set our planning materiality at 1% of gross

expenditure. For 2014/15 planning materiality is £6.083 million.

17. We set a lower level, known as performance materiality, when defining our audit procedures. This level depends on professional judgement and is informed by a number of factors including:
- extent of estimation and judgement within the financial statements
 - nature and extent of prior year misstatements
 - extent of audit testing coverage.
18. For 2014/15 performance materiality has been set at £5.474 million. We will report, to those charged with governance, all misstatements greater than £61,000.
19. In addition, an inaccuracy which would not normally be regarded as material in terms of monetary value may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Reporting arrangements

20. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The authority is required to consider the unaudited annual accounts at a meeting by 31 August.
21. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period. In compliance with Local government Finance Circular 7/2014, the council will commence the public inspection period no later than 1 July and public notice of the inspection period can be no later than 17 June.
22. The 2014 regulations require the local authority (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.
23. The authority is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The local authority is also required to publish a copy

of the accounts of its subsidiaries. The annual audit report is required to be published on the website by 31 December.

24. An agreed timetable is included at Exhibit 1 below which takes account of submission requirements and planned Audit Committee dates :

Exhibit 1: Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	Jan – May 2015
Meetings with officers to clarify expectations of working papers and financial system reports	March
Planned committee approval of unaudited financial statements	30 June 2015
Submission of unaudited council financial statements with working papers package	30 June 2015
Submission of unaudited charitable trust financial statements with working papers package	30 June 2015
Progress meetings with lead officers on emerging issues	As required during the audit
Latest date for final clearance meeting with Head of Finance and Estates	10 September 2015

Key stage	Date
Agreement of unsigned financial statements for Council agenda, and issue of combined ISA 260 report to those charged with governance and Annual Audit Report.	22 September 2015
Independent auditors report signed	TBC
Latest date for submission of unaudited whole of government accounts to external audit	24 July 2015
Latest date for signing of WGA return	2 October 2015

25. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Head of Finance and Estates, relevant senior manager, internal audit and Audit Scotland's Performance Audit and Best Value Group.
26. We will provide an independent auditor's report to West Lothian Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. As part of streamlining our audit approach, this year the Annual Audit Report will be

combined with the ISA 260 report. As a result, the Annual Audit Report will be issued by 30 September which is one month earlier than previous years.

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

Quality control

29. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

-
30. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, David McConnell.

Independence and objectivity

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

Audit issues and risks

Audit issues and risks

33. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for your organisation.
34. **Income:** Auditing standards (ISA 240 *The auditor’s responsibility to consider fraud in an audit of financial statements*) requires auditors to presume a risk of fraud where income streams are significant. West Lothian Council receives a significant amount of funding from the Scottish Government, however approximately £110 million is received from other sources, including council tax and housing revenue income. The extent of income means there is an inherent risk that income could be materially misstated. We will review the Council’s arrangements for the prevention and detection of fraud and corruption and undertake targeted substantive testing at the year end.
35. **Management override of controls:** ISA 240 also highlights the unique position of management to influence the financial

statements by overriding controls that otherwise operate effectively. The ability to override these controls exists in all entities and therefore represents a significant financial statements risk due to the fraud. We will design and perform audit procedures to address these risks within West Lothian Council.

- 36. Valuations:** The financial statements of West Lothian Council include significant assets and liabilities where the valuations are determined by professional judgement and include significant assumptions and estimates including non-current assets (£1.346 billion) and provisions (£1.6 million). The degree of subjectivity in the measurement and valuation represents a risk of material misstatement. We will undertake focused substantive testing on these aspects of the financial statements.
- 37. Funding Gap:** The council continues to face a significant challenge in bridging a funding gap of over £29 million for the period 2015/16-2017/18. On 29 January 2015, the Council agreed a three year budget strategy, including a programme of budget reduction measures, to address the funding gap. Agreement of a medium term budget will enable the council to reshape services to deliver the required efficiencies within the required timescales. However, there is a risk that the Council may be unable to generate sufficient efficiencies and cost savings to bridge the funding gap. We will review budget

monitoring reports and committee papers to monitor the achievement of the efficiency savings.

- 38. Rent Arrears:** West Lothian Council, in common with other local authorities, has experienced higher levels of rent arrears. Measures, including: establishment of a corporate debt team and employment of staff to provide financial advice and support have helped address the position. The council expect the level of rent arrears to fall in 2014/15. Plans are in place to mitigate any adverse impact following the introduction of Universal Credit. However, there is still a risk that the Council will face continuing rent arrears which will impact upon its financial position. We will review the council's arrears position and management reports to monitor the impact on the council's HRA finances.

Summary assurance plan

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

Fees and resources

Audit fee

40. Over the past four years, Audit Scotland has reduced audit fees by 23.5% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to restrict the increase in audit fees for 2014/15 to 1% which, in real terms, represents a 0.6% reduction at 2014 price levels.
41. In determining the audit fee we have taken account of the risk exposure of West Lothian Council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2015.
42. The agreed audit fee for the 2014/15 audit of West Lothian Council is £331,410. Our fee covers:
- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
 - your organisation's allocation of the cost of national performance audits and statutory reports by the Accounts Commission

- a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.

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

Audit team

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

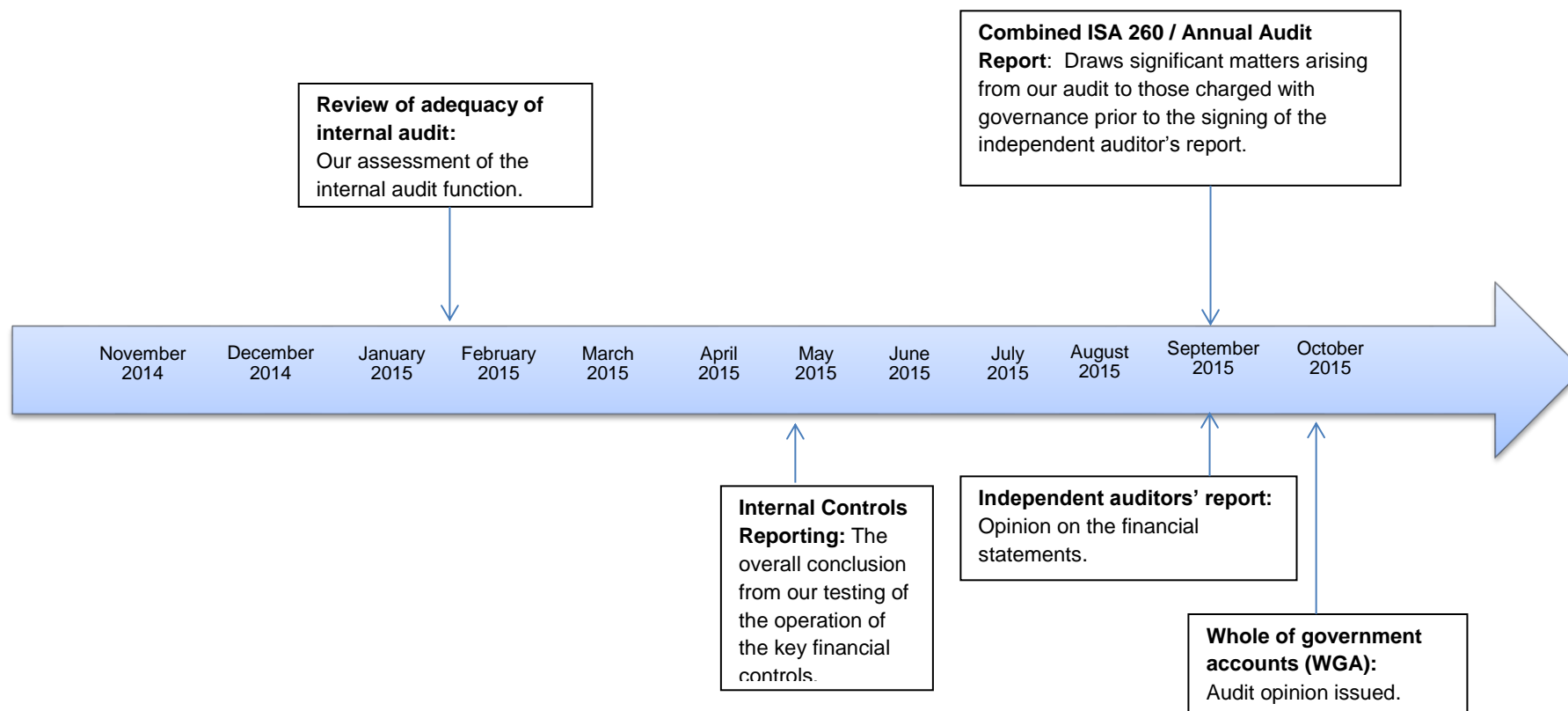
Exhibit 2: Audit team

Name	Experience
David McConnell MA CPFA Assistant Director (Certifying auditor)	David has worked in public sector audit since 1981, firstly with the National Audit Office and since 1985, with the Accounts Commission/Audit Scotland. He therefore has extensive experience of audit in Central Government, Local Government and the NHS.
Allister Perston, BA (Hons) CPFA Audit Manager	Allister has 34 years public sector audit experience and has been involved in the audit of various organisations across local and central government as well as the NHS. As part of his role in auditing NHS, he was a member of the NHS Technical Accounting Group.
Inire Evong BA (Hons) CPFA Senior Auditor	Inire joined Audit Scotland in 2008, having previously worked in retail banking. She holds a BA in Public Administration and is CIPFA qualified.
Jim Cumming Senior Auditor (ICT)	Jim has fourteen years experience of public sector ICT audit with Audit Scotland, covering local government,

Name	Experience
	Health and the central government sectors. Prior to joining Audit Scotland, Jim spent fifteen years in various IT development, quality, security and system administration and project management roles in engineering.
Taiba Hussain Professional Trainee	Taiba joined Audit Scotland in 2015 as a professional trainee, she holds an MA in Accountancy and Finance and will commence studying for the Institute of Chartered Accountants of Scotland Qualifications in September 2015.

Appendix I: Planned audit outputs

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



Appendix II: Significant audit risks

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

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

Audit Risk	Source of assurance	Assurance procedure
<i>Audit risk of material misstatement in financial statements</i>		
Income West Lothian Council receives a significant amount of income in addition to SG funding. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.	<ul style="list-style-type: none">• Effective Budget monitoring by management.	<ul style="list-style-type: none">• We will review the Council’s arrangements for the prevention and detection of fraud and corruption and undertake targeted substantive testing at the year end.• Analytical procedures on income streams.• Detailed testing of revenue transactions focusing on the areas we consider to be of greatest risk: Council Tax and Housing Revenue accounts.

Audit Risk	Source of assurance	Assurance procedure
<p>Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>-</p>	<ul style="list-style-type: none"> • We will design and perform audit procedures to address these risks within West Lothian Council. <ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates for bias. • Evaluating significant transactions that are outside the normal course of business.
<p>Valuations</p> <p>The financial statements of West Lothian Council include valuations which rely on significant assumptions and estimates. The extent of subjectivity in the measurement and valuation of these balances represents a risk of material misstatement.</p>	<ul style="list-style-type: none"> • Effective budget monitoring by management. • Based on previous years work, no specific issues of concerns have been noted regarding the calculation of West Lothian Council provisions. 	<ul style="list-style-type: none"> • Completion of 'review of the work of an expert' for the professional valuer. • Focused substantive testing of key areas.

Audit Risk	Source of assurance	Assurance procedure
<p>Funding Gap</p> <p>The council continues to face a significant challenge in bridging a funding gap of over £29 million for the period 2015/16-2017/18. On 29 January 2015, the Council agreed a three year budget strategy, including a programme of budget reduction measures, to address the funding gap. Agreement of a medium term budget will enable the council to reshape services to deliver the required efficiencies within the required timescales. However, there is still a risk that the Council may be unable to generate sufficient efficiencies and cost savings to bridge the funding gap. We will review budget monitoring reports and committee papers to monitor the achievement of the efficiency savings.</p>	<ul style="list-style-type: none"> • Recently completed budget consultation exercise. • Management reports and proposals to bridge the funding gap. • Three year revenue budget strategy approved by Council on 29 January. 	<ul style="list-style-type: none"> • Review of budget monitoring reports and committee papers.

Audit Risk	Source of assurance	Assurance procedure
<p>Rent Arrears</p> <p>West Lothian Council, in common with other local authorities, has experienced higher levels of rent arrears. Measures, including: establishment of a corporate debt team and employment of staff to provide financial advice and support have helped address the position. The council expect the level of rent arrears to fall in 2014/15. Plans are in place to mitigate any adverse impact following the introduction of Universal Credit. However, there is still a risk that the Council will face continuing rent arrears which will further upon its financial position. We will review the council's arrears position and management reports to monitor the impact on the council's HRA finances.</p>	<ul style="list-style-type: none"> • Rent strategy. • Management reports to committees. • Establishment of a corporate debt team. 	<ul style="list-style-type: none"> • Ongoing review of arrears position and management reports.



AUDIT AND GOVERNANCE COMMITTEE

THE LOCAL AUTHORITY ACCOUNTS (SCOTLAND) REGULATIONS 2014

REPORT BY AUDIT AND RISK MANAGER

A. PURPOSE OF REPORT

To inform the Audit and Governance Committee of the provisions of the Local Authority Accounts (Scotland) Regulations in relation to internal audit.

B. RECOMMENDATION

That the Audit and Governance Committee notes that there is now a statutory requirement for councils to operate an internal audit service.

C. SUMMARY OF IMPLICATIONS

I Council Values	Being honest, open and accountable. Making best use of our resources.
II Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)	There is now a statutory requirement for councils to operate an internal audit service.
III Implications for Scheme of Delegations to Officers	None.
IV Impact on performance and performance Indicators	None.
V Relevance to Single Outcome Agreement	Our public services are high quality, continually improving, efficient and responsive to local people's needs.
VI Resources - (Financial, Staffing and Property)	None.
VII Consideration at PDSP	None
VIII Other consultations	None.

D. TERMS OF REPORT

The Local Authority Accounts (Scotland) Regulations came in to force on 10 October 2014. In addition to a number of provisions relating to the council's accounts, accounting records and control systems, the regulations provide that the council must "operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing".

It should be noted that the regulations require a local authority to “operate a service” which allows for the internal audit service to be provided in-house, by way of a shared service, or outsourced.

The regulations require internal audit to operate in accordance with “recognised standards and practices in relation to internal auditing”. Recognised standards and practices are those set out in the Public Sector Internal Audit Standards (PSIAS). The PSIAS places a very great emphasis on the operational independence and objectivity of the internal audit function.

The regulations require that “any officer or member of a local authority must, as required by those undertaking internal auditing:

- make available such documents of that authority which relate to its accounting and other records for the purpose of internal auditing; and
- supply such information and explanation as those undertaking internal auditing consider necessary for that purpose.”

The regulations also require that the council from time to time assesses the efficiency and effectiveness of internal audit, with reference to recognised standards and practices in relation to internal auditing, i.e. the PSIAS. The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) is developing a peer review system under which council internal audit teams would independently review their peers for compliance with the PSIAS. The Committee will be provided with further information on this initiative in due course.

E. CONCLUSION

The Local Authority Accounts (Scotland) Regulations enhance the status and independence of the internal audit function.

F. BACKGROUND REFERENCES

Report to Audit and Governance Committee 5 March 2013: Public Sector Internal Audit Standards (PSIAS).

Report to the Audit and Governance Committee 29 September 2014: SLACIAG annual report.

Appendices/Attachments: None

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