



West Lothian Council

Annual audit report to
Members and the
Controller of Audit

September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed David McConnell as the external auditor of West Lothian Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of West Lothian Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified auditor's report on the 2014/15 financial statements.• Explanatory paragraph in the auditor's report on the failure of the Economic Development Properties Significant Trading organisation (STO) to achieve its prescribed financial objective due to technical accounting entry for asset impairment.• Unqualified auditor's reports on the eight charitable trusts administered by the council.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• Financial management remains strong with a robust budget setting process in place.• The council is financially sustainable, although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels.• The achievement of the savings set out in the council's three years revenue budget will be significant in ensuring the council's continued sustainability.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• The council has sound governance arrangements in place.• Systems of internal control operated effectively.• The council has an effective internal audit function and sound anti-fraud arrangements.

 A dark teal arrow pointing right with the text "Best Value" inside.	<ul style="list-style-type: none">• The council continues to develop its arrangements for monitoring and reporting performance against strategic objectives.• Audit Scotland's assessment of the council's Public Performance Reporting (PPR) for 2013/14 identified that the council was fully meeting the requirements in 19 of the 26 PPR categories, with the remaining 7 categories assessed as being areas for improvement.
 A dark teal arrow pointing right with the text "Outlook" inside.	<ul style="list-style-type: none">• Councils face rising demands for services and continued funding pressures alongside managing major reforms in welfare and health and social care.• Effective arrangements for Best Value will be essential for efficient use of available resources, and strong governance and leadership will be needed to achieve continuous improvement.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of West Lothian Council. The report is divided into sections which reflect our public sector audit model.
2. The management of West Lothian Council is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of West Lothian Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that West Lothian Council understands its risks and has arrangements in place to manage these risks. The council and executive officers group should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

<p>Audit opinion</p>	<ul style="list-style-type: none"> • We have completed our audit and issued an unqualified independent auditor’s report. • We have included an explanatory paragraph in the auditor’s report on the failure of the Economic Development Properties Significant Trading Organisation to achieve its prescribed financial objective.
<p>Going concern</p>	<ul style="list-style-type: none"> • The financial statements of the council, its group and the associated charitable trusts have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council, its group and associated charitable trusts ability to continue as a going concern.
<p>Other information</p>	<ul style="list-style-type: none"> • We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.
<p>Charitable trusts</p>	<ul style="list-style-type: none"> • We have completed our audit of the 2014/15 financial statements of the charitable trusts administered by West Lothian Council and issued an unqualified independent auditor’s report for each of the relevant trusts.
<p>Group accounts</p>	<ul style="list-style-type: none"> • West Lothian Council has accounted for the financial results of two associates and one joint venture in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to decrease total reserves and net assets by £2.407 million.
<p>Whole of government accounts</p>	<ul style="list-style-type: none"> • The council submitted a consolidation pack for audit by the deadline. This has been audited and the certified return submitted to the Scottish Government.

Submission of financial statements for audit

9. We received the unaudited financial statements on 22 June 2015, in accordance with the agreed timetable and ahead of the statutory deadline of 30 June 2015. The working papers were of a high standard and the staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, was outlined in our Annual Audit Plan presented to the Audit and Governance Committee on 9 February 2015.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to

undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

The audit of charities financial statements

14. The Charities Accounts (Scotland) Regulations 2006 set out the accounting and auditing rules for Scottish charities. These require a full audit of all registered charities accounts where a local authority or some members are the sole trustees.
15. The council has eight trusts/grouped trusts which were subject to the full charities financial statements audit for 2014/15.
16. We have given an unqualified opinion on the 2014/15 financial statements of the relevant charities registered by the council.

Group accounts

17. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.
18. West Lothian Council has accounted for the financial results of two associates and one joint venture in its group accounts for 2014/15.

The overall effect of consolidating these balances on the group balance sheet is to decrease total reserves and net assets by £2.407 million.

Materiality

19. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
20. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
21. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of West Lothian Council we set our planning materiality for 2014/15 at £6.083 million (1% of gross expenditure). We report all misstatements greater than £61,000. Performance materiality was calculated at £5.474 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

22. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and marginally adjusted materiality upwards to £6.124 million.

Evaluation of misstatements

23. A number of presentational and minor monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The effect of these misstatements was no overall change to the figures in the financial statements.

Significant findings from the audit

24. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
25. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you.

Significant findings from the audit

Issue	Resolution
<p>Employee related claims: In previous years, we commented that the council had made a provision to meet the costs arising from equal pay compensation claims. The Council has made appropriate provision for all known outstanding claims, but recognises the potential for compensation claims in respect of cases that have not yet been presented. Following a recent decision by the European Court of Justice, the council considers its level of provision to be adequate to meet potential claims arising from the decision of the Court. West Lothian is currently in discussions with claimants' representatives to establish settlement terms however, the ultimate cost to the council remains uncertain.</p>	<p>Management will review the equal pay provision annually to take account of any legal developments.</p>
<p>Economic Development Properties: As in previous years, the Council's Economic Development Properties Significant Trading Operations has failed to meet the statutory obligation to break even over a three year rolling period. This is as a result of impairment charges of £6.382 million incurred during 2012/13.</p>	<p>Management will continue to monitor asset values which have impaired the financial performance. Without the asset impairment the trading operation would have been in surplus.</p>

Issue	Resolution
<p>Management Commentary: This was a substantial change to previous Foreword disclosures in the Annual Accounts. Scottish Government (SG) guidance now identifies certain key aspects and supporting elements. The council’s format broadly followed the guidance however, the guidance indicates that the strategic report should be the top layer of information and can be used to signpost other information (possibly using hyper links) e.g. Performance Measures.</p> <p>Areas for potential enhancement mainly centred around ‘Future Developments’ and ‘Principal risks and uncertainties’ including the lack of information on strategic issues, such as the Health and Social Care Integrated Joint Board and Capital expenditure on major programmes.</p>	<p>The Council have enhanced the Management Commentary in relation to Capital expenditure and also provided more information on Performance Management (including a hyper link to follow up on public performance reporting). The commentary has also been enhanced on ‘Risks and Developments, for Public Bodies Joint Working – Health and Social Care Integrated Joint Boards’.</p>

Future accounting and auditing developments

Revisions to the Code of Practice

26. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. The following paragraphs set out the most significant changes to accounting requirements introduced by the 2015/16 Code.

27. **(IFRS) 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. However, the 2015/16 Code requires surplus assets to be measured at fair value in accordance with IFRS 13. The council will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.

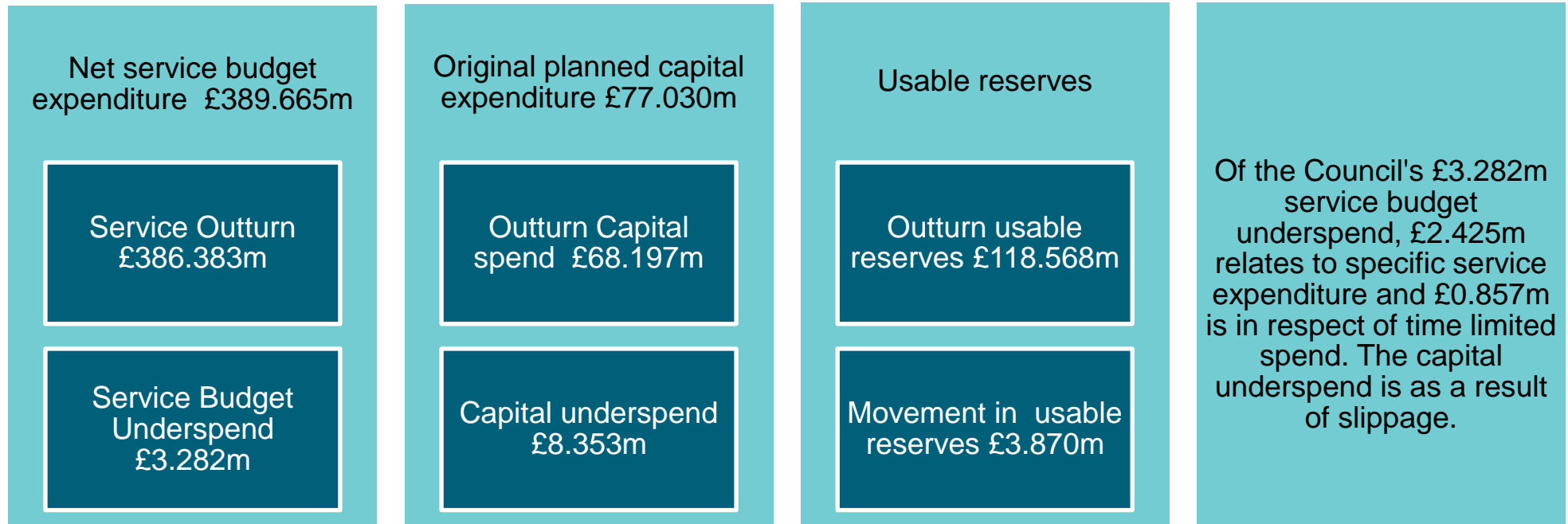
28. **Transport infrastructure assets:** The council’s highway assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code

will require highways to be measured, for the first time, on a depreciated replacement cost basis. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets.

Health and Social Care Integration

29. From 1 April 2016 Integrated Joint Boards (IJBs) will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code and the Accounts Commission will appoint auditors to audit the financial statements.
30. The draft Integration scheme was approved by Council Executive on 24 March 2015 for submission to Scottish ministers; after a public consultation and review of responses to the consultation and an agreed change to the Chairperson's term of office. It was decided that the Council would hold the Chair for the initial two years of the IJB in order to facilitate a smooth transition from the Community Health Care Partnership (CHCP) to a fully functional IJB.
31. The structures and procedures which would be required of the Board in relation to governance and decision making, both in terms of the relevant legislation and good practice were considered by the shadow IJB in June 2015. The CHCP Board has been superseded by the Shadow IJB.

Financial management and sustainability



Financial management

32. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.
33. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

34. Overall the council reported an underspend against budget of £3.282 million which relates to the timing of Scottish Government funding and time limited investment, with no recurring underspend in base revenue budgets. This position takes account of staffing costs related to voluntary severance and early retirement which were met within service budgets in 2014/15. Underspends were recorded in the following departments:
 - Schools education and support (£300,000)
 - Area Services (£284,000)
 - Planning and Economic Development (£1,861,000)
 - Time Limited expenditure (£857,000).
35. The outturn of the General Services Budget has been effectively managed, given the material pressures the council has faced.

However, one off savings such as staffing vacancies has assisted in this process.
36. Future financial pressures include the provision of local bus services, school transport, fostering care and adult complex care. Given these existing pressures and risks, as well as the other substantial savings required for 2015/16, it will be important for the council to ensure that action is agreed and taken on a timely basis to manage specific cost pressures arising in 2015/16.
37. The council is required by legislation to maintain a separate Housing Revenue Account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. The HRA budget was set in December 2013 and WLC achieved a breakeven position for 2014/15.
38. The outturn of the Housing Revenue Account reflected significant underspends in premises costs, supplies and services expenditure and capital financing charges, which allowed an increased contribution in relation to Capital Funded from Current Revenue (CFCR). The enhanced CFCR element ensures not only a breakeven position, but provides a means of financing housing capital investment and enables the ring-fencing of resources. Rent arrears at the end of the financial year 2014/15 amounted to £1.256 million for current tenants and £0.874 million for former tenants. A decrease of £0.063 million on 2013/14 figures.

Financial management arrangements

39. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the proper officer has sufficient status within the council to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within the council
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
40. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles.
41. We reviewed the council's financial regulations, last revised in May 2015, and concluded that they are comprehensive and current. The council's financial regulations are available on the council's website.
42. Financial monitoring reports (both revenue and capital) are submitted to the Council executive on a quarterly basis. Reports are comprehensive and well laid out. Partnership Development and Scrutiny Panels also receive service performance reports quarterly.

43. As auditors we attend a number of full council and all audit and governance committee meetings each year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.

Conclusion on financial management

44. We have concluded that the council's financial management arrangements are satisfactory, with regular and effective budget monitoring and reporting to council executive.

Financial sustainability

45. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.
46. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
 - spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for
 - investment in services and assets is effective.

Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Reserves

47. The overall level of usable reserves held by the council increased by £3.870 million compared to the previous year and totalled £118.568 million, exhibit 1.
48. The closing usable reserve balance at 31 March 2015 is made up of a number of earmarked commitments. The main commitments include:
- Capital Fund of £84.765 million
 - Insurance Fund of £13.570 million

Exhibit 1: Usable reserves

Description	31 March 2014 £ million	31 March 2015 £ million
General fund	22.571	19.307
Housing revenue reserve	0.926	0.926
Revenue Statutory Funds	12.193	13.570
Capital Statutory Funds	79.008	84.765
Total usable reserves	114.698	118.568

Source: West Lothian Council 2014/15 financial statements

49. The general fund reserve has no restrictions on its use. The principal purpose of holding a general fund reserve is to provide a contingency fund to meet unexpected events and as a working

balance to help cushion the impact of uneven cash flows. The general fund reserve has an uncommitted balance of £2 million, with planned allocations of £17.307 million including £4.372 million Modernisation fund and time limited projects of £5.414 million.

50. The £2 million uncommitted fund balance as at 31 March 2015 is 0.5% of budgeted net expenditure and is in line with the Council's target minimum uncommitted General Fund balance. However, at 0.5%, this is amongst the lowest uncommitted general balances held amongst Scottish local authorities.

Action Plan 1

Financial planning

51. The council approved a three years revenue budget in January 2015 covering 2015/16 to 2017/18; Exhibit 2 highlights the headline figures for the three years to 2017/18. The 2015/16 revenue budget was set at £379.447 million; this takes account of proposed budget reduction measures of £10.195 million. A number of budget reduction measures have been agreed and are being implemented across the council. Some of the more significant measures include:
- Optimisation of waste collection routes
 - Reduction in internal vehicle costs
 - Modernising social care processes and systems
 - Reduction in printing costs

Exhibit 2: 2015/16 – 2017/18 Budget, Savings and Funding gaps

	2015/16	2016/17	2017/18
	£ million	£ million	£ million
Income	379.447	381.592	383.238
Expenditure	389.642	392.691	391.488
Shortfall	10.195	11.099	8.250
Planned savings	10.195	11.099	8.250
Cumulative funding gap	0	0	0

Source: West Lothian Council papers January 2015, Council revenue Budget

52. The budget for the three years to 2017/18 includes a funding gap of £33.525 million across the three years. While the council has been proactive in its approach to identifying savings opportunities, the realisation of these savings will become progressively more challenging year on year.

Action plan 2**Capital programme 2014/15**

53. In January 2013 the council approved its asset management strategy and general services capital programme for the years 2013/14 to 2017/18; this has been subject to a number of updates since its approval. The approved budget for 2014/15 was £40.207 million, with actual spend of £40.882 million. The £0.675 million

variance was due to accelerated spend on projects scheduled for future years.

54. The council approved its housing capital programme for the years 2013/14 to 2017/18 in January 2013. Following a number of updates to the programme, the approved budget for 2014/15 was £36.833 million, with actual spend on the housing capital programme amounting to £27.251 million, producing a £9.582 million underspend. The council had identified during the financial year that resource re-phasing would be required for its planned 1,000 Houses New Build project.
55. As £1.119 million of the housing capital budget variance was due to savings against budgeted expenditure, the £8.463 million balance of the underspend has been attributed to slippage. Some of the more significant areas of slippage are:
- £2.932 million – New Build 1,000 houses – due to the rate of progress in obtaining the statutory consents needed for each site.
 - £2.4 million – Major refurbishment –no tenders were initially returned for the refurbishments at Main Street Fauldhouse.
 - £1.643 million – Roofs and Roughcasting – Delays to start dates of projects to reflect Building Services capacity to undertake work.

56. A certain level of slippage on capital projects can often occur, particularly in complex projects. However, this is not considered an issue for the council as they have budgets that are built to over programme each year and roll forward.
57. The general services programme was concentrated on property, delivery of various ICT projects, open space and roads and transport infrastructure. The housing programme focused mainly on new build council houses, major refurbishments and roofs and roughcasting.

Asset Management

58. The council's corporate asset management strategy was approved in January 2013 and covers the 5 years from 2013/14 to 2017/18. The strategy is focused on 6 key asset categories, with dedicated asset management plans reported to relevant PDSPs. The corporate asset management strategy contributes to all of the council's eight priorities.

Workforce Management

59. Effective workforce management is essential to ensure that the council maximises the effectiveness of its employees. A workforce strategy is key to setting out how the council will ensure it has appropriately skilled people in place to deliver its service.
60. The council's people strategy covers the years 2013/17 and was approved by Council Executive in December 2013. The strategy sets out a plan for key activities and action which will support and

drive the development and effective leadership of council employees.

61. During 2014/15, there were 16 exit packages agreed with employees at a total cost of £0.513 million (2013/14 40 packages with a cost of £1.310 million).

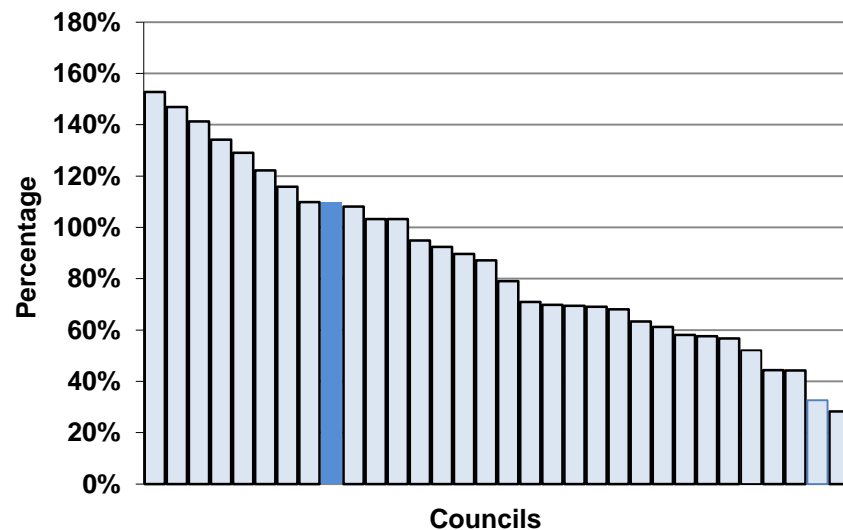
Treasury Management

62. High levels of debt may reduce a council's budget flexibility going forward as revenue resource has to be set aside to service that debt. The impact that debt levels have on net expenditure will be affected by interest rates and repayment periods.
63. At 31 March 2015 the council's long term borrowing stood at £403.796 million, an increase of £9.894 million on the 2014 level of £393.902 million. During the same period, short term borrowing reduced from £105.698 million to £89.883 million. There has been a slight reduction in the council's level of net borrowing. Interest payable and similar charges increased by £1.94 million to £6.656 million in 2014/15.
64. The Council are continuing with a policy of incurring interest costs on additional borrowing in the short term, to enable them make savings on future borrowing requirements. In the context of possible interest rates rise in 2016, this should be kept under review to ensure it continues to represent best value for the Council.

Action Plan 3

65. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 3 shows long term borrowing as at 31 March 2015 as a proportion of the net revenue stream for the year for all councils in Scotland. West Lothian Council is highlighted as being reasonably representative of councils nationally.

Exhibit 3: Scottish councils' long term borrowing as a percentage of net revenue stream



Source: Scottish councils' unaudited accounts 2014/15

Pension liability

66. The net assets on the council's balance sheet have decreased from £658.785 million in 2013/14 to £602.653 million in 2014/15, a reduction of £56.132 million. One of the principal reasons for this decrease is the £76.609 million increase in the pension liability from £195.595 million to £272.204 million. This is also reflected in the balance sheet for the group.
67. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. At the last triennial valuation the Lothian Pension Fund was 91.3% funded and had assets of £4.379 billion. The next valuation will take place in 2017. It is expected that any increase in contribution rates will increase convergence between the pension liability and the underlying assets.

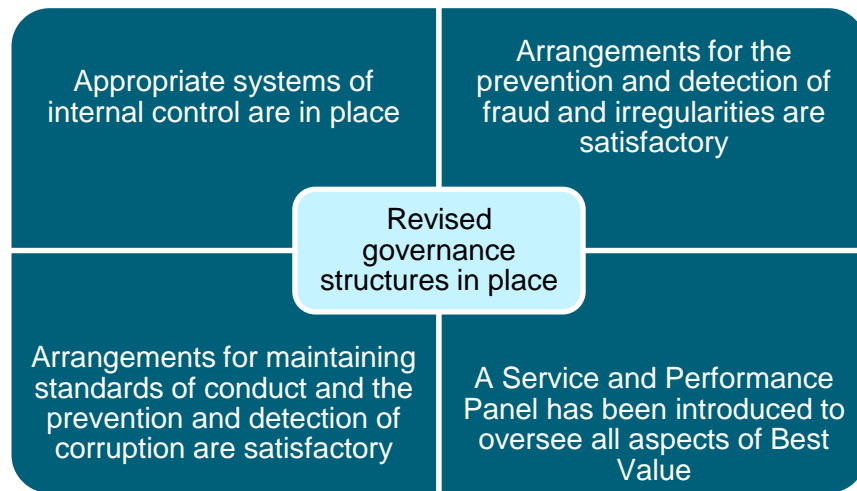
Conclusion on financial sustainability

68. We have concluded that the council is containing its expenditure within annual budgets and has credible medium term financial plans in place. Overall we conclude that the financial position is sustainable, although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels. The achievement of the savings set out in the three year budget will be significant in ensuring the council's continued sustainability.

Outlook

69. Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils decreased by 8.5 per cent in real terms to £10.3 billion. At the same time, demand for council services has increased, largely due to population changes. Increased pension contributions and national insurance changes will create further cost pressures on the council.
70. In common with many other councils, West Lothian Council is reporting gaps between income and the cost of providing services over the next few years. With further funding reductions expected, councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.

Governance and transparency



71. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. We concluded that the council has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.
72. Citizens should be able to hold the council to account about the services it provides. Transparency means that citizens have access

to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources. Overall we concluded that the council is open and transparent.

Corporate governance

73. Within West Lothian Council, the corporate governance framework is centred on the Council, supported by a number of committees. Committees are well attended by elected members and papers are subject to a high level of scrutiny.
74. The Council Executive and Education Executive are responsible for all of the Council's policy making, decision making, statutory functions and powers and duties, other than those matters reserved to full Council, delegated to other committees of the Council or delegated to a joint committee or joint board.
75. The council's nine Policy Development and Scrutiny Panels (PDSPs) allow existing policies and new proposals affecting various areas to be considered and discussed by members. For example, the Partnership and Resources PDSP has oversight of the financial resources and functions of the Council, including the revenue budget, capital plan and treasury management. It also has responsibility for corporate asset management planning and property disposal.
76. The Audit and Governance Committee has responsibility for reviewing the Council's control environment as well as the adequacy of the policies and practices in operation to ensure compliance with

relevant statutes, directions, standards and codes of corporate governance.

77. The Audit and Governance Committee is also responsible for evaluating the arrangements in place for securing the economic, efficient and effective management of the Council's resources and for considering internal and external audit reports and ensuring management implements the agreed recommendation.
78. The Audit and Governance Committee is chaired by a member of the ruling party, but there are members of the opposition who sit on the committee as well as an appointed lay member. It is well attended by appropriate council officers.
79. The Council's Chief Legal Officer undertakes an annual review of the compliance with the Council's Code of Corporate Governance. The result of this review for 2014/15 was reported to the Council Executive in June 2015 and the report concluded the Code's standards continued to be substantially met in 2014/15.
80. Based on our observations and audit work, our overall conclusion is that the governance arrangements within West Lothian Council are operating effectively.

Local code of corporate governance

81. The council has developed and adopted a local code of corporate governance which reflects the key components as set out in the CIPFA/SOLACE Framework Corporate Governance in Local

Government: A Keystone for Community Governance. The local code is subject to annual review.

82. The Governance and Risk Board, which is chaired by a Depute Chief Executive, met every two months during 2014/15. The Board exercised oversight of the Council's governance, risk management and business continuity arrangements.

Internal control

83. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.
84. We reported our findings to the Audit Committee in June 2015. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. Our findings included a number of recommendations to enhance the control system in operation.

Internal audit

85. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its

work. To avoid duplication, we place reliance on internal audit work where possible.

86. Our review of the internal audit function within the Audit, Risk and Counter Fraud unit concluded that the service operates satisfactorily in accordance with the Public Sector Internal Audit Standards and that we can place reliance on its work. We placed formal reliance on the work of internal audit for council tax billing and collection and account payable.

ICT audit

87. During 2014/15, we undertook a review of the Council's arrangements for dealing with cyber attacks. West Lothian Council is one of the local authorities in Scotland to have had this audit conducted. Generally, we found that the expected controls for preventing, detecting and dealing with cyber attacks were in place. In addition, we note that the Council collects good statistics on security incidents and has a sound process for dealing with them.

Use of Unsupported and Older Software

88. Microsoft ended support for Windows Server 2003 on 14 July 2015. This means that, if a security flaw is discovered, Microsoft have no obligation to release an update to fix it. We understand that the ICT unit has plans in place to remove all versions of Windows Server 2003 by the end of December 2015. In the meantime, the Council is still using and relying on unsupported software. The Information Commissioner has recently warned more widely that this could become a serious problem. This risk will increase as more

vulnerabilities are discovered, creating more opportunities for an attacker to exploit and potentially gain unauthorised access to systems.

Action Plan 4

89. Based on the work undertaken, we conclude that the Council's ICT controls are generally operating satisfactorily.

Arrangements for the prevention and detection of fraud

90. We have concluded that the council's arrangements in relation to the prevention and detection of fraud and irregularities are satisfactory.

National Fraud Initiative in Scotland

91. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
92. As part of our audit work, we considered the Council's approach to the NFI exercise and reviewed the progress being made by the

council in following up NFI data matches. While the council has positively engaged with the NFI initiative, our work identified that:

- there is no evidence that the council has reported internally on NFI progress and outcomes to the Audit and Governance Committee and elected members. The 2014/15 NFI exercise commenced in January 2015.
 - progress in following up recommended data matches in respect of benefits was initially slow, but nearly all the recommended data matches have now been addressed.
 - there was no evidence of work performed in respect of the council tax to electoral matching NFI exercise on the NFI system.
93. Although all of recommended matches in respect of benefits have now been looked at, these matches are required to be followed up timeously to ensure potential fraud is addressed and allow the Council to improve internal arrangements for preventing and detecting fraud if necessary.

Action Plan 5

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

94. The arrangements for the prevention and detection of corruption in West Lothian Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

Transparency

95. Citizens should be able to hold the Council to account about the services it provides. Transparency means that citizens have access to understandable, relevant and timely information about how the Council is taking decisions and how it uses its resources.
96. The Council has good arrangements to ensure transparency. With its Citizen Led inspections and second Delivering Better Outcomes (DBO) consultation programme, it is clear that citizens are engaged with the decision making process of the Council..
97. Citizen Led Inspections (CLI) is a programme of inspection of council services using lay inspectors from the community. This is a well recognised initiative designed by the Council and it encourages the community to get involved in improving and re-designing council services, whilst giving citizens a stronger voice in the decision making process.
98. Committee papers are understandable and available on the Council's website and it is uncommon for the Council to exclude press or the public from their consideration of agenda items.
99. Overall, we conclude that the Council is open and transparent and no information is unjustifiably withheld from public scrutiny.

Freedom of Information requests

100. During 2014/15, West Lothian Council received 1,262 FOI requests; this is an increase of 23% on the 2013/14 number. Of these, 1,161 (92%) were responded to within 20 days. During the year, there

were 99 refusals to requests for information. The most common reason for refusal and part refusal was that information was not held.

101. FOI information for the Council and all other Scottish councils is available on the Scottish Information Commissioner website and an annual report on West Lothian Council's FOI position is presented to the Corporate Management Team.

Integration of health and social care

102. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.
103. The council and NHS Lothian are working towards putting in place arrangements to take forward health and social care integration. Both parties will delegate the Adult and Elderly care functions and budget resources within the scope of integration to a new legal entity, the Integration Joint Board (IJB). The IJB will have a strategic role with the responsibility for delivery of these services remaining with the council.
104. The Integration Scheme was submitted for Ministerial approval by 1 April 2015. The draft scheme was agreed by Council Executive on 22 December 2014 and, following agreement by NHS Lothian, had been issued for consultation. Following on from the consultation, the scheme was approved by the Scottish Government and the West Lothian IJB will be legally established from 21 September 2015. It is anticipated that the resources delegated to the IJB will be approved

on an annual basis as part of future budget approval reports to Council.

105. The Scottish Government's 'Guidance for integration financial assurance (April 2015)' recommended that the council's Internal Audit function should report on the assurance process that has been carried out by the Health Board and Local Authority in forming the Integrated Joint Board to the council's Audit and Governance Committee. As yet the council's Internal Audit function has yet to report to the council's Audit and Governance Committee. The council have indicated the intention to implement the April 2015 guidance and report during 2015/16 to the Audit and Governance Committee.

Action Plan 6

Welfare Reform

106. West Lothian Council recognises the impact that changes to the UK welfare system could have on resources and service provision. As a result, quarterly updates on welfare reform are reported to the Partnership and Resources PDSP. The updates highlight the impact of welfare reform and the action the Council is taking to address them.
107. The Council's expenditure on Discretionary Housing Payment (DHP) in 2014/15 was £2.018 million, covering 8,190 awards including removal of spare room subsidy and the benefits cap. A proportionate approach was taken for DHP awards to tenants impacted by the spare room subsidy, which enabled the Council to

quickly process payments for all tenants who qualified for DHP support in 2014/15.

108. The Scottish Welfare Fund (SWF) replaced the Department for Work and Pensions Discretionary Social Fund in April 2013. The scheme is a national one covering the whole of Scotland, but delivered by local authorities responsible for administering Community Care Grants and Crisis Grants. The Council's budget for SWF for 2014/15 was £1.140 million, which included £0.074 million of allocation carried forward from 2013/14. The total budget including the carry forward balance was used in 2014/15.

Housing benefits performance audit

109. A risk assessment audit of West Lothian's benefit service was undertaken in 2012 and twelve risks to continuous improvement were identified. A follow-up risk assessment was carried out during 2014/15 with a total of five new risks identified in the area of 'Delivering outcomes', with four risks being carried forward from the previous action plan.

110. The Benefits Service has experienced significant change since the previous visit during 2012, in terms of the combined challenges of welfare reform, office re-location, staff turnover and a complex IT system conversion which affected the council's speed of processing performance. However, the council has taken a series of measures to address these issues and improve performance, including; recruitment, establishing a Training and Development team, engaging with an existing partner organisation to assist with benefit

processing, preparing for the introduction of risk based verification, and introducing a new accuracy checking regime.

111. An update provided by the council to Audit Scotland on benefits performance shows an improvement in the council's speed of processing new claims from a high of 36 days in quarter 1, to 19 days in quarter 4. There have also been improvements in speed of processing changes of circumstances as well as outstanding mail, which reduced from a high of 6,000 in June 2014 to 998 in July 2015.

112. Based on the updates and the significantly improved speed of processing, no further scrutiny is planned at this stage.

Local scrutiny plan

113. The 2015/16 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to West Lothian Council in March 2015.

114. The LSP is based on a shared risk assessment undertaken by a local area network (LAN). The LAN did not identify any specific areas from the risk assessment where scrutiny was required, other than scrutiny that was nationally directed or part of a planned programme of work.

115. The LSP highlights a number of areas where the LAN will continue to carry out oversight and monitoring. These include:

- older people services

- education performance
- housing and homelessness
- health and social care services
- leadership capacity
- education performance

116. We will revisit these areas as part of the shared risk assessment process for 2015/16.

Following the Public Pound

117. During 2013-14, local auditors carried out targeted follow-up work in respect of Arms-Length External Organisations (ALEOs) in each of Scotland's 32 councils. This centred on the areas covered by the good practice checklists contained within the Accounts Commission's 2011 *How Councils Work* report 'Arms-Length External Organisations: Are you getting it right?' and looked at the scale of their use, the rationale for ALEOs, and their governance.

118. In March 2015, the chair of the Accounts Commission for Scotland sent letters to council leaders and chief executives encouraging them to apply the Code of Guidance on Funding External Bodies and Following the Public Pound (published in 1996) more consistently across Arms-Length External Organisations (ALEOs).

119. We confirmed that the council has appropriate governance arrangements in place in respect of community grants, economic development grants and funding provided to procure services from

the local third sector. The council is currently undertaking work to review its guidelines for working with ALEOs.

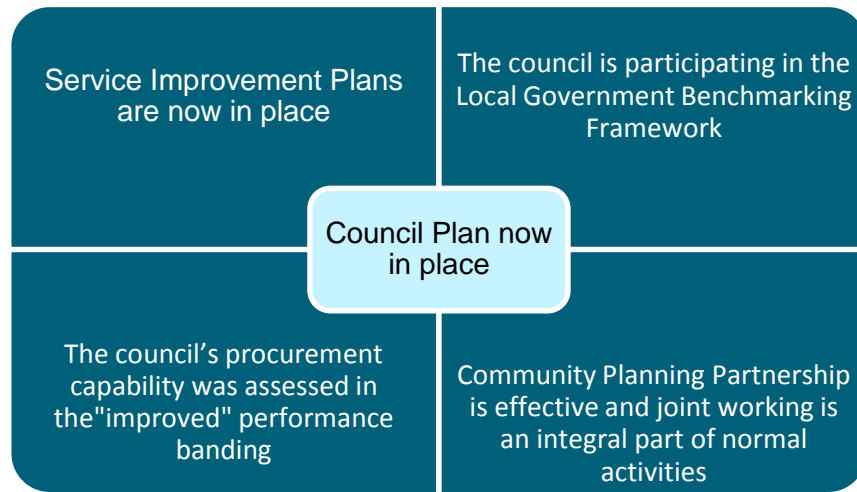
120. By autumn 2015 Audit Scotland, on behalf of the Accounts Commission for Scotland, will undertake a review of the Following the Public Pound Code in conjunction with an update of the definition of ALEOs to assist councils to apply the principles of good governance to the funding arrangements for ALEOs and similar bodies. Any changes arising out of this review are not expected to take effect for councils until 2016/17 at the earliest.

Outlook

121. Councils will continue to operate in a changing environment within continuing financial constraints. Under these circumstances councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations.

122. Partnership, joint working and arms length organisations have become increasingly popular vehicles for planning and delivering council services and there is a sustained national focus on their use. Where council services are being delivered by third party organisations it will be crucial that the council implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an ongoing focus on governance and assurance to ensure that the council's priorities are being achieved.

Best Value



123. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Best Value audit

124. There are no Best Value (BV) reviews over the period 2014/15 to 2016/17, and this position was noted and agreed by the LAN during the shared risk assessment process. The last Best Value report was

in 2005 and highlighted that the Council demonstrated a clear commitment to Best Value and community planning.

- 125. In June 2014, the Council Executive approved the Council's updated Best Value framework, which replaced the existing BV framework established in 2003. The framework was updated to reflect changes to current procurement legislation and financial thresholds as well as two versions of BV guidance which were issued after the approval of the existing framework, and changes to the operating framework and approach to BV.
- 126. Officers will review progress and compliance with the BV framework on an annual basis and this will be considered at the Governance and Risk Board. In addition, an annual statement of compliance with the BV framework will be incorporated within the Head of Finance and Estates' annual compliance statement on procurement. The statement will be submitted to Council Executive as part of the overall governance report.

Community Planning Partnership

- 127. Audit Scotland has audited eight community planning partnerships (CPPs) since 2013 and produced a national report on community planning in Scotland *Community planning: turning ambition into action* in November 2014. The audit report for West Lothian CPP was published in October 2014.
- 128. The audit focused on the following questions:

- to what extent has West Lothian CPP set a clear strategic direction, agreed by all partners, that reflects West Lothian's needs?
 - are West Lothian CPP's governance and accountability arrangements appropriate and do they allow it to improve outcomes for local people?
 - how effectively is West Lothian CPP encouraging collaborative behaviour among staff and using its resources, including money, staff and property, to deliver joint priorities and outcomes?
 - how well is West Lothian CPP delivering the outcomes contained in its Single Outcome Agreement (SOA)?
- 129.** The audit report gave a positive view of the quality and effectiveness of the West Lothian CPP. It found that relationships between partners are good and joint working is an integral part of day-to-day activities. This has resulted in many examples of innovative and effective approaches to delivering joined-up services that are leading to improved outcomes for local communities.
- 130.** The audit report included a six point improvement agenda for the CPP and in 2015 Audit Scotland carried out follow up work to assess what progress the CPP has made in addressing these improvement areas. This is addressed further, below.

Continuous improvement

- 131.** The CPP has a development plan in place for 2015/16, looking to specifically address these improvement areas. This was developed

following a discussion session of the CPP Board and in wider consultation with the Steering Group and other groups within the CPP structure.

- 132.** There are plans in place to carry out reviews on developing local community planning arrangements. For example data sharing arrangements between partners are due to be reviewed, as is data available and reported on at a local level. West Lothian CPP is sharing its knowledge and good practice on performance management with other CPPs.

Leadership and strategic direction

- 133.** Some good work has been carried out on leadership and strategic direction of the CPP. For example the terms of reference regarding governance arrangements have been clarified for all groups in the CPP structure. A workplan has also been developed to prioritise and schedule specific discussions for the Board and Steering Group. Reports from the Resource Aligning Group have been added to the workplan for example. The CPP is also working with an external organisation (Public Sector Collaborative Learning) to develop practical actions to improve leadership and governance.

Community engagement

- 134.** Steps have also been taken to improve community engagement and communication more widely, with an "easy read" SOA produced, updated and improved CPP website and a CPP newsletter developed. There are further plans to roll out a Community Engagement Toolkit and Training Programme across the CPP.

Procurement

- 135.** In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. West Lothian Council opted out of a PCA assessment for one year and as a result carried over the 62% score from 2013/14.
- 136.** The annual PCA is being replaced by the Procurement and Commercial Improvement Programme (PCIP) which focuses on the policies and procedures driving procurement performance and the results they deliver. PCIP will introduce a revised assessment methodology and new scoring and performance bands with councils being assessed every two years. The revised assessment results will not be comparable with the previous PCA scores. The Council has a PCIP assessment date of 1 April 2016.

Shared services

- 137.** The Council has a number of shared services arrangements, the Audit, Risk and Counter Fraud Unit are in partnership with Falkirk Council Internal Audit Service with auditors being shared between the councils and audit work undertaken on each other's processes allowing councils to draw on additional audit expertise. This arrangement is expected to continue during 2015/16.
- 138.** A shared services programme with West Lothian College is also progressing and further developments are expected to integrate the College's payroll and employee records with the council systems.

Performance management

- 139.** Performance measurement is the way that councils measure achievements of key objectives and processes. It also helps councils monitor their progress in key outcomes and priorities and demonstrate they are delivering services efficiently and effectively.
- 140.** West Lothian Council has robust self evaluation arrangements in place. The Council has a framework for assessing performance and improvement called the West Lothian Assessment Model (WLAM), which is used in all services to evaluate and challenge performance and improvement through a review panel process. Every service is required to complete the assessment and attend a review panel at least once every three years.
- 141.** The WLAM framework is supported by the Covalent performance management system which is used to monitor performance indicators, initiatives and risks across all of the council's service units. The performance indicators on covalent provide a wide range of detailed management information on the efficiency and effectiveness of services. Quarterly performance reports for each service are presented to the relevant PDSP throughout the year.
- 142.** The performance committee conducts a continuous assessment of reviews on the units included in WLAM. Services report their performance reviews to the committee on the key activities and are provided with recommendations on how to improve their performance information. Our review of council minutes suggests the performance committee operates well and there is evidence of effective scrutiny.

143. West Lothian Council participates in the Local Government Benchmarking Framework (LGBF) and the corporate plan is underpinned by a “strategy and activity map” which provides a clear link across council priorities, strategies and outcomes.
144. We are satisfied that appropriate performance arrangements were in place within West Lothian Council during 2014/15.

Overview of performance targets in 2014/15

145. The Corporate plan sets West Lothian Council’s strategic direction and priorities for the years 2013 – 2017. There are eight priorities and each of the priorities represent a strategic and joined up approach to maximising opportunities and tackling the issues and challenges that must be over come to achieve successful outcomes; three enablers support the priorities, financial planning, Corporate Governance and risk and modernisation and improvement.
146. Councils have a duty to be transparent in their reporting of performance and their actions in spending public money. The Council’s performance is monitored against a number of high level indicators aligned to the eight priorities and three enabler themes in the Corporate Plan.
147. Progress against performance indicators are reported annually to the public via the Council’s website and quarterly to elected members and the Executive management team via performance committee, PDSPs, Review panel and covalent.
148. The Council’s overall performance in 2014/15 will be reported upon later in 2015.

Statutory performance indicators (SPIs)

149. The Accounts Commission places great emphasis on councils’ responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.
150. For 2014/15 three (SPIs) were prescribed:
- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
 - SPI 2: covering a range of information relating to service performance
 - SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.
151. An evaluation of all Scottish councils’ approaches to public performance reporting was carried out by Audit Scotland’s Performance Audit and Best Value group during 2014/15 and reported to the Accounts Commission in June 2015. An individual assessment for West Lothian Council was issued to the Leader and Chief Executive in July 2015.
152. West Lothian Council was rated as fully meeting the requirements in 19 of the 26 PPR categories, with the remaining 7 categories

assessed as being areas for improvement. In meeting the requirements for SPI 1 & 2 WLC were in the upper quartile for Scottish councils. A further evaluation of councils' approaches to PPR is due to be carried out by Audit Scotland in spring 2016.

National performance audit reports

153. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the council. These are outlined in appendix III. West Lothian Council has processes in place to ensure that all national reports and their impact on the council are considered by members.

Equalities

154. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

155. The Council's Corporate Equalities Outcome 2013 – 2017 was published in April 2013 and is available on the Council's website. The report focuses on the issues identified by evidence and those affected by inequality, as priority for the Council.

Outlook

156. In common with other councils, West Lothian Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years by service efficiencies, income maximisation and reductions in the workforce. However, as choices on how to address funding gaps become increasingly difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities and achieving best value.

Appendix I – Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Income</p> <p>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.</p>	<ul style="list-style-type: none"> • We reviewed budget monitoring by management and accounting policies for income and expenditure as part of our final accounts work. • We reviewed the Council's arrangements for the prevention and detection of fraud and corruption and undertook targeted substantive testing at the year end. • We carried out analytical procedures on income streams to confirm completeness and identify any unusual transactions or variations in income. • We carried out detailed substantive testing of revenue transactions focusing on the areas we consider to be of greatest risk to confirm occurrence and accuracy of amounts in the financial statements: Council Tax and Housing Revenue accounts. 	<p>From our audit testing of income we did not identify any areas of concern.</p>

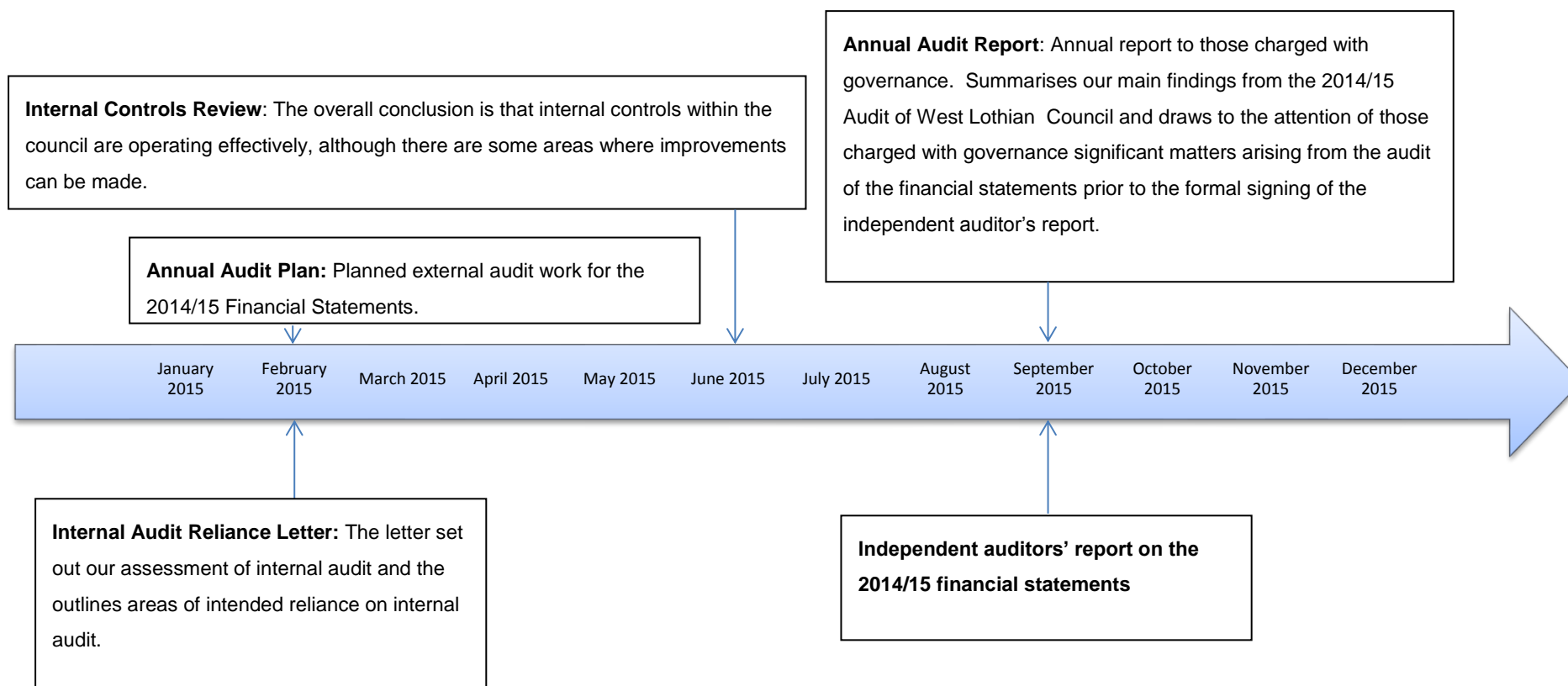
Audit Risk	Assurance procedure	Results and conclusions
<p>Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • We designed and performed audit procedures to address the following 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 • Focused testing of accruals and prepayments. 	<p>From our audit testing of risk areas we did not identify any incidents of management override of controls.</p>
<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"> • We reviewed the budget monitoring by management. • We reviewed the work of an expert e.g. the professional valuer. • We carried out focused substantive testing of key areas e.g. provisions. 	<p>From our review of budget monitoring, the work of experts and focused substantive testing no issues/areas of concern were noted, and no misstatements were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Funding Gap</p> <p>The council continues to face a significant challenge in bridging a funding gap of over £33.525 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"> • WLC completed budget consultation exercise with the residents of West Lothian. • We reviewed management reports and proposals to bridge the funding gap in which WLC implemented a three year revenue budget strategy approved by Council on 29 January. • We reviewed revenue and capital budget monitoring reports and committee papers to identify any significant variances between budgeted and actual spend to identify any potential issues. 	<p>From our review of council papers and management reports no specific issues/areas of concern were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<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.</p>	<ul style="list-style-type: none"> • We reviewed the council's arrears position and management reports to monitor the impact on the council's HRA finances. • We reviewed the operation of the council's rent strategy. 	<p>From our audit testing of rent arrears we noted that rent arrears had reduced from £1.319 million (2013/14) to £1.256 million (2014/15) a reduction of £0.063 million. This indicates that the council's rent arrears strategy is having a positive impact. We will continue to monitor this area in future.</p>

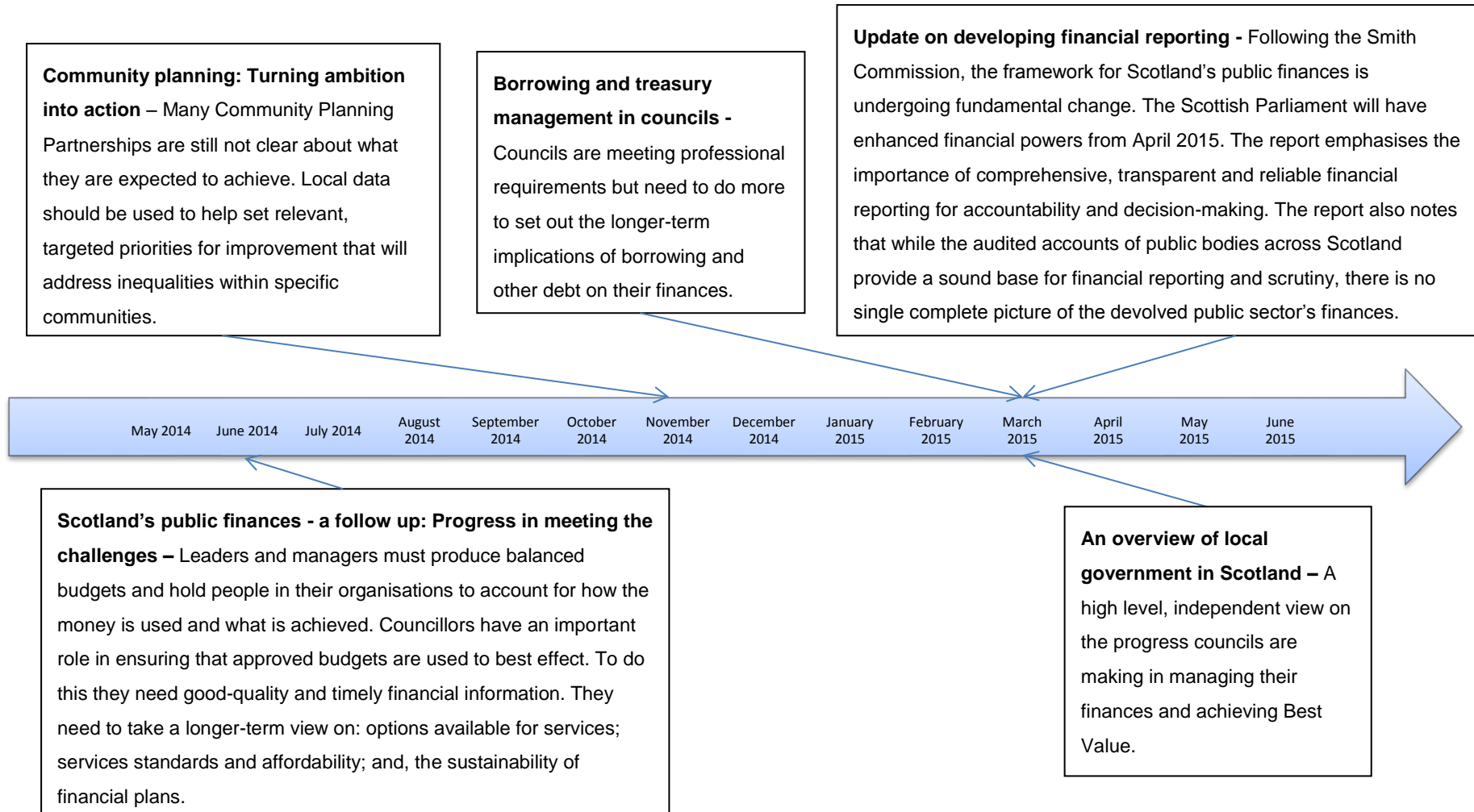
Appendix II

Summary of West Lothian Council local audit reports 2014/15



Appendix III

Summary of Audit Scotland national reports 2014/15



Appendix IV

Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
<p>1 16/50</p>	<p>Usable reserves</p> <p>The council continues to maintain a low level of usable reserves. Although in line with the Council's target minimum uncommitted general fund balance, at £2 million it is amongst the lowest uncommitted general fund balance held amongst Scottish Local Authorities.</p> <p>Risk</p> <p>The council's uncommitted reserves may be insufficient to fund future unforeseen costs.</p> <p>Recommendation</p> <p>The council should maintain a level of usable reserve levels that achieves a balance between meeting current obligations and preparing for future commitments.</p>	<p>The adequacy of the level of the uncommitted general fund balance will be kept under review. The detailed statement on reserves and balances will continue to be included as an appendix to the annual revenue budget report to council and will specifically cover the adequacy of the uncommitted general fund balance.</p>	<p>Donald Forrest Head of Finances and Estates</p>	<p>February 2016</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 17/52	<p>Funding Gap</p> <p>The budget for the three years to 2017/18 recognises a funding gap of £33.525 million across the three years.</p> <p>Risk</p> <p>While the council has been proactive in its approach to identify savings opportunities, the realisation of these savings will become progressively more challenging year on year.</p> <p>Recommendation</p> <p>The Council should ensure it continues to monitor and manage the planned areas for savings in order to ensure that savings targets are met.</p>	<p>The council approved an updated three year budget in August 2015, which identified budget savings of £33.525 million, which balances the budget over the three years.</p> <p>Annual budget reports will be presented to the Council in 2016/17 and 2017/18, including a comprehensive review of the estimated income and expenditure for the year.</p> <p>Quarterly monitoring reports to the Council Executive will include a review of progress on delivery of budget savings for all three years.</p>	Donald Forrest Head of Finances and Estates	February 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
3 18/64	<p>Borrowing</p> <p>As in previous years, the Council is continuing to incur interest costs on additional borrowing in the short term in order to take advantage of low interest costs and make savings on future borrowing requirements.</p> <p>Risk</p> <p>The Council may incur unnecessary expenditure if the forecasted interest rates rises do not occur.</p> <p>Recommendation</p> <p>The Council should continue to review its borrowing approach in light of developing market conditions.</p>	<p>The borrowing approach will be regularly monitored by officers, with reports being presented to the Partnership and Resources Policy Development and Scrutiny Panel (PDSP) and the full Council on treasury management performance and proposed treasury management strategy.</p>	<p>Donald Forrest Head of Finances and Estates</p>	<p>March 2016</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
<p>4 23/88</p>	<p>Use of Unsupported and Older Software</p> <p>The Council is still using and relying on unsupported Microsoft software. (Windows Server 2003).</p> <p>Risk</p> <p>Operating older unsupported versions of software may result in security weaknesses.</p> <p>Recommendation</p> <p>The Council should ensure that project to migrate Windows Server 2003 should be completed as soon as possible.</p>	<p>A project is ongoing to decommission all versions of windows 2003 server by 2015.</p>	<p>Jennifer Milne IT Manager</p>	<p>December 2015</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
5 24/93	<p>National Fraud Initiative</p> <p>There has been no reporting on the progress of NFI to elected members and/or Audit and Governance Committee in the last few years; there is also slow progress in following up recommended matches particularly within benefits and in some cases, work is completed outwith the NFI system.</p> <p>Risk</p> <p>There is a risk that the Council may not gain the full benefit of being involved in the NFI exercise.</p> <p>Recommendation</p> <p>Reports on NFI progress should be made to the Audit and Governance Committee and all recommended NFI matches followed up promptly and all outcomes recorded on the NFI system.</p>	<p>The position in relation National Fraud Initiative was covered in the annual statement of compliance on anti-fraud and corruption by the Head Finance and Estates, which was reported to Council Executive on 30 June 2015.</p> <p>A more detailed report on NFI progress will be presented to the Audit and Governance Committee in 2015. NFI matches will be followed up promptly and recorded in the NFI system.</p>	Kenneth Ribbons Audit and Risk Manager	December 2015

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
6 25/105	<p>The Public Bodies (Joint Working) (Scotland) Act</p> <p>The Act provides the framework for the integration of health and social care services in Scotland. The Scottish Government's 'Guidance for integration financial assurance (April 2015)' recommended that the council's Internal Audit function should report on the assurance process that has been carried out by the Health Board and Local Authority in forming the Integrated Joint Board to the council's Audit and Governance Committee. As yet the council's Internal Audit function has yet to report to the council's Audit and Governance Committee.</p> <p>Risk</p> <p>There is a risk that the Council may not fully identify the resources to be delegated and the risks associated with the integrated functions in forming the Integrated Joint Board.</p> <p>Recommendation</p> <p>Reports on the assurance process in forming the Integrated Joint Board should be made to the Audit and Governance Committee.</p>	<p>A report on the assurance process in forming the Integrated Joint Board will be presented to the Audit and Governance Committee.</p>	<p>Kenneth Ribbons Audit and Risk Manager</p>	<p>February 2016</p>

