East Lothian
Council

MINUTES OF THE MEETING OF THE
AUDIT AND GOVERNANCE COMMITTEE

TUESDAY 18 MARCH 2014
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON

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Committee Members Present:
Councillor K McLeod (Convener)
Councillor S Brown
Councillor J Caldwell
Councillor S Currie
Councillor A Forrest
Councillor J Goodfellow
Councillor J Williamson

Council Officials Present:
Mr A McCrorie, Depute Chief Executive (Resources and People Services)
Mr J Lamond, Head of Council Resources
Mr M Leys, Head of Adult Wellbeing
Mr T Shearer, Head of Communities and Partnerships
Mr J Cunningham, Service Manager - Benefits
Mr P Vestri, Service Manager - Corporate Policy & Improvement
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor

Clerk:
Miss F Currie, Committees Assistant

Visitors Present:
Ms S Burden, KPMG

Apologies:
Councillor F McAllister

Declarations of Interest:
None

1. MINUTES OF THE MEETING OF THE AUDIT & GOVERNANCE COMMITTEE ON 21 JANUARY 2014

The minutes of the meeting of the Audit & Governance Committee on 21 January 2014 were approved.

2. ANNUAL WORK PROGRAMME

The Committee was provided with a copy of the annual work programme for 2013/14.

The Service Manager - Corporate Policy & Improvement, Paolo Vestri, presented the work programme for information and drew Members' attention to the reports scheduled to come before the Committee's next meeting in May 2014.

Decision

The Committee noted the annual work programme.

3. INTERNAL AUDIT REPORT – CONTRACT PAYMENTS

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on Contract Payments.

The Internal Audit Manager, Mala Garden, presented the report. She indicated that procurement formed a significant part of Council spending and the purpose of the audit was to ensure that internal controls in place for administering payments to suppliers were operating effectively. She drew Members attention to the findings, highlighting areas with scope for improvement.

Members asked questions about the sample size in the audit, the percentage of cases where issues had been raised and whether the number of problem cases was likely to increase the higher the sample size. Ms Garden explained that for this audit a sample of 15 contracts was selected and a number of audit tests were carried out. For each test, errors were only found in a minority of cases – in some instances only one error was found. On that basis there could be reasonable assurance that controls were working well. In addition, where issues had been identified the appropriate managers had been approached and action had been taken to address matters.

Head of Council Resources, Mr Jim Lamond, explained that the audit had given officers the opportunity to review procedures and promote good practice throughout the Council.

Councillor Currie asked that the Committee receive an update on whether all of the report's recommendations had been implemented. Ms Garden confirmed that a follow up report would be prepared as part of the 2014/15 audit plan.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for Contract Payments.

4. INTERNAL AUDIT REPORT – HOUSING ALLOCATIONS

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on Housing Allocations.

Ms Garden presented the report outlining the areas where controls were met and the areas with scope for improvement. The main objective of the audit was to ensure that the internal controls in place for Housing Allocations were operating effectively.

In response to questions from Members, Ms Garden explained that from the sample size of 20 housing allocations examined some inconsistencies had arisen and these had been followed up. Where risks had been identified in relation to the possibility of inappropriate housing allocations being made, a separate investigation was being carried out and a further report would be brought to the Committee upon its conclusion. Councillor Currie asked if this report would be available for the May Committee meeting. Ms Garden stated that she was not anticipating the report being completed for the May meeting, but that it would be brought to the Committee at a later date.

Councillor Currie welcomed the audit report and looked forward to receiving the results of the investigation. He commented that Council housing was a key issue for many constituents and it was important that officers apply the legislation and policy in a correct and fair manner.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for Housing Allocations.

5. INTERNAL AUDIT REPORT – COMMUNITY CARE FINANCE UNIT (CCFU)

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recently issued audit report on the Community Care Finance Unit.

Ms Garden presented the report. The main objective of the audit was to ensure that the internal controls in place for administering the services previously provided by the Community Care Finance Unit (CCFU) were operating effectively. She outlined those areas where controls were met and the areas with scope for improvement. The main findings and recommendations for action had been agreed with management.

Members asked a number of questions about the issues raised in the audit, in particular the amount and type of information required from applicants, who is responsible for gathering this information, how incomplete information can affect financial assessments and whether the Council is losing money as a result.

Mr John Cunningham, Service Manager – Benefits, acknowledged that his staff needed to make better use of the information they are given to avoid duplication and to ensure that any gaps are addressed. Their emphasis was on improving processes to meet the requirements of the new financial assessment process and this audit had helped them to identify current good practice and areas that require further work.

Head of Adult Wellbeing, Mr Murray Leys, reminded Members that very often they are dealing with vulnerable people who don't have the information that is required and there is sometimes difficulty in getting the information that they do have. The Council is, however, obligated to carry out financial assessments and in around 60-70% of cases this assessment leads to some level of contribution from the applicant.

Mr Lamond added that the Benefits Team had very skilled and experienced staff who had responded well to the challenges of this new system. The audit findings had been helpful in identifying areas for improvement but had also shown the progress that had already been made. He assured Members that, where such cases were identified, the Council pursued recovery of financial losses as far as possible and practicable. Mr Leys agreed that the Council was able to pursue cases to a high level, e.g. Judicial Review, but these could be difficult and challenging and incur significant costs.

Depute Chief Executive, Mr Alec McCrorie, acknowledged the importance of scrutiny in these matters. Clearly there were risks associated with incomplete information gathering and financial assessment; however he was confident that officers would implement the recommendations for action to avoid similar problems in future.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for the Community Care Finance Unit.

6. INTERNAL AUDIT FOLLOW-UP REPORT

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of the recent follow-up work undertaken by Internal Audit.

Ms Garden presented the report. She explained that, as part of the audit plan for 2013/14, Internal Audit had followed up the recommendations made in previously issued audit reports to ensure that they had been implemented as agreed by Management. She summarised the findings drawing particular attention to the marked improvement in internal controls for the use of purchase cards.

In response to a question from Councillor Currie, Ms Garden confirmed that Internal Audit had reviewed a number of purchase card statements and any issues had been addressed directly with the managers concerned.

Decision

The Committee noted the findings of Internal Audit's follow-up work on Travel and Subsistence, Carbon Management Reduction and Purchase Cards.

7. AUDIT PLAN 2014/15

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of Internal Audit's operational plan for 2014/15.

Ms Garden presented the report drawing particular attention to the fact that, from 2014/15, full internal audit reports will be available to Committee members on request. Mr McCrorie welcomed the comprehensive audit plan which had taken account of comments made by Committee members at previous meetings.

Decision

The Committee approved the Audit Plan for 2014/15.

8. INTERNAL AUDIT PROGRESS REPORT 2013/14

A report was submitted by the Depute Chief Executive (Resources and People Services) informing the Committee of Internal Audit's progress against the annual audit plan for 2013/14.

Ms Garden presented the report of audits completed to date, as part of the 2013/14 audit plan, and those still in progress.

Councillor Currie thanked officers for addressing his previous query regarding the register of Gifts and Hospitality.

Decision

The Committee noted the contents of the Internal Audit Progress Report 2013/14.

Signed   ....

            Councillor Kenny McLeod
            Convener of the Audit and Governance Committee

KPMG

cutting through complexity ™

East Lothian Council

Interim management report

Year ending 31 March 2014

6 May 2014

For audit and governance committee consideration on 20 May 2014

Contents

The contacts at KPMG in connection with this report are:

Andy Shaw
Director, KPMG LLP

Tel: 0131 527 6673
Fax: 0131 527 6666
andrew.shaw@kpmg.co.uk

Michael Wilkie
Senior Manager, KPMG LLP

Tel: 0141 300 5890
Fax: 0141 204 1584
michael.wilkie@kpmg.co.uk

Sarah Burden
Assistant Manager, KPMG LLP

Tel: 0131 527 6611
Fax: 0131 527 6666
sarah.burden@kpmg.co.uk

About this report
We have prepared this report in accordance with the responsibilities set out within Audit Scotland's *Code of Audit Practice* ("the *Code*").

Purpose of this report
This Report is for the benefit of East Lothian Council and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Limitations on work performed
Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the background and approach section of this report.

This report is not suitable to be relied upon by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

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The purpose of this document is to update the audit and governance committee on our progress on the audit of East Lothian Council ("the Council") for the year ended 31 March 2014.

Introduction

We have completed our interim audit visit, where we tested a selection of higher level controls and held discussions with management to update our understanding of the key business and audit issues for East Lothian Council.

This report provides the committee with an update on:

- the key business issues identified in our audit strategy document;
- additional audit matters identified during our interim visit; and
- the results of our higher level and entity wide controls testing.

Our report at year-end will provide the committee with an update on:

- the key business issues and other audit matters identified within this report and our audit strategy;
- the results of our substantive procedures;
- the financial position of the Council for the year ended 31 March 2014 and related financial planning;
- performance management arrangements; and
- governance and narrative reporting arrangements.

Significant risks and other matters

Our risk assessment procedures identified two significant risks for consideration in the 2013-14 audit, in relation to:

- the Council's financial position, including revenue and capital and the impact on borrowing; and
- the revaluation of Council dwellings.

Other matters noted in the audit strategy document were in respect of the accounting for the Council's participation in the Lothian Pension Fund. As set out on page three, the proposed methodology for setting assumptions appears reasonable.

As identified in our audit strategy document, we do not consider there to be a significant fraud risk in relation to income recognition and also our audit procedures are inherently designed to consider the risk of management override of controls.

We will provide an updated list of significant risks and other matters in our annual audit report, which will be reported to the audit and governance committee in September 2014.

We provide an update on Financial Position, Valuation of Property, Plant and Equipment and Pensions.

Financial Position - Revenue

The Council acknowledged the need to maintain efficient departments and respond to the challenge of funding restrictions. The Council forecast to use most un-earmarked reserves by 31 March 2015. There is therefore a need to achieve budgets; there is no planned use of reserves in 2015-16.

The 2013-14 budget was approved by council in February 2013, along with an outline budget for the following two years. A quarterly financial review is reported to cabinet. Management continue to develop the reporting of the financial position, demonstrating the maturing strategic financial management.

The Council also assigns a red, amber or green ('RAG') rating to assess progress against efficiency savings and report to Cabinet. In quarter three, the majority of business groups are on target to achieve their efficiency savings. Three business groups are assigned a 'red' rating and seven are assigned an 'amber' rating. We will assess progress against efficiency savings during the financial statements audit.

Management forecast that use of reserves will be lower than the budgeted £5.2 million (£2.2 general fund reserves and £3 million cost reduction fund to support the voluntary early release scheme ,which is expected to deliver recurring annual savings of approximately £2.86 million). The underspend largely relates to the devolved school management budgets. An expectation of the year end position has been built into the approved three year budget for 2014-15 to 2016-17.

Financial risk ratings are assigned by management to each business group. Five out of the 25 business groups are classified 'high' risk in quarter three. This is a decrease from six business groups in quarter two, with transport and waste services moving to 'low' risk.

Financial Position - Capital

At the end of quarter three, general services capital expenditure of £17.6 million had been incurred and £15.6 million of housing capital expenditure. This represented 54% and 61% of the annual budgets respectively. Management identified that the majority of capital projects were underspent as at 31 December 2013, and expect this position to continue to year end on some projects. This decreases the level of spend in 2013-14. Management are undertaking a review of capital projects and assessing any impact on future capital plans.

Valuation of Property, Plant and Equipment

Under the Council's rolling basis of revaluations, Council dwellings will be subject to valuation in 2013-14, using the Beacon approach (adjusted vacant possession). Management assessed the draft valuation report, which indicates that there is an increase in value of Council dwellings of £6.8 million. A final report will be produced as at 31 March 2014. We will liaise with our internal valuation experts to review the methodology and assumptions used. As part of our year end procedures we will review the accounting records and treatment of council dwellings within the fixed asset register, together with recognition of the revaluation adjustment.

Pensions

The Council accounts for its participation in the Lothian Pension Fund in accordance with IAS 19 *Retirement benefits*, using a valuation report prepared by actuarial consultants, Hymans Robertson. Our internal actuarial experts reviewed Hymans Robertson's proposed methodology for setting assumptions and concluded they appear reasonable.

During our year end audit procedures we will:

■ review the financial assumptions underlying the actuaries' calculations and comparison to our central benchmarks;

■ test the level of contributions used by the actuary to those actually paid during the year; and

■ test membership data used by the actuary to data from the pension fund.

Governance arrangements

The Council's governance arrangements continue to develop.

Organisation-wide controls often have a pervasive impact on control activities, and therefore on our assessment of the risk of significant misstatement within the Council's financial statements.

Our interim audit fieldwork was based on gaining an understanding of the strategic and operating culture and framework in which services are delivered. Audit procedures performed to gain an understanding about the design and implementation of relevant controls include inquiring of senior personnel, observing the application of specific controls and inspecting documents and reports.

Our audit does not seek to test all transactions or controls established by management. Testing of the design and operation of key financial controls for the purposes of our financial statements audit, however, confirms that those controls are designed appropriately and operating effectively.

Audit area	Key areas considered	Findings
Risk management	■ Risk management strategy ■ Corporate risk register ■ Strategic department risk register ■ Operational risk register ■ Risk monitoring	■ The risk management strategy and supporting documentation demonstrate a commitment to good practice and were initially implemented in December 2009. ■ A corporate risk register is in place and is supported by departmental risk registers. The council risk management group meets regularly to discuss risk management and membership includes one member of each local risk group. This facilitates emerging risks at the departmental level to be fed into the corporate register. ■ The corporate risk register was reviewed and updated following a review by the council management team in April 2014. This will be presented to Cabinet for approval in May 2014. Revised service risk registers are expected to be presented to the audit and governance committee in Autumn 2014. The previous version of the corporate risk register was approved by cabinet and the audit and governance committee in January 2013. The risk management strategy also underwent a refresh after the risk registers were finalised in October 2012. ■ Risk registers are produced and maintained on spreadsheets. Management intend for these to be maintained on the Aspireview performance system. At February 2014 this was still in the trial stage and therefore unlikely to be implemented in 2013-14.

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Audit area	Key areas considered	Findings
Organisation wide policies	■ Standing orders of council and scheme of delegation ■ Code of conduct ■ Employee handbook ■ Whistle blowing policy ■ Counter fraud policy	■ Organisation-wide policies are important as they set the tone of the Council, outline expectations of employees, document key processes to be followed by all staff, and communicate the culture of honesty and ethical behaviour. They are easily accessible and available to staff on the intranet. ■ The council improvement plan 2013-14 identified an action to develop and maintain a methodology for systematically reviewing and updating corporate policies and procedures, with an implementation date of November 2013. Management have begun preparing a database of policies, however this will not be completed in 2013-14. Consideration is being given by management as to which policies should be included within such a database and methodology. ■ Council approved updated standing orders and scheme of administration were approved by Council in August 2013. ■ There is a HR policy register and review plan 2013-16 which identifies the date of each policy, the review rating (based on which year the policy will be reviewed) and a responsible manager. ■ We reviewed a selection of policies and identified the date when each was last updated. We consider that the content of each of the policies in the table below appears reasonable. However, we note that regulations have changed since original approval, such as applicability of The Enterprise and Regulatory Reform Act 2013 in respect of the whistleblowing policy.

Policy	Date last updated
Whistleblowing policy	December 2004
National Code of Conduct for Local Government Employees	July 2001
The CoSLA National Code of Conduct	September 1997
Gifts and Hospitality Guidance	July 2009
Disciplinary Code	April 2005
Disciplinary Code for Casual Workers	March 2009
Travel allowance guidance	November 2011
People Strategy 2012-2015	January 2012
Management of overtime policy	June 2008

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Audit area	Key areas considered	Findings
Organisation wide policies (continued)		■ The details for relevant contacts in the whistleblowing policy are out of date, with 11 of the 12 departmental contacts and two of the three council wide contacts incorrect, some having left the Council. Internal audit are reviewing an updated whistleblowing policy. *Recommendation one*
Related parties	■ Elected members' register of interest ■ Chief officers' register of interest	■ Separate registers of interest are maintained for elected members and chief officers. The register of interest for elected members was up to date at the time of our testing. The register of interest for chief officers was updated in March 2014. ■ Management were waiting for the results of the internal audit gifts and hospitality review and we understand the register of interest exercise is currently in progress. We will review the status of this during the financial statements audit. *Recommendation two*
Procurement	■ Procurement policies and procedures ■ Tendering limits ■ Use of PECOS	■ We undertook a review of procurement in 2011-12, and raised a number of recommendations to assist the Council in its continuous improvement agenda. ■ New procurement policies and procedures were approved in June 2013 and implemented in August 2013. These cover a process overview for quotations and tendering, as well as roles, responsibilities and consequences with regard to the procurement process. ■ Procurement training was provided to the procurement team and 20 to 30 other members of staff at the Council to ensure the new policy is embedded within operations. ■ Tendering thresholds were revised in the updated procedures in line with the EU requirements, and were implemented within the new procurement policies and procedures. ■ The volume of off contract spend is monitored on a quarterly basis by the procurement department. It is also reviewing the number of suppliers, and is beginning to report any suppliers used without involvement of the procurement team to heads of service.

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Audit area	Key areas considered	Findings
National fraud initiative	■ Audit Scotland questionnaire ■ Follow-up of matches	■ We prepared a short return to Audit Scotland in December 2013, assessing management's participation in the exercise. Management's progress against a number of controls was graded on a traffic light basis, with red indicating that immediate action is required to ensure beneficial engagement with NFI. We do not consider the below points to adversely effect the Council's NFI progress and an overall green rating was given to the Council's NFI participation. ■ The review did not identify areas for immediate improvement, although some opportunities for improvement were identified.: – there was no specific mention of NFI within the fraud and corruption strategy; – due to resource pressures the revenues team do not look at all low priority matches; – four out of nine registered users had not accessed all online training modules; – internal audit do not review the work of the revenues team; – there is no formal reporting of the NFI findings to the corporate management team; and – although internal audit display press articles on successful fraud investigations cases and report NFI outcomes to the audit and governance committee, they do not proactively report internally or externally on the achievements of fraud investigations.

Audit area	Key areas considered	Findings
Local response to national studies	■ Audit Scotland's report *Health Inequalities in Scotland*	■ Audit Scotland and the Accounts Commission periodically undertake national studies on topics relevant to the performance of public sector bodies. To ensure that added value is secured through the role of Audit Scotland, the Accounts Commission and its appointed auditors, we are required to ensure that audited bodies respond appropriately to reports from the programme of national performance audits. ■ We have prepared a short return to Audit Scotland for this report, which was released on 1 December 2012 and was considered by the audit and governance committee and senior management team together with an assessment of East Lothian Council's position. The report pompted the East Lothian Partnership to begin developing a health inequalities strategy.
Charitable trusts	■ OSCR regulations	■ From 2013-14, all charitable trust funds registered with the Office of the Scottish Charity Regulator ("OSCR") will require an audit. Currently the Council has one registered charity, the Dr Bruce Fund. An audit of this charity will be required for the 31 March 2014 year end report. Management have reviewed other charitable funds and have confirmed with OSCR that no other funds will require an audit.

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We will place reliance on the work of internal audit where the scope of work assists in our audit approach. Internal audit continue to develop the reporting framework.

Audit area	Key areas considered	Findings

Internal audit	■ Annual internal audit plan
	
	■ Sample sizes
	
	■ Internal audit reports
	
	■ Investigations
	
	■ Reliance on individual internal audit reviews
		■ The annual internal audit plan is aligned to the financial year. Directors are consulted and the risk register considered as part of planning. Input from external audit is requested to facilitate an efficient approach to controls testing. Consistent sample sizes are used for financial system audits, and provide coverage of the full financial year.
		
		■ In 2011-12 and 2012-13, we recommended that internal audit recommendations reported to management and the audit and governance committee should be graded based risk assessment. Internal audit have implemented grading of recommendations in 2013-14, using a high, medium, low categorisation. Members of the audit and governance committee have noted further areas for enhancement to the internal audit reports to improve clarity and scrutiny.
		
		■ The Public Sector Internal Audit Standards were effective from 1 April 2013. Internal audit considered these standards when setting the 2013-14 audit plan. Internal audit intend to complete an assessment against these new standards and implement an internal audit charter as part of the internal audit plan for 2014-15.
		
		■ In the external audit plan, we reported that we planned to place reliance on internal audit's work on:
		
		  – creditors;
		
		  – housing revenue account;
		
		  – journals;
		
		  – procurement – scheme of delegation; and
		
		  – statutory performance indicators.
		
		■ Internal audit are finalising this work. We will review relevant internal audit files, findings and recommendations as part of our year end procedures and assess any impact on our substantive audit work.

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Control framework

Our testing of the design and operation of controls over significant risk points confirms that, with the exception of some weaknesses reported, controls are designed appropriately and operating effectively.

Weaknesses were identified in relation to cash and journals. We will assess the impact of control weaknesses on our audit approach and increase our substantive audit testing where required.

Where an audit objective has a controls approach, we have updated our understanding of accounting and reporting activities over each significant account and identified and tested key financial controls as well as reviewing higher level organisational controls. We have evaluated the design and implementation of these controls and, where appropriate, tested the operating effectiveness.

Our audit does not seek to test all transactions or controls established by management. Testing of the design and operation of key financial controls for the purposes of our financial statements audit, however, confirms that those controls are designed appropriately and operating effectively.

Audit area	Key controls considered	Findings
Income and expenditure	■ Budget monitoring	■ The council has a robust budget setting process, with involvement from various key members of staff. ■ Performance against budget is monitored on a regular basis and through various measures, including daily and monthly 'FRx' reports, quarterly business group reports and regular discussions with budget holders. ■ Elected members are kept informed of progress through quarterly financial summary reports prepared by the finance department and presented to cabinet. These reports are sufficiently detailed and provide appropriate qualitative and quantitative information. ■ Each business group is allocated a budget holder, however, due to ongoing service reviews and department restructures, four business groups have not currently been allocated a budget holder. *Recommendation three*

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Our testing of the design and operation of controls over significant risk points confirms that, with the exception of weaknesses reported, controls are designed appropriately and operating effectively.

Weaknesses were identified in relation to cash and journals. We will assess the impact of control weaknesses on our audit approach and increase our substantive audit testing where required.

Audit area	Key controls considered	Findings	Reliance on internal audit
Cash at bank	■ Bank reconciliations	■ Management recognised deficiencies within the bank reconciliation process and are working to resolve them to ensure that reconciliations are performed in a timely manner. Management has set a target to complete bank reconciliations within four weeks of each period end. ■ Progress has been made in this area and bank reconciliations are currently completed six weeks after the period end. This is an improvement on the prior year, and bank reconciliations are now signed as reviewed. Progress will be followed up during the financial statement audit. ■ Bank reconciliations are carried out by comparing the bank statement balance at the month end to the ledger balance at the date the reconciliation is prepared. Although this results in fewer timing differences, we consider this to be an unusual approach and a more efficient approach could be adopted, by reconciling at coinciding dates. *Recommendation four*	n/a
Journals	■ Preparation and authorisation of journal entries.	■ We noted in our 2011-12 and 2012-13 annual audit reports that there was an increased risk over fraudulent or erroneous journals not being identified on a timely basis, due to improvement scope with authorisation of journals. ■ The finance manager currently reviews a random sample of at least five journals in each journals folder. Although this is an improvement from prior years, we do not consider that this provides enough coverage to be a risk based approach. ■ We will substantively test a sample of journals during our financial statement audit. *Recommendation five*	n/a

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As part of its targeted approach to following-up a small number of performance audit reports each year, Audit Scotland has identified *Major capital investment in councils* for follow-up in 2013-14.

We carried out follow-up work to consider the Council's response to the report.

Major capital investment in councils

As part of its targeted approach to following-up a small number of performance audit reports each year, Audit Scotland has identified the *Major capital investment in councils for* follow-up by local auditors in 2013-14. The aim of the follow-up work is to assess how public bodies are responding to the challenges of public sector budget constraints and their efforts to achieve financial stability. Set out below are our findings from our follow up work.

1. Consideration of *major capital investment in councils*	
Did the council formally consider the report *Major capital investment in councils* following publication: ■ Was the report considered by the full council, audit committee, senior management team, or other? ■ To what extent was the report considered? (i.e. was it noted or discussed?)	Reports were presented to the council management team in May 2013 and the audit and governance committee in June 2013. These provided background to the publication and the action plan prepared in response to this. In the audit and governance meeting minutes there is evidence of discussion and challenge by members.
How is the council responding to the recommendations in the report? ■ Has the council developed an action plan to address the recommendations? ■ What progress has been made against the recommendations?	The Council developed an action plan for capital program management. This is based on recommendations from the report (such as completing business cases for each capital project) as well as from the council's own review of the capital program. The Council is making progress against most areas in its action plan. There is only one action point out of ten where progress has not yet occurred. This item is to ensure elected members are fully briefed on the capital planning process.
To what extent has the council used the good practice guidance?	The good practice guidance was used as a reference tool when preparing the action plan, but was not formally noted.
To what extent has the council used the good practice checklist for project managers?	Again, the good practice checklist was used as a reference tool, but was not formally completed.

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2. Capital investment strategy	
Does the council have a long-term capital investment strategy? ■ If yes, which period does this cover? ■ How often is the strategy reviewed?	The Council is developing a corporate asset management plan, which sets out the Council's approach, vision and objectives for asset management. This is supported by the work of the corporate asset group. This group has responsibility for the management and control of the Council's capital investment programmes and the delivery of the strategic objectives of the Council Plan. Capital investment is mentioned within the financial strategy, although this is only a medium term document. As part of the budget setting process, the administration and opposition present a capital investment summary paper. For 2014-15 this covered the period from 2013-14 to 2020-21, and is therefore considered as long term. The administration proposal was approved in the budget setting council meeting. Amendments to this paper are presented to Cabinet on a quarterly basis as part of the financial summary report. New administration and opposition papers are presented each year. The financial strategy is also updated annually.
How does the capital investment strategy reflect the strategic priorities of the council? ■ Is there a clear link between investment, performance and outcomes?	The Council's draft corporate asset management plan makes reference to capital investment and refers to the East Lothian Council Plan 2012-17, which sets out the strategic priorities of the Council. However there is no formal capital investment strategy which provides a clear link between investment, performance and outcomes.

2. Capital investment strategy (continued)

Is the capital investment strategy supported by a capital investment plan?	The Council has a capital investment plan for housing. Capital investment for general services is mentioned within the financial strategy and the budget summary paper.
■ If 'yes', which period does the plan cover? In 'No' please explain why?	The treasury management strategy also profiles capital spend for the current financial year, the two previous financial years and planned spending for the next two financial years. However, this does not discuss individual capital projects, as outlined in the good practice guide.
■ Does the plan meet the features of good practice as outlined in the good practice guide (paragraphs 18 to 19)?	From the 2014-15 capital summary, planned capital investment for 2014-15 is approximately £20 million and 2015-16 planned investment is approximately £22 million.
■ What is the total value of capital investment planned in 2014-15 and 2015-16? Is this matched to funding sources?	The Council is in the process of developing a comprehensive corporate asset management plan, but this is focused on asset management rather than capital investment.
■ What action is proposed to address any shortfalls in funding in any given year?	

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3. Financial information to support effective decision-making and scrutiny	
Are elected members and senior officers provided with regular, appropriate and accurate information to support investment decision-making? Does information include: ■ sufficient detail on profiled annual spend against the capital budget? ■ project-by-project spend against each milestone for each project? ■ an analysis of overall capital programme spend and its financing, including future projections and how it is paid for (i.e. from grants, borrowing or other) ■ an assessment of external factors such as UK and Scottish budget settlements, construction inflation, interest rates and other market factors?	The Council provides quarterly financial summary reports to Cabinet, which include details of capital investment. These reports provide a revised capital plan, showing any changes to the approved capital budget. Any changes are explained in the main body of the report, with the revised capital plan as an appendix. The financial summary reports also contain an appendix showing budgeted and actual spend for each project. The quarter three summary report also shows how the projects are financed. Project by project spend is therefore reported on a quarterly basis, but not by project milestone. The Council have an action point in their capital management improvement plan to brief elected members on the capital planning and monitoring process. Although this has not been implemented, elected members receive support from Council staff in relation to the capital programme and related funding through work to support the treasury management strategy.
Are elected members provided with sufficient reasons for any movements in planned spending? Are reasons given for any changes to: ■ annual spend against annual budget? ■ individual project spend against project budget ■ overall capital programme spend against programme budget ■ expected grant funding, income from other sources, levels of borrowing?	In the reports mentioned above, explanations are given for any changes to spending in the written summary. This is clearly set out in bullet point format, and is on a project by project basis. Cabinet are able to ask any questions on this if they require further information.

4. Major capital projects currently in progress

Please provide a complete list of the council's major capital projects that are currently in progress (i.e. where a contract has been awarded). Please provide project name, value and expected completion date.	The Council has one major project currently in progress; the Fa'side Tranent residential home and day centre. This has an expected total spend of £8.731 million and is due for completion in 2014-15. Other projects with a capital value of over £5m are rolling maintenance or improvement projects.

5. Overall assessment

Thinking about the main issues in the report and how they apply to the council, please summarise the council's overall response and the impact of the report on it?	The Council provided a good summary of the report to the audit committee, as well as the council's position on the report. An action plan has been implemented based on recommendations from the report as well as the council's own assessments. The Council has progressed strongly in the area of corporate asset management, although development of a formal capital investment strategy setting out a clear link between investment, performance and outcomes should be considered.
Is there anything else about how the council has responded to the report or the impact of the report that you would like to highlight?	Nothing to highlight.

Appendices

Audit timeline

The proposed timetable is largely unchanged from the prior year, but is subject to refinement through discussions with management.

We have now substantially completed the planning and control evaluation phases of our audit.

Communication

Regular meetings/communication involving management and audit team

Presentation of audit strategy and plan ✓

Discuss findings from interim visit with audit and governance committee

Update on audit planning, year end technical issues and controls work

Reporting on various grant claims

Year end audit and governance committee and Council reporting

Audit debrief with management

| Nov | Dec | Jan | Feb | March | April | May | June | July | Aug | Sept | Oct |

Audit workflow

Update planning and risk assessment ✓

Undertake control testing ✓

Internal sector meeting planning update

Consider key areas (such PPE and pensions) ahead of final fieldwork starting. Review of various grant claims

Year end audit procedures commence

Sign audit opinion

Sign WGA opinion

Planning

Controls evaluation

Substantive testing

Completion

Liaison with Internal Audit

✓ = Completed to date

● = Audit and governance committee meetings

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The action plan summarises specific recommendations arising from our work, together with related risks and management's responses.

Priority rating for recommendations		
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.	**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
1 Council wide policies		**Grade two**
The council improvement plan 2013-14 identified an action to develop and maintain a methodology for systematically reviewing and updating corporate policies and procedures, with an implementation date of November 2013. Management have begun preparing a database of policies, however this will not be completed in 2013-14. Consideration is being given by management as to which policies should be included within such a database and methodology. We reviewed a selection of policies and identified the date when each was last updated. The details for relevant contacts in the whistleblowing policy are out of date, with 11 of the 12 departmental contacts and two of the three council wide contacts incorrect, some having left the Council. Internal audit intend to review an updated whistleblowing policy in their 2014-15 internal audit plan.	Management should conclude on which policies should be included within the database and methodology for reviewing and updating corporate policies and procedures. The details for relevant contacts in the whistleblowing policy should be updated.	Accept - management would appreciate further discussion to establish the scope of policies to be included. **Responsible officer**: Service Manager, Corporate Policy & Improvement **Implementation date:** September 2014

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Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
2 Registers of interest		**Grade three**
Separate registers of interest are maintained for chief officers and elected members. The register of interest for elected members was up to date during our testing, however the register of interest for chief officers had not been updated during the financial year.	The register of interest for chief officers should be updated and renewed on a regular basis.	The Register of Interests was updated during February with updates published on the Council website early March. **Responsible officer**: Service Manager, HR & Payroll **Implementation date:** Completed
3 Budget monitoring		**Grade three**
Each business group is allocated a budget holder, however, due to ongoing service reviews and department restructures, not all business groups have been allocated a budget holder. There is a risk that budget monitoring is not undertaken and errors or issues are missed.	Each business group should be allocated a budget holder to ensure that budget monitoring is completed appropriately and on a timely manner.	Accepted although noted that the finalisation and implementation of the Realignment of Council Services had an adverse impact that has now been resolved. **Responsible officer**: Service Manager, Business Finance **Implementation date:** Completed - April 2014
4 Bank reconciliations		**Grade two**
Progress has been made to bring the bank reconciliations up to date, however further work is needed to ensure all year end bank reconciliations are completed in a timely manner. The bank reconciliation process is carried out by comparing the bank statement balance at the month end to the ledger balance at the date the reconciliation is prepared. Although this results in fewer timing differences, a there is an opportunity for a more efficient approach to be adopted.	Reconciliations should be completed within four weeks (rather than six) from the period end. The bank reconciliation process should be reviewed to ensure it is as efficient as possible. Management should consider reconciling the period end bank balance per the bank statement to the period end bank balance on the ledger.	Significant progress has been made in accordance with previous auditor recommendations. Recognising there are both systems resource related constraints, every effort will be made to work towards the new target of 4 weeks. **Responsible officer**: Service Manager, Corporate Finance **Implementation date:** June 2014

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Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
5 Journals		**Grade two**
We noted in our 2011-12 and 2012-13 annual audit reports that there was an increased risk over fraudulent or erroneous journal not being identified on a timely basis due to improvement opportunities over the authorisation of journals. The finance manager currently reviews a random sample of at least five journals in each journals folder. Although this is an improvement from prior years, we do not consider this a risk based approach.	Management should ensure that the retrospective review of journals is on a risk based sample approach and is completed before year end. This process should be implemented for all future journals raised.	Accepted **Responsible officer**: Service Manager, Business Finance **Implementation date:** June 2014

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 May 2014

BY: Depute Chief Executive – Resources and People Services

SUBJECT: Progress Report on Managing the Workforce

3

1   PURPOSE

1.1   The purpose of the report is to provide members with updated information in relation to the implementation of the Council's Voluntary Early Release Scheme (VERS) which was approved at Cabinet on 12 March 2013 and in addition provide an update on Efficient Workforce Management Planning (known as EWMP) during 2013/14.

2   RECOMMENDATIONS

2.1   Members are asked to note the recent progress made with implementation of the VER Scheme and EWMP during 2013/14.

3   BACKGROUND

3.1   A report was approved by Cabinet in March 2013 introducing a Voluntary Early Release Scheme into the Council to achieve the necessary financial saving of £2m in 2013/14 and a further £1m full year effect in 2014/15 identified in the Council's 3 year budget (2013-16) approved on 12 February 2013.

Efficient Workforce Management Plans were first introduced in 2010 as part of a wider efficiency programme and now form an integral part of the Council's Financial Strategy in relation to managing costs down. EWMP data is reported to Heads of Service each month and this data is an important control measure because it:-

- Assists with service remodelling (headcount, FTE, permanent, temporary and joiners/leavers)

- Contributes to the monitoring of staffing costs and the achievement of ongoing efficiency savings/targets contained within approved service budgets (cost of casuals, overtime and agency workers)

3.2 The Council opened the VER Scheme to employees to make application from 18 March until 5 April 2013 and initially received 289 applications of which 97 were ultimately approved. These applications were progressed on the basis that they did not adversely impact upon services and that they satisfied certain financial criteria. The final decision to grant early release was taken under specific delegation by the Chief Executive in association with the Head of Council Resources, respective Executive Directors and Heads of Service.

3.3 The introduction of the scheme, together with the related realignment of Council services and appointment of new service managers has enabled the Council to streamline the workforce and facilitate the necessary organisational changes to deliver priority Council Services in the most cost effective way possible.

3.4 The planned and actual savings relating to VERS and EWMP are shown in the table below:-

	Target Saving (Whole Year) £M	Actual/Secured Savings £M	Variance £M
VERS savings (as per approved 2013-16 budget)	3.000	2.853	- 0.147
EWMP planned savings 2013/14	1.825	1.505 *Comprises efficiency savings secured from Service Reviews £0.459M, Casual Workers £0.146M, Overtime £0.5M and Agency Workers £0.4M.*	- 0.320 *The balance of planned EWMP savings were achieved through a combination of other measures, most notably the non-filling of vacancies.*

In addition to VERS, planned EWMP savings are built into the budgets as efficiencies to be achieved and comprise of a variety of measures by Heads of Service and Service Managers such as reduced overtime, non-replacement of vacant posts and also on some occasions, savings on non-staffing budgets. Along with all other efficiency measures built into the approved budgets, progress is now monitored and reported by Finance within quarterly financial performance reports to Cabinet.

3.5 Of the 97 VERS leavers approved in May, 1 withdrew their application, 94 left in 2013/14, 1 left in April 2014 and the remaining applicant is due to leave at the end of August 2014. An analysis of leavers by Quarter is shown in the table below:-

VERS Leavers Analysis by Quarter

Count of Position			
Leaving Month	Department	Division	Total
Apr - June 13	EL Health & Social Care	Adult Wellbeing	5
	Part'ships & Community Servs	Housing & Environment	5
		Infrastructure	13
		Policy & Partnerships	4
	Resources & People Servs	Children's Wellbeing	1
		Council Resources	1
		Education	4
Apr - June 13 Total			**33**
July - Sept 13	EL Health & Social Care	Adult Wellbeing	4
	Part'ships & Community Servs	Housing & Environment	6
		Infrastructure	7
		Policy & Partnerships	6
	Resources & People Servs	Children's Wellbeing	8
		Council Resources	6
		Education	1
July - Sept 13 Total			**38**
Oct - Dec 13	Part'ships & Community Servs	Housing & Environment	6
		Infrastructure	1
		Policy & Partnerships	2
	Resources & People Servs	Children's Wellbeing	3
		Council Resources	3
		Education	3
Oct - Dec 13 Total			**18**
Jan - March 14	Part'ships & Community Servs	Housing & Environment	1
		Policy & Partnerships	3
	Resources & People Servs	Children's Wellbeing	1
		Council Resources	1
Jan - March 14 Total			**6**
Leaves Aug 14	Resources & People Servs	Children's Wellbeing	1
Leaves Aug 14 Total			**1**
Withdrawn	Resources & People Servs	Council Resources	1
Withdrawn Total			**1**
Grand Total			97

3.6 With a large number of staff departures still relatively recent, it is difficult to fully assess the impact of their departure upon service delivery although as mentioned earlier, approvals were restricted to circumstances where service impact could be minimised. There is some feedback amongst the staff group that indicate workloads continue to be challenging with some noting the impact of VERS. The loss of experience accumulated by the VERS leavers' group over many years has placed a managerial challenge upon the Council and its employees to maintain effective and efficient service delivery. We continue to focus upon the key outcomes identified within the SOA and delivery of the Council Plan. It is clear that the overall impact of VERS upon service delivery has been minimised due to the proactive management of services and budgets (including where

appropriate, service reviews and service redesign) and the diligence and commitment of remaining council employees.

3.7 In meeting the combined requirements of VERS, EWMP and the realignment of council services, there has been a large increase in Service Review activity which in itself has been a major challenge (50 reports approved since July 2013 with a further 24 in progress to date. This compares with 49 in the full year July 2012 – June 2013). Service reviews follow an established process in accordance with the Protocol for the Conduct of Service Reviews which ensures that the service review reports are subjected to the necessary HR and Financial scrutiny and that the required staff and trades union consultation is undertaken.

3.8 A comprehensive staff engagement survey was undertaken during March 2014 with preliminary results recently shared with senior managers. As part of the HGIOC Self Assessment process, a detailed review of the survey findings will help identify any areas of concern and inform the development of improvement plans for individual service areas. Provisional assessment of the results on a Council wide basis suggest that both the level of participation and the level of positive engagement remain consistent with those returned by the equivalent 2013 survey.

3.9 The Customer Feedback Manager has been consulted and confirmed that there has been no notable increase in adverse feedback from customers suggesting that the standard of services provided by the Council may not have been significantly affected.

4   POLICY IMPLICATIONS

4.1 There are no direct policy implications associated with the recommendations in this report. The VER scheme has been applied in accordance with the decisions already taken at Council on 12 February 2013 as part of the budget and the decision of Cabinet taken on 12 March. The scheme has also been applied in accordance with the Council's Policy on Enhanced Compensation for Redundancies and Early Retirement approved by Council in December 2010.

4   EQUALITIES IMPACT ASSESSMENT

4.1 An Equality Impact Assessment is not required.

5   RESOURCE IMPLICATIONS

5.1 Financial – At today's date it is currently estimated that the VER Scheme will lead to a recurring annual reduction in staffing costs of £2.84 million. The cost of releasing these staff has been calculated as £3.1 million suggesting an equivalent payback period relative to cost of just less than 1.1 years. Since its introduction, EWMP has assisted the Council in meeting significant planned efficiency savings and in 2013/14 this has been assessed at just over £1.5m. Additional EWMP savings not included

within this figure were made through a series of other measures, most notably the non-filling of vacancies.

5.2 Personnel – There are no direct staffing implications associated with this report although as part of the ongoing process of managing the workforce and budgets, further staffing and service review reports will be brought forward in due course.

5.3 Other – None.

6   BACKGROUND PAPERS

6.1 Detailed analysis of VERS approvals

6.2 Protocol for the Conduct of Service Reviews

6.3 Efficient Workforce Management Plan – Year End Summary 2013/14

6.4 Council Budget 2013-16 as approved at the Council meeting held on 12 February 2013.

AUTHOR'S NAME	Sue Cormack
DESIGNATION	Service Manager – HR and Payroll
CONTACT INFO	01620 827401
DATE	09/05/14

East Lothian
Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 May 2014

BY: Chief Executive

4

SUBJECT: 2014 Corporate Governance Self-evaluation/ Annual
                   Governance Statement

1   PURPOSE

1.1   To advise Audit and Governance Committee of the outcome of the 2014
      Corporate Governance Self-evaluation and seek approval for the content
      of the Annual Governance Statement.

2   RECOMMENDATIONS

2.1   Committee is asked to consider and comment on the self-evaluation
      (Appendix 1) and to approve the summary (paras 3.4 and 3.5) for
      inclusion in the Annual Governance Statement that will form part of the
      Council's 2013/14 Annual Accounts.

3   BACKGROUND

3.1   Cabinet (11th May 2010) approved the adoption of a Code of Corporate
      Good Governance based on the six principles of good governance and
      the self-evaluation model outlined in the CIPFA/ SOLACE *Guidance on
      Delivering Good Governance in Local Government.*   A task group
      comprising senior officers of the Council was given responsibility for
      developing, monitoring and reviewing the code and governance
      statement.

3.2   This group, comprising the Monitoring Officer (Depute Chief Executive,
      Partnerships and Community Services), Section 95 Officer (Head of
      Council Resources), Chief Social Work Officer (Head of Adult Wellbeing),
      Head of Communities and Partnerships and Internal Audit Manager, has
      reviewed the documentary evidence and practice around each of the six
      supporting principles and code requirements as detailed in the corporate
      governance code. The group also reviewed progress in achieving the

actions points arising from last year's self-evaluation that were incorporated into the 2013/14 Council Improvement Plan.

3.3   The review formed the basis of the self-evaluation which is detailed in Appendix 1.

3.4   The 2104 corporate governance self-evaluation has found that East Lothian Council continues to have good governance and control arrangements in place across the six principles. The improvement actions which have been carried out over the last three years have addressed the weaknesses that have been identified in previous self-evaluations. All the 21 improvement points included in the 2013/14 Council Improvement Plan, 13 of which arose from the 2013 Corporate Governance Self-evaluation, have been completed or are being completed (see Appendix 2).

3.5   This improvement work has contributed to positive feedback received from the most recent Assurance and Improvement Plan 2014-2017 published by the Accounts Commission which reported: "*The Local Area Network has worked actively and positively with the council to support self-evaluation activities throughout the year. This, along with other improvements in performance, has helped to change the LAN's assessments in 18 areas from last year's AIP from further information required to no scrutiny required.*"

3.6   The reports of the Council's auditors (interim Management Report to Audit & Governance Committee, May 2014) and the Local Area Network (Assurance and Improvement Plan 2014-2017 to be reported to Council in June) provide assurance that there are no major concerns about the council's governance arrangements.

3.7   This year's Corporate Governance Self-evaluation has identified only four improvement actions, significantly fewer than the 13 improvement points identified in the 2013 self-evaluation. These are:

- Develop and use toolkit of self-evaluation of Partnerships based on Improvement Service model (see 1.1.3)

- Work with partners to develop and implement Children's Services inspection Improvement Plan (see 1.1.3)

- Review and develop elected members' training and briefings including briefing on Capital Investment Strategy and development issues arising from Councillors' responses to a survey based Audit Scotland Overview of Scottish Local Government Councillors' Checklist (see 2.1.1)

- Scrutiny training for PPR Co members (see 4.1.1).

3.8   These improvement points have been identified as actions that will ensure the Council can better meet its corporate governance responsibilities and will be included in the Council Improvement Plan that will be considered by Council, 24th June 2014.

4 POLICY IMPLICATIONS

4.1 The corporate governance code and self-evaluation framework detailed in Appendix 1 complement the Council's *How Good is Our Council* self-evaluation. The corporate governance self-evaluation fulfils the Council's commitment to assess whether it meets the principles and requirements set out in the guidance on Delivering Good Governance in Local Government. The addition of the summary of the self-evaluation to the Internal Financial Control statement will fulfil the remit to include an Annual Governance Statement in the Council's Annual Accounts.

5 EQUALITIES IMPACT ASSESSMENT

5.1 This report is not applicable to the well being of equalities groups and an Equalities Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

6.1 Financial – none.

6.2 Personnel – none.

6.3 Other – none.

7 BACKGROUND PAPERS

7.1 Appendix 1: Corporate Governance Self-evaluation, May 2014

7.2 Appendix 2: 2013/14 Council Improvement Plan: Monitoring Report

7.3 Delivering Good Governance in Local Government: Guidance Note for Scottish Authorities. (CIPFA 2008)

7.4 Report on Corporate Governance Self-evaluation; Corporate Governance PPRP, 22nd June 2010

AUTHOR'S NAME	Paolo Vestri
DESIGNATION	Service Manager: Corporate Policy and Improvement
CONTACT INFO	pvestri@eastlothian.gov.uk
	01620 827320
DATE	9th May 2014

APPENDIX 1: CORPORATE GOVERNANCE SELF-EVALUATION: May 2014

PRINCIPLE 1: Focusing on the purpose of the authority; on outcomes for citizens; and, service users and creating and implementing a vision for the area

Supporting Principle & Code Requirements	Evidence	2013 Update and Improvement Points	Update and 2014 Improvement Points
1.1 Exercising strategic leadership by developing and clearly communicating the authority's purpose, vision and its intended outcome for citizens and service users			
1.1.1 Develop and promote the authority's purpose and vision	2020 Vision - Council Plan 2012-12017 - Council Improvement Plan - Single Outcome Agreement (SOA) - HGIOC Self Evaluations - Communications of corporate objectives across services - Incorporation of objectives and outcomes in new Service Planning guidance - Corporate Induction Pack and training Course - Three –year Financial Strategy Employee Engagement Survey showed 95% of staff agreed "I know how my job contributes to the Council's objectives'	Council Plan approved in August 2013. Work has begun on promoting it to staff. Service Plans are to include clear links to the Council Plan priorities. Staff should be engaged in the service planning process Staff PRD's should include reference to Council Plan Continue with programme of communicating Plan priorities to staff and citizens No further action required	Council Plan monitoring report being prepared Continue with programme of communicating Plan priorities to staff and citizens Service Plans should reflect Council Plan priorities and actions Workforce Development Plan emphases link to Council purpose and vision and PRDs One Council - Working Together workshop programme for staff across the Council is being organised No further action required

| 1.1.2 Review on a regular basis the authority's vision for East Lothian and its implications for the authority's governance arrangements | • Corporate Governance Code and self-evaluation framework adopted in May 2010
• Report on Council's vision, priorities and policies (Council, 22nd Feb 2011)
• Council Plan 2012-2017
• Chief Officers/ Council Management Team re-structured March 2012 and in July 2013
• Senior Management level restructured in Nov 2013 | Area based model of service delivery Local Community Planning framework being developed

No further action required | Area Partnership framework agreed and six Area Partnerships being established to develop six Area Plans linked to the SOA / Council Plan vision and priorities

2020 Vision still relevant and forms basis of Council Plan and SOA

No further action required |

1.1.3 Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners	• SOA 2013 • East Lothian Partnership structure and remit and roles of partnerships • Agreements between ELC and partners • Shared Services agreement with Midlothian Council continuing through Joint Liaison Group • Local Policing Plan • Local Fire and Rescue Plan	Review of CPP completed with new more strategic structure created Scrutiny and engagement arrangements for Police and Fire and Rescue services agreed Council commitment to appointment of Jointly Accountable Officer responsible for Health and Social care integration *2013 Action:* *Develop toolkit for self-evaluation of strategic partnerships*	New CPP structure and SOA focused on delivering agreed vision, priorities and outcomes; roles and remits of East Lothian Partnership and supporting partnerships Jointly Accountable Officer appointed and the Shadow Health & Social Care Partnership established. Integration Plan being developed and will be implemented from early 2015 Local Policing Plan and Local Fire and Rescue Plan agreed by Council Partnering arrangements with Midlothian Council developed on a business case basis Improvement Plan arising from the inspection of Children's Services being developed to be agreed by June 2014 followed by implementation Development of toolkit for self-evaluation delayed until autumn 2014 as agreed by the East Lothian Partnership; toolkit being developed in association with the Improvement Service *2014 Actions:* *Develop and use toolkit of self-evaluation of Partnerships based on Improvement Service model* *Work with partners to develop and implement Children's Services inspection Improvement Plan*

1.1.4 Publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance	- Annual Accounts - Annual Performance Reports - SOA Annual Report - Unaudited Annual Accounts reported to Audit & Governance Co in July and to Council in August	Unaudited accounts to be submitted to July meeting of Audit & Governance Committee Annual Performance Report 2012/13 to be published on Council website in September No further action required	Unaudited accounts to be submitted to July meeting of Audit & Governance Committee Annual Performance Report 2013/14 to be published on Council website in September No further action required
1.2 Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning			
1.2.1 Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available	- Service standards - HGIOC, Business Plans and Improvement Plans - SOA Annual Report - PPR Co reporting and Performance briefings for elected members - Complaints and compliments feedback - Independent inspection reports - CSWO Annual Report - Service users' surveys 2011 Residents' Survey - East Lothian Profile and Ward Profiles	Consultation hub has been set up. Consideration being given to future Residents' Survey or alternative means of surveying East Lothian citizens Data profiles being developed for all wards to inform the development of the new SOA and provide indicator data No consultation on 2013/14 budget but consideration being given to future budget consultation exercise Service users' groups involved in the development of Commissioning Strategies for Adult and Children's social care ***2013 Action:*** ***Review consultation strategy with view to ensuring that service users' views about quality of services is measured and used effectively***	Review of consultation strategy resulted in decision to establish an East Lothian Citizens' Panel to regularly review citizens' views about services; first survey in May 2014 Data profiles have been completed and are being used to inform Council strategies and plans as well as Area Plans Use of Consultation hub being monitored East Lothian Partnership developing a Consultation and Engagement Framework to guide/ support partnership consultation and engagement Budget consultation took place prior to setting 2014/15 budget No further action required

| 1.2.2 Put in place effective arrangements to identify and deal with failure in service delivery | • PPR Co reporting on key Performance indicators
• HGIOC and service improvement plans incorporated into Service Plans
• Significant case reviews in Social Work
• Social Work Appeals Sub-Co
• Social Work Complaints Review Co
• Regular reporting of complaints and feedback
• Whistleblowing Policy
• External audits and inspection reportds
• Responding to issues raised by elected members | New 2-stage procedure has been established and is being reported on to PPR Co

Corporate and Service Risk registers are in place

No further action required | Six-monthly Customer Feedback performance reports presented to PPR Co. Poor customer feedback reflected back to relevant service for action

Regular Performance reports considered by PPR Co and poor performance monitored and acted on

Assurance and Improvement Plan provides assurance on overall performance

No further action required |

1.3 Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money

1.3.1 Decide how value for money (VFM) is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively. Measure the environmental impact of policies, plans and decisions	• Procurement Strategy • Performance Management framework • PPR Co reporting • Audit & Governance Co reporting • 2011 Residents' Survey • Customer feedback / surveys • Consultation and Engagement Strategy • Procurement Improvement Plan and Procurement Capability Assessment	New Combined Impact Assessment incorporating Environmental Impact has been agreed and will be established Process for benchmarking and carrying out Best Value Reviews, incorporating Value for Money is being established as part of the Transformation Programme Review of Key Performance Indicators almost completed No further action required	Introduction of Combined Impact Assessment (including environmental impact) delayed to allow for agreement with Midlothian Council and NHS Lothian on a single CIA across the agencies. Final version agreed April 2014 and will be used in association with new reports template in August 2014 Best Value Review template being developed Key Performance Indicators agreed and monitored Improved Procurement Capability Assessment achieved Benchmarking exercises using the Local Government Benchmarking Framework have begun Senior management group established to oversee reduction in rent arrears Chief Executive's budget review group established to ensure Council services operate within their approved budges and the financial strategy No further action required

PRINCIPLE 2: Members and Officers working together to achieve a common purpose with clearly defined functions and roles

Supporting Principle & Code Requirements	Documentary Evidence *(new items in italics)*	2013 Update and Improvement Points	Update and 2014 Improvement Points
2.1 Ensuring effective leadership throughout the authority and being clear about executive and non executive functions and of the roles and responsibilities of the scrutiny function			
2.1.1 Set out a clear statement of the respective roles and responsibilities of Members generally and of Senior Officers	- Scheme of Delegation - Member/ officer protocol - CPD pilot for elected members - Review of Impact of Multi-Member Wards and Officer Member Relations carried out in 2011 - Induction programme for new elected members - Improvement Service Notebooks for new elected members - Guide to Scrutiny for elected members - Roles and Responsibilities for Elected members	Induction programme for new members was delivered in May/ June Draft revised Standing Orders include Roles and Responsibilities of Elected Members Series of senior managers Masterclasses has been held and further consideration being given to Leadership development programme *2013 Action:* *Roll out CPD for elected members and continue to support elected member and senior management development* *Hold training session for elected members on new Standing Orders including session on Members Conduct delivered by the Standards Commission*	Roles and Responsibilities for elected members agreed by Council Five elected members enrolled in CPD Regular briefings for elected members including Standards Commission session *2014 Action:* *Review and develop elected members' training and briefings including briefing on Capital Investment Strategy and development issues arising from Councillors' responses to a survey based Audit Scotland Overview of Scottish Local Government Councillors' Checklist*
2.2 Ensuring that a constructive working relationship exists between authority members and officers and that the responsibilities of members and officers are carried out to a high standard			

2.2.1 Determine a Scheme of Delegation and reserve powers within constitution, including a formal scheme on those matters specifically reserved for collective decision of the authority, taking account of relevant legislation, and ensure that it is monitored and updated when required	• Scheme of Delegation • Policies such as HR policies include delegation of powers to officers	Review of Standing Orders and Scheme of Delegation completed with CMT approval. Consultation with elected members taking place in May before revised SO and SoD go for approval to June Council meeting No further action required	New Standing Orders and Scheme of Delegation agreed by Council No further action required
2.2.2 Ensure the Chief Executive is responsible and accountable to the authority for all aspects of operational management within the Scheme of Delegation	• Chief Executive's job description • Appraisal of Chief Executive • Peer review by Executive Directors • Scheme of Delegation • Members Library reports record decisions taken under delegated powers	As above	As above
2.2.3 Develop protocols to ensure that the Leader and Chief Executive negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained	• Member/ officer protocol within Council Standing Orders • Regular meetings between Chief Executive and Council Leader • Annual appraisal for Chief Executive with Leader and Depute Leader • New Council Plan based on joint working between Chief Executive and Council Management Team and Council Leader and Administration agreed by Council • Chief Executive and Council Leader jointly represent the Council at various forums	As per 2.1.1 above	See 2.1.1

2.2.4 Make a Senior Officer (the Section 95 Officer) responsible to the authority for ensuring appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining effective systems of internal financial control	• Section 95 Officer • Annual Accounts and Statement of Internal Financial Control • Internal and external audit reports	The roles and responsibilities of the Council's Statutory Officers are included in the revised draft Scheme of Administration No further action required	No further action required
2.2.5 Make a senior officer (the Monitoring Officer; and for social work services the Chief Social Work Officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with	• Monitoring Officer • Chief Social Work Officer • Internal audit reports • CSWO Annual Report • Scottish Government guidance on the role of CSWO and registered social workers	As above	No further action required
2.3 Ensuring relationships between the authority, its partners and the public are clear so that each know what to expect of each other			
2.3.1 Develop protocols to ensure effective communication between Members and Officers in their respective roles	• Member/ officer protocol within Council Standing orders • New Council Plan based on joint working between Chief Executive and Council Management Team and Council Leader and Administration agreed by Council • Regular Joint Senior Officers and Members group meetings held	As per 2.1.1 above	See 2.1.1

2.3.2 Ensure that an established scheme for remuneration of Members and Officers and an effective structure for managing the process including an effective remuneration panel (if applicable) are in place	• The Council follows the recommendations made by the Scottish Local Authorities Remuneration Committee • Chief Executives' scheme of remuneration • Registers of Interest for Members and Chief Officials • Auditors reviewed the outcome of the review of senior officers	The roles and responsibilities of the Council's Statutory Officers and elected members are included in the revised draft Scheme of Administration No further action required	No further action required
2.3.3 Ensure that effective mechanisms exist to monitor service delivery	• Performance Management / Improvement framework • Performance website includes details of key performance indicators • Members' quarterly briefings and reports to PPR Committee • HGIOC • Service Plans and Corporate Improvement Plan • Independent inspections • Assurance and Improvement Plan agreed with Local Area Network	Review of Key Performance Indicators and use of benchmarking being completed ***2013 Action:*** ***Review and revise the Improvement Framework*** ***Focused work with Local Area Network on an agreed programme of self-evaluation for improvement***	See 1.3.1 Monthly Heads of Service Highlight reports with a focus on performance considered by Council Management Team Focused work with Local Area Network on self-evaluation programme No further action required
2.3.4 Ensure that the authority's vision, corporate plans, priorities and targets are developed, through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated	• New Council Plan based on draft approved in Jan 2012 and administration party manifestos • Single Outcome Agreement • 2011 Residents' Survey • Consultation and Engagement Strategy • Council's vision, Plan and priorities are communicated to the extended Council Management Team, including Head Teachers	Council Plan has been disseminated to staff and the public. Service Plans are to include clear links to the Council Plan priorities Programme to ensure that Council's vision, Plan and priorities are clearly articulated and disseminated will continue	See 1.1.1

2.3.5 When working in partnership ensure that Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority	• Scheme of Administration, including Scheme of Delegation and Councillors' Code of Conduct • Memorandums and Articles of arms length companies • Induction programme for new elected members • Improvement Service Notebooks for new elected members • Advice provided to members on partnerships and outside bodies (e.g. Enjoy Leisure and Musselburgh Joint Racecourse Committee)	Induction programme for new members was delivered in May/ June Draft Standing Orders include Roles and Responsibilities of Elected Members CPD for elected members to be rolled – including 360 degree appraisal involving partners and stakeholders ***2013 Action:*** ***Induction programme for all members of new Community Planning Partnerships, including elected members***	See 2.1.1 East Lothian Partnership Handbook includes roles and responsibilities of Partnership members No further action required
2.3.6 When working in partnership, ensure that there is clarity about the legal status of the partnership; ensure that representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisations to partner decisions	• As above • Partnership Funding Strategy • East Lothian Partnership Improvement Plan • Service Level Agreements increasingly used when funding outside organisations • Procurement Improvement Plan • Adult and Children's Services Commissioning strategies	Partnership Financial Strategy being developed Review of CPP completed with new more strategic structure created Proposals being developed for community asset transfer to Community Centre Management Committees include consideration of legal status No further action required	Joint Asset Management Group established by East Lothian Partnership Transfer of Community Centres to Management Committees progressing No further action required

PRINCIPLE 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behavior

Supporting Principle & Code Requirements	Documentary Evidence *(new items in italics)*	2013 Update and Improvement Points	Update and 2014 Improvement Points
3.1 Ensuring authority Members and Officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance			
3.1.1 Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect	• Scheme of Administration, including Councillors' Code of Conduct • Various mechanisms used to inform council staff and the public of council decisions and policies • Customer Excellence • East Lothian Way • Joint Consultative Machinery with local JTU • Annual Employee Engagement Survey and feedback to staff • All FOI responses are on the Council's website • Whistleblowing Policy • Council's website has been improved and achieved positive SOCITM score • Workforce Development Plan	*2013 Action:* *Implement programme of action to respond to the results of the Employee Engagement Survey* *Review Whistleblowing Policy and publicise to all staff*	Review of Whistleblowing Policy completed Employee Engagement Survey found 90% of staff able to disclose personal information and 87% of staff feel they are treated fairly Management training (CMI 5 and CMI 3) rolled out for senior managers and frontline managers No further action required

3.1.2 Ensure that standards of conduct and personal behaviour expected of all Members and staff, and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols	• Scheme of Administration, including Councillors' Code of Conduct • Community Planning Board, Local Area Forums and SOA theme groups remits • Disciplinary Code of Conduct for Employees • The East Lothian Way • Performance Review and Development Scheme for employees • Transformational Leadership Programme for senior officers and managers • Review of Impact of Multi-Member Wards and Officer Member Relations • Scottish Social Services Council Code of Conduct	Partnership Financial Strategy being developed Review of CPP completed with new more strategic structure created CPD for elected members to be rolled out ***2013 Action:*** ***see 2.1.1 above*** ***Review People Strategy including the how the values from the East Lothian Way are disseminated to staff***	East Lothian Partnership is to agree a Code of Conduct for members of the Partnership groups Elected members' Roles and responsibilities agreed by the Council Workforce Development Strategy includes refresh of PDFs and East Lothian Way Staff Communications being reviewed No further action required
3.1.3 Put in place arrangements to ensure that Members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice	• Members' and Officers Codes of Conduct and Registers of Interests • Standing Orders • Single Equality Scheme • Standing Orders including Scheme of Delegation and Councillors' Code of Conduct with provisions for Declarations of Interest • Equalities Policies • Whistleblowing Policy • Gifts and Hospitality policy • Induction programme for new elected members	see 2.1.1above	See 2.1.1

3.2 Ensuring that organisational values are put into practice and are effective			
3.2.1 Develop and maintain shared values including leadership values for both the organisation and staff reflecting public expectations, and communicating these with Members, staff, the community and partners	• East Lothian Way • Council Plan 2012-2017 • SOA and Community Plan • Customer Excellence • Transformational Leadership Programme • Performance Review & Development Scheme for employees • Corporate Induction Pack and Course for Managers • Code of Conduct and Disciplinary Procedures for all employees • Team Talk communication channel • Workforce Development Strategy and Plan	*2013 Action:* *Review People Strategy including the how the values from the East Lothian Way are disseminated to staff* *Implement programme of action to respond to the results of the Employee Engagement Survey*	Workforce Development Strategy and plan developed including actions to review the East Lothian Way CMI 5 and CMI 3 programme for senior managers and frontline managers Response to Employee Engagement Survey 2014 being developed Staff communications being reviewed No further action required
3.2.2 Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice	• Standing Orders including Councillors' Code of Conduct • Gifts and Hospitality policy	See above	No further action required
3.2.3 Use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority	• Standing Orders • East Lothian Way • Roll out of Performance Review and Development for all employees • Annual Employee Engagement Survey • Council Plan 2012-2017	See above	No further action required

PRINCIPLE 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

Supporting Principle & Code Requirements	Documentary Evidence *(new items in italics)*	2013 Update and Improvement Points	Update and 2014 Improvement Points
4.1 Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny			
4.1.1 Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority's performance overall and that of any organisation for which it is responsible	• Scheme of Administration • Audit & Governance and PPR Committees • Reviews of the use of Scrutiny Guide by Audit & Governance and PPR Committees	*2013 Action:* *Training for Audit & Governance Co and PPR Co members* *Focused work with Local Area Network on an agreed programme of self-evaluation for improvement*	CIPFA course on the Role of Audit Committee attended by Audit & Governance Committee and Chair of PPR Co LAN supported HGIOC peer review sessions and 2013 Corporate Governance Self-evaluation *2014 Action:* *Scrutiny training for PPR Co members*
4.1.2 Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based	• Scheme of Administration including Scheme of Delegation • Members Library Service and Bulletin to report delegated decisions • E-gov provides access to all reports and minutes	No further action required	No further action required

4.1.3 Put in place arrangements to safeguard Members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice	• Standing Orders including Scheme of Delegation and Councillors' Code of Conduct with provisions for Registers and Declarations of Interest • Recruitment and Selection procedures and training • Discipline and Grievance Procedures • Whistleblowing Policy • Gifts and hospitality policy • 2011 Procurement Strategy	*2013 Action:* *Review Whistleblowing Policy and publicise to all staff*	Whistleblowing Policy reviewed and will be published and publicised to staff in May No further action required
4.1.4 Develop and maintain an effective Audit Committee (or equivalent) which is independent of the executive and scrutiny functions or make other appropriate arrangements for the discharge of the functions of such a committee	• Standing Orders and Scheme of Administration • Audit & Governance Committee • Elected members Scrutiny Guide • Assurance and Improvement Plan agreed with Local Area Network • Quarterly briefing on performance indicators	*2013 Action:* *Training for Audit & Governance Co and PPR Co members*	See 4.1.1
4.1.5 Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints	• Complaints policy 'Feedback' • Publicity about complaints procedures • Six-monthly report on complaints and feedback made to PPR Committee	New 2-stage complaints procedure has been established with six-monthly performance reports to PPR Co No further action required	Six-monthly Customer Feedback performance reports presented to PPR Co. Poor customer feedback reflected back to relevant service for action No further action required
4.2 Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs			

4.2.1 Ensure that those making decisions are provided with information that is fit for purpose - relevant, timely and gives clear explanations of technical issues and their implications	• Format of Council, Cabinet, Audit & Governance Co, PPR Co and Community Planning Board reports • Calendar of meetings and timely preparation of agendas and papers • Three-year Financial Strategy • Advice in preparing annual budget • Performance website and quarterly briefing for elected members	No further action required	See 2.1.1
4.2.2 Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately	• Agendas and papers for Council, Cabinet, Audit & Governance Co, PPR Co and Community Planning Board • Monitoring Officer, s95 Officer and Chief Social Work Officer provide advice on legal or financial implications as required	Review of Standing Orders and Scheme of Delegation completed with CMT approval. Consultation with elected members taking place in May before revised SO and SoD go for approval to June Council meeting No further action required	No further action required
4.3 Ensuring that an effective risk management system is in place			
4.3.1 Ensure that risk management is embedded into the culture of the authority, with Members and Managers at all levels recognising that risk management is part of their jobs	• Risk Management Strategy • Risk Management Groups • Role of Audit & Governance Co • Corporate and Service Risk Registers • Service Plans reflect corporate and service risks	Revised Service Registers being presented to Audit & Governance Co No further action required	No further action required
4.3.2 Ensure that arrangements are in place for whistleblowing to which staff and all those contracting with the authority have access	• Standing Orders including Codes of Conduct • Whistleblowing Policy	*2013 Action:* *Review Whistleblowing Policy and publicise to all staff*	See 4.1.3

4.4 Using the authority's legal powers to the full benefit of the citizens and communities in their areas.

4.4.1 Actively recognise the limits of lawful activity placed on the authority by, for example, the ultra vires doctrine, but also strive to utilise powers to the full benefit of East Lothian's communities	• Senior officers and elected members have a general understanding of statutory powers • Standing Orders detail statutory powers under which senior officers operate • Monitoring Officer, s95 Officer and Chief Social Work officer provide appropriate advice • Internal and external Audit reports	Council responds to consultations on new legislative proposals (e.g. Children's Bill, Community Empowerment and Renewal Bill) and is actively involved in preparing for new legislation (e.g. creating shadow Health and Social Care Partnership) No further action required	No further action required
4.4.2 Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on local authorities by public law	• Scheme of Administration including Scheme of Delegation • Monitoring Officer, s95 Officer and Chief Social Work officer provide l appropriate advice • Internal and external Audit reports	Review of Standing Orders and Scheme of Delegation completed with CMT approval. Consultation with elected members taking place in May before revised SO and SoD go for approval to June Council meeting *2013 Action:* *Hold training session for elected members on new Standing Orders including session on Members Conduct delivered by the Standards Commission*	Standards Commission briefing session held for elected members No further action required

4.4.3 Observe all specific legislative requirements placed upon the authority, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice – into the authority's procedures and decision making processes	• Standing Orders including establishment of quasi judicial committees and sub-committees
	• Monitoring Officer, s95 Officer and Chief Social Work Officer provide appropriate advice
	• Legal advice provided to elected members to support decision-making; for example:
	   o Procurement
	   o Coastal car park charging
	   o School catchment areas
		No further action required	No further action required

PRINCIPLE 5: Developing the capacity and capabilities of members and officers to be effective

Supporting Principle & Code Requirements	Documentary Evidence *(new items in italics)*	2013 Update and Improvement Points	Update and 2013 Improvement Points
5.1 Make sure that Members and Officers have the skills, knowledge, experience and resources they need to perform their roles well.			
5.1.1 Provide induction programmes tailored to individual needs and opportunities for Members and Officers to update their knowledge on a regular basis	• Induction programme for officers, CPD and training opportunities for staff • Piloted CPD for members • Performance Review and Development for all employees • Corporate Learning • E-Learning / LearnNet on ELnet • Induction programme for new elected members • Induction Notebooks on Elnet	Draft Standing Orders include Roles and Responsibilities of Elected Members CPD for elected members to be rolled out *2013 Action:* *Roll out CPD for elected members and continue to support elected member and senior management development*	Five elected members enrolled in CPD programme Programme of briefing session for elected members No further action required
5.1.2 Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority	• Job descriptions for statutory officers • Networking and development opportunities for statutory officers through professional associations • Role of statutory officers recognised in Scheme of Administration • People Strategy • Workforce Development Strategy and Plan	Series of senior managers Masterclasses has been held and further consideration being given to Leadership development programme Rigorous recruitment process undertaken to fill Heads of Service posts following review and adoption of new Chief Officers structure in April 2012 *2013 Action:* *Review People Strategy including the how the values from the East Lothian Way are disseminated to staff*	No further action required
5.2 Developing the capability of people with governance responsibilities and evaluating their performance as individuals and as a group			

5.2.1 Assess the skills required by Members and Officers and make a commitment to develop those skills to enable roles to be carried out effectively	• CPD pilot for elected members • Performance Review and Development all employees • Guide to Scrutiny and Review published and scrutiny training provided for elected members • Elected members' Performance Briefings to encourage scrutiny of performance information	See 2.1.1 above	See 2.1.1
5.2.2 Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed	As above	*2013 Action:* *Focused work with Local Area Network on an agreed programme of self-evaluation for improvement*	See 4.1.1
5.2.3 Ensure that effective arrangements are in place for reviewing the performance of the executive as a whole and of individual members and agreeing an action plan, which might, for example aim to address any training or development needs	• CPD pilot for elected members • Elected Members' Code of Conduct & complaints about performance	As 2.1.1 above	See 2.1.1

5.3 Encouraging new talent for membership of the authority so that best use can be made of individual's skills and resources in balancing continuity and renewal.

5.3.1 Ensure that effective arrangements are in place designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority	• Local Area Forums • Community Planning Community Engagement Strategy • Tenants and Residents Panel • Support for Voluntary Action east Lothian to participate in the Community Planning structures • Community Councils • Petitions Committee, including new online features • new media strategy • Consultation and Engagement Strategy	Consultation strategy being implemented New CPP structure involves greater participation from voluntary and community sector representatives New Local Community Planning framework being developed Volunteering Strategy being developed in association with VDEL No further action required	See 1.2.1
5.3.2 Ensure that career structures are in place for members and officers to encourage participation and development	• CPDs for officers • People Strategy • Transformational Leadership Programme • Performance Review and Development for all employees • Workforce Development Strategy and Plan	***2013 Action:*** ***Review People Strategy including the how the values from the East Lothian Way are disseminated to staff***	Workforce Development Strategy and Plan includes action around succession planning – creating a workforce for the future No further action required

PRINCIPLE 6: Engaging with local people and other stakeholders to ensure robust public accountability

Supporting Principle & Code Requirements	Documentary Evidence *(new items in italics)*	2013 Update and Improvement Points	Update and 2014 Improvement Points
6.1 Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships.			
6.1.1 Make clear to all staff and the community to whom the authority's leadership are accountable and for what	• Council Plan 2012-2017, SOA, Corporate Improvement Plan, Service and Business Plans • Information on Executive Directors and Department responsibilities on www.eastlothian.gov.uk • Annual Performance Reports • Living newspaper	Area based integrated service delivery model being developed New Local Community Planning framework being developed No further action required	No further action required
6.1.2 Consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required	• Various forums for engaging with stakeholders including the CPP, Local Area Forums, ELTRP, Community Councils and Parents Councils • Consultation and Engagement Strategy	Consultation strategy being implemented New Local Community Planning framework being developed Combined Impact Assessment has been developed with requirement to consider views of protected groups No further action required	See 1.2.1
6.1.3 Produce an annual report on the activity of the scrutiny function	• Annual Performance Reports • Internal and external Audit Plans reviewed • Quarterly performance information published on-line • Internal controls assurance statement	2012/13 Annual Performance Report will include report on activity of the scrutiny committees No further action required	No further action required
6.2 Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority or in partnership or by commissioning			

6.2.1 Ensure clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements to ensure that they operate effectively	• Communications Strategy • Community Planning Community Engagement Strategy • VOiCE used to monitor community engagement activities • 2011 Residents' Survey • Consultation and Engagement Strategy • Complaints procedures and monitoring reports	New Local Community Planning framework being developed Combined Impact Assessment has been developed with requirement to consider views of protected groups *2013 Action:* *Review consultation strategy with view to ensuring that service users' views about quality of services is measured and used effectively*	See 1.2.1
6.2.2 Hold meetings in public unless there are good reasons for confidentiality	• Council meetings are held in public • Agendas, papers and minutes are published on the Council's website	No further action required	No further action required
6.2.3 Ensure that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands	• Equality and Diversity Network • Community Planning Community Engagement Strategy • Community Councils • Local Area Forums • ELTRP • 2011 Residents' Survey • Consultation and Engagement Strategy	Consultation strategy being implemented; Consultation hub with feedback section has been established New Local Community Planning framework being developed Combined Impact Assessment has been developed with requirement to consider views of protected groups *2013 Action:* *Introduce Combined Impact Assessment and process for identifying and monitoring the needs of minority and vulnerable groups, including Looked After Children*	See 1.2.1

6.2.4 Establish clear policy on the types of issues the authority will meaningfully consult on or engage with the public and service users about, including a feedback mechanism for those consultees to demonstrate what has changed as a result	• Community Planning Community Engagement Strategy • ELTRP • Community Councils consulted on planning matters • Consultation and Engagement Strategy	As above	As above
6.2.5 Publish an annual performance plan giving information on the authority's vision, strategy, plans and finances well as information about incomes, achievements and satisfaction of service users in the previous period	• Annual Performance Reports • Annual Accounts • Improvement Framework	*2013 Action:* *Review and revise the Improvement Framework, including performance reporting*	No further action required

6.2.6 Ensure that the authority as a whole is open and accessible to the community, service users and its staff, and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so	• Compliance with the Freedom of Information Act and Data Protection Act • Council meetings held in public • Agendas for meetings, minutes and reports published on the Council website • Living newspaper • Star Awards Public Nominations • Petitions Committee • Performance website	Consultation hub has been set up Consideration being given to future Residents' Survey or alternative means of surveying East Lothian citizens and service users. No consultation on 2013/14 budget but consideration being given to future budget consultations Service users' groups have been involved in the development of Commissioning Strategies for Adult and Children's social care services New CPP structure involves greater participation from voluntary and community sector representatives New Local Community Planning framework being developed No further action required	See 1.2.1 Most recent FOI/ Data Protection inspection provided assurance that the Council is complying with legislation FOI responses published on website No further action required
6.3 Making best use of human resources by taking an active and planned approach to meet responsibility to staff			
6.3.1 Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making	• People Strategy • JCC and JC Groups • Employee and JTU Consultations • Annual Budget Review and Development Discussions for JTU • Employee Engagement Survey • Annual Working Together Forum • Staff involved in HGIOC	*2013 Action:* *Review People Strategy including the how the values from the East Lothian Way are disseminated to staff* *Implement programme of action to respond to the results of the Employee Engagement Survey*	Workforce Development Plan responds to issues raised in the Employee Engagement Survey and Working together Forum Communications and engagement protocol being developed with Trade Unions and Joint Consultative Groups being revised No further action required

2013/14 Council Improvement Plan: Monitoring Statement (April 2014)

	2013/14 Council Improvement Plan			
	We deliver excellent services as effectively and efficiently as possible			

	ACTION	LEAD SERVICE	TIMESCALE	Update (April 2014)
1	Develop toolkit for self-evaluation of strategic partnerships	Partnerships and Communities	Autumn 2014	The Toolkit will be based on the Improvement Service Community Planning Partnership self-evaluation toolkit. East Lothian Partnership will undertake a self-evaluation supported by the Improvement Service in autumn 2014 The self-evaluation will ensure that the Partnership is aware of its strengths and weaknesses and can identify appropriate improvement actions that will contribute to the delivery of the Single Outcome Agreement
2	Review consultation strategy with view to ensuring that service users' views about quality of services is measured and used effectively	Partnerships and Communities	Completed	Review of consultation strategy led to the decision to establish a Citizens' Panel (with c.2,000 people) with two surveys a year and scope for ad hoc surveys. The Panel is being established and the first survey will be conducted in June 2014 The Citizens Panel will provide the

				views of a representative sample of residents on quality of life, public services and key issues that will help to monitor outcomes in the Single Outcome Agreement and inform future service priorities
3	Roll out CPD for elected members and continue to support elected member and senior management development	Council Resources/ Partnerships and Communities	Completed	Five elected members have signed up for the CPD and the Council has begun a programme of Elected members' briefings on key issues

A management development course leading to a Chartered Institute of Management Level 5 qualification is being undertaken by senior managers

Evaluation of development training for elected members and senior managers will be carried out to assess the impact of the development opportunities and further improve the Council's management and political leadership |
| 4 | Hold training session for elected members on new Standing Orders including session on Members Conduct delivered by the Standards Commission | Council Resources | Completed | A briefing session on the Councillors' Code of Conduct was conducted by the Standards Commission |
| 5 | Training for Audit & Governance Co and PPR Co members | Council Resources | Completed | A CIPFA training course on the role of Audit Committee was held and attended by members of the Committee. The course had a positive evaluation from the members present and they have put some of the learning into practice at |

				Committee meetings
				Further consideration should be given to providing scrutiny training for members of the PPR Committee
6	Induction programme for all members of new Community Planning Partnerships, including elected members	Partnerships and Communities	Completed	An induction session was held for all East Lothian Partnership members in June 2013. A handbook on the role of members of the Partnership has been produced
7	Review and revise the Improvement Framework and make more effective use of benchmarking, develop guidance and training on the use of benchmarking, Best Value reviews and options appraisal	Partnerships and Communities	July 2014	The Council is participating in two national benchmarking exercises being run by the Improvement Service. Several desk based exercises have been undertaken to ascertain whether more detailed process based benchmarking of lowest performing Performance Indicators should be carried out
				A Best Value review of parts of the Adult Wellbeing service has been carried out
				A template for Best Value Reviews, incorporating options appraisal is being prepared to assist services to undertake Best Value exercises
				The Assurance and Improvement Plan 2014-2017 has highlighted that the Improvement Framework and work around performance management shows that: "*There continues to be a very strong commitment from officers and members to improving the work of*

				the council."
8	Focused work with Local Area Network on an agreed programme of self-evaluation for improvement	Partnerships and Communities	Completed	Local Area Network (LAN) members participated as 'critical friends' in the Council's How Good is Our Council? peer review sessions led by the Chief Executive
				The Council Management Team has quarterly meeting with the Local Area Network
				The Assurance and Improvement Plan 2014-2017 highlights the positive relationship between the Council and the LAN and the positive impact this has had on the Shared Risk Assessment for East Lothian Council: "*The LAN has worked actively and positively with the council to support self-evaluation activities throughout the year. This, along with other improvements in performance, has helped to change the LAN's assessments in 18 areas from last year's AIP from further information required to no scrutiny required.*"
9	Implement programme of action to respond to the results of the Employee Engagement Survey	Partnerships and Communities	Completed	See 13 below
10	Review Whistleblowing Policy and publicise to all staff	Internal Audit	June 2014	The Whistleblowing Policy has been reviewed and contacts updated following the re-structuring of Council services. The revised policy is to be agreed by the Council Management Team and will then be

				publicised to staff in June 2014
11	Introduce Combined Impact Assessment and process for monitoring the needs of minority and vulnerable groups	Partnerships and Communities	August 2014	The framework and associated guidance for conducting Combined Impact Assessments covering equalities, social, economic and environmental impacts of new policies has been finalised and will be considered by the Council Management Team in June.
				The use of Combined Impact Assessments (replacing Equality Impact Assessments) will be rolled out along with the new Council Committee Reports template in August 2014
12	Review People Strategy including the how the values from the East Lothian Way are disseminated to staff	Partnerships and Communities	Completed	This has been incorporated in the Workforce Development Plan (see 13 below)
13	Develop Workforce Development Plan (including supporting internal jobs market, management of change, leadership development and succession planning)	Partnerships and Communities	Completed	The Workforce Development Strategy and Plan has been prepared. The strategy and Plan respond to the issues raised in the Employee Engagement Survey and include a refresh of the East Lothian Way and staff communications as well as leadership development, managing change and other development issues
				The Strategy and Plan respond directly to issues raised by the Employee Engagement Survey and the HGIOC self-evaluation. They are based around four workforce related themes that have been identified as

				being crucial to the facilitation of the Council Plan: • Supporting transformational change • Building and sustaining leadership and management capacity • Sustaining a skilled, flexible and motivated workforce • Developing the workforce for the future
14	Review and further develop How Good is Our Council? self-evaluation, including involvement of stakeholders	Partnerships and Communities	Completed	HGIOC has been reviewed and new guidance including around stakeholder involvement has been issued (see 8 above)
15	Review service planning guidance and develop 3-year service plans	Partnerships and Communities	Completed	Service planning guidance has been reviewed. Development of 3-year service plans has been delayed until 2015 to allow new services created following the Council re-structuring in late 2013 to be embedded
16	Review staff communications	Partnerships and Communities	Completed	Staff communications has been reviewed. A new format for Team Talk and other initiatives to communicate effectively with and engage with and involve staff in the Council's improvement journey will be rolled out during 2014
17	Prepare and implement Records Management Plan setting out arrangements for management and retention of records in line with requirements of the Public Records (Scotland) Act 2011	Council Resources	October 2014	The full plan is due to be completed by October 2014 and will then be the basis for a 5 year improvement model on this area of activity across the organisation. This will further

				link in with the work being undertaken on the Electronic Document and Records Management System and also on compliance with Data Protection & Freedom of Information legislation. Some improvements are being implemented as they are discovered rather than waiting for formal introduction, but on the whole the process is moving onwards to bring about improvement to the Records Management provision and efficiency across the entire Council.
18	Complete review of Standing Orders and Schemes of Administration and Delegation	Council Resources	Completed	Revised Standing Orders and Schemes of Administration and Delegation were approved by Council in August 2013
19	Develop a methodology for systematically reviewing and updating corporate policies	Council Resources	August 2014	Further work to be undertaken to agree scope of the policies to be included in the review and update schedule
20	Review and further strengthen the Council's financial management process	Council Resources	Completed	In accordance with agreed actions arising from the annual audit process, a number of improvements have now been implemented e.g. introduction of a new Efficiency Progress Rating that supplements the existing Financial Risk Rating

The 2012/13 Audit report had fewer improvement points than previous reports

The unaudited 2013/14 financial outturn shows less reserves being |

				used than planned
				2014-2017 budget uses less reserves than previous budgets
21	Focused work with the Local Area Network and external auditors as part of an agreed programme of external audit to meet the financial challenges faced by the Council	Council Resources	Completed	The Council's external auditors have completed their audit of the 2012/13 accounts and associated work. The auditors' Annual Report to Members provided positive assurances that the Council is meeting its financial challenges
				The shared risk assessment in the Assurance and Improvement Plan 2014-17 provides assurance that action is being taken to deal with the financial challenges faced by the Council and that the Council's auditors will review the financial management processes

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 May 2014

BY: Depute Chief Executive - Resources & People Services

5

SUBJECT: Internal Audit Report – Creditors

1 PURPOSE

1.1 To inform the Audit and Governance Committee of the recently issued audit report on Creditors.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for Creditors.

3 BACKGROUND

3.1 A review of Creditors was undertaken as part of the audit plan for 2013/14.

3.2 The main objective of the audit was to ensure that the internal controls in place for Creditors were operating effectively.

3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

4.1 None

5 EQUALITIES IMPACT ASSESSMENT

5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6   RESOURCE IMPLICATIONS

6.1   Financial - None

6.2   Personnel - None

6.3   Other - None

7   BACKGROUND PAPERS

7.1   None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 May 2014

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
CREDITORS**

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls surrounding the administration of the Creditors process was carried out as part of the Audit Plan for 2013/14. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Adequate procedures are in place for the processing of creditor payments.
- All creditor payments are supported by appropriate documentation.
- Systems are in place to ensure that the total value of creditor payment runs reconcile to the amounts posted to the Great Plains ledger system.
- Reconciliations are undertaken by the Creditors Section to ensure that BACS payments agree to creditor payment runs.

1.3 Areas with Scope for Improvement

- There was a lack of detailed guidance in place for the ordering, receipting and authorising of creditor payments. *Risk – inconsistencies may occur.*
- The authorised signatory list in place had not been updated following recent changes to the Council's organisational structure – a number of inconsistencies and anomalies were identified. *Risk – inappropriate payments may be made.*
- There was a lack of adequate separation of duties – a number of Pecos users had been set up as self approvers with authority to both raise and approve orders for transactions up to a value of £1,000. *Risk – errors and irregularities may occur and remain undetected.*
- The monitoring arrangements for outstanding credit notes require review to ensure that all amounts are recovered promptly. *Risk – loss of income to the Council.*
- There was a lack of checking procedures in place for cheque payments processed by the Creditors Section. *Risk – errors and irregularities may occur and remain undetected.*
- The procedures in place for creating new supplier accounts and monitoring amendments to the Creditors masterfile require review. *Risk – errors and irregularities may occur and remain undetected.*
- There was a lack of a consistent approach for the retention of supplier invoices. *Risk – lack of an audit trail.*
- The procedures for reviewing payments in excess of £100,000 require review. *Risk – inappropriate payments may not be detected.*

1.4 Summary

Our review of Creditors identified areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

**Mala Garden
Internal Audit Manager** **May 2014**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	Management should ensure that detailed guidance is available to staff responsible for the ordering, receipting, authorising and processing of creditor payments.	Medium	Service Manager – Corporate Finance	Agreed – some guidance is in place however management agree to review and update this.		September 2014
3.2.1	Management should ensure that the authorised signatory list held by Corporate Finance is updated to reflect the recent changes to the Council's organisational structure. The authorised signatory list should be reviewed to ensure consistency – authorisation limits should reflect the roles and responsibilities of the post holder. The authorised signatory list held by Corporate Finance should be regularly reviewed and updated where anomalies are identified.	Medium	Service Manager – Corporate Finance	Agreed – a Statement of Current Working Method setting out a revised Financial Authorisation Signatory (FAS) Scheme has been approved and is due to be rolled out. The new scheme links authorisation limits to roles and includes provision for an annual review.		March 2015

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1	Management should ensure that guidance issued to staff clearly outlines that an order form should be completed when goods and services are ordered and that the order form should be attached to the invoice prior to the invoice being passed to the Creditors Section for processing.	Medium	Service Manager – Corporate Finance	See 3.1.1		September 2014
3.3.2	Management should ensure that all purchase orders raised on the TASK system are approved by an authorised signatory. The current practice of completing retrospective purchase orders after the invoice has been received should cease. Management should ensure that all purchase orders raised on the TASK system are matched to the corresponding invoice and passed for payment.	Medium	Senior Area Officer West Transport Services Manager	Agreed Agreed		May 2014 May 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	**Management should ensure that a list of all Pecos approvers and their authorisation limits is held by Corporate Finance.** **Management should ensure that the authorisation limits on Pecos are consistent with the authorised signatory list currently held by Corporate Finance.** **Management should ensure that adequate separation of duties exists between the requisitioner and the approver – self approvers' status should be reviewed for all Pecos users.** **Management should ensure that adequate separation of duties exists between the requisitioner and the person who inputs the invoices on the system.** **Management should ensure that a report of all forced settlements is produced and is reviewed by an independent person.**	**Medium**	**Service Manager – Corporate Finance**	**Agreed – a list will be reviewed jointly by Corporate Finance and Internal Audit in order to assess the risk of the current policy.** **Agreed**		**July 2014** **June 2014**

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1 (cont)	Management should ensure that the report listing all invoices processed for payment is passed to Service Departments for checking. Management should ensure that error reports together with details of the action taken are retained by the Creditors Section.	Medium	Service Manager – Corporate Finance	Agreed		June 2014
3.5.2	Management should ensure that guidance available to staff clearly outlines that for all invoices passed for payment authorisations should be within the approved limits. All invoices received by the Council should be checked by Service Departments to ensure that they are accurate and complete.	Medium	Service Manager – Corporate Finance	See 3.1.1		September 2014
3.5.4	Management should ensure that a consistent approach is adopted for the retention of records – all supplier invoices should be submitted to the Creditors Section.	Medium	Service Manager – Corporate Finance	Agreed – invoices will be scanned and retained electronically by Creditors.		June 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.1	Management should ensure that staff inputting invoices to Pecos take appropriate action when the system prompts a mismatch.	Medium	Principal Amenity Officer	Agreed – amounts to be correctly input to the system.		May 2014
3.7.1	The BACs pre-submission reports should be signed and dated as evidence of payments being authorised.

For all individual payments exceeding £100,000 checks should be carried out to supporting documentation to ensure that payments are valid and genuine.

All individual payments in excess of £100,000 in the pre-submission reports should be checked by an employee with the appropriate authorisation level. | Medium | Service Manager – Corporate Finance | Agreed | | May 2014 |
| 3.7.2 | Management should ensure that a sample of cheque payments is reviewed by a person independent of processing. | Medium | Service Manager – Corporate Finance | Agreed | | May 2014 |

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.7.3	Regular monitoring should be undertaken to ensure that amounts due in respect of outstanding credit notes are promptly recovered.	Medium	Service Manager – Corporate Finance	Agreed – procedures will be reviewed to ensure that a quarterly review is undertaken in future.		June 2014
3.9.1	Management should ensure that New Supplier Request Forms are approved by a person independent of the preparer. Management should ensure that new suppliers are only created following approval by an authorised signatory.	Medium	Service Manager – Corporate Finance	Agreed		June 2014
3.9.2	Management should ensure that a sample of amendments to the Creditors masterfile is checked by a person independent of processing.	Medium	Service Manager – Corporate Finance	Agreed		June 2014

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 May 2014

BY: Depute Chief Executive - Resources & People Services

SUBJECT: Internal Audit Report – Housing Revenue Account

6

1   PURPOSE

1.1   To inform the Audit and Governance Committee of the recently issued audit report on the Housing Revenue Account.

2   RECOMMENDATION

2.1   That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for the Housing Revenue Account.

3   BACKGROUND

3.1   A review of the Housing Revenue Account was undertaken as part of the audit plan for 2013/14.

3.2   The main objective of the audit was to ensure that the internal controls in place were operating effectively.

3.3   The main findings from our audit work are outlined in the attached report.

4   POLICY IMPLICATIONS

4.1   None

5   EQUALITIES IMPACT ASSESSMENT

5.1   This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6   RESOURCE IMPLICATIONS

6.1   Financial - None

6.2   Personnel - None

6.3   Other - None

7   BACKGROUND PAPERS

7.1   None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 May 2014

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
HOUSING REVENUE ACCOUNT

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls surrounding the administration of the Housing Revenue Account was undertaken as part of the Audit Plan for 2013/14. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Orchard system provides a clear audit trail for each property including the property details, tenancy history and the rent account transactions.
- All income collected through the Income Management System is correctly posted to both the Orchard system and the Council's general ledger.
- Adequate arrangements are in place to ensure compliance with legislation in respect of the rent setting process.
- Systems are in place to ensure that all fortnightly housing rent transactions from the Orchard system are correctly updated in the general ledger.

1.3 Areas with Scope for Improvement

- There was a lack of checking procedures in place to ensure that rent increases were correctly updated on the Orchard system – errors were identified in the rent increases applied to some temporary homeless properties leased from Registered Social Landlords. *Risk – loss of income to the Council.*
- There was a lack of regular reconciliations between the property control totals in the Moores Books and the Orchard system. *Risk – errors and irregularities may occur and remain undetected.*
- The procedures for calculating rent charges for homeless properties require review – rent points had not been updated on the Orchard system for homeless properties. *Risk – lack of a consistent approach.*
- No review has been undertaken of properties to which service charges are currently applied. *Risk – inappropriate charges may be made.*
- There was a lack of detailed procedures in place to provide guidance to staff responsible for the billing process. *Risk – errors and irregularities may occur and remain undetected.*
- There was insufficient information and explanations on file to support adjustments made during the billing process following annual rent increases. *Risk – lack of a clear audit trail.*

1.4 Summary

Our review of the Housing Revenue Account identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

Mala Garden
Internal Audit Manager   **May 2014**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should review the adequacy and effectiveness of the approach adopted for identifying annual rent increases.	Medium	Depute Chief Executive (Resources & People Services)/ Service Manager – Community Housing	Agreed – to be reviewed.		August 2014
3.2.2	Management should ensure that a physical inspection is undertaken of all properties added to the HRA to ascertain the property attributes. Management should ensure that a consistent approach is adopted for updating the rent points on the Orchard system.	Medium	Service Manager – Community Housing	Agreed Agreed		May 2014 March 2015
3.2.3	Management should ensure that rents for all ELC homeless properties are based on the rent points.	Medium	Service Manager – Community Housing	Agreed		March 2015
3.3.1	Management should ensure that a review of the service charge process is undertaken.	Medium	Service Manager – Community Housing	Agreed		March 2015

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1 (cont)	For Housing Association properties all rent increases applied on the Orchard system should be supported by appropriate documentary evidence.	Medium	Systems Development and Business Support Team Leader/ Homelessness Manager	Agreed – source documentation to be obtained from the Homelessness Section.		May 2014
	Appropriate checks should be carried out by the Homelessness Section to ensure that property tenure types are correctly recorded on the Orchard system.		Homelessness Manager	Agreed		July 2014
	The Homelessness Section should be provided with reports of all rent increases applied to homeless properties.		Systems Development and Business Support Team Leader	Agreed – reports to be passed to the Homelessness Section.		May 2014
3.4.1	Management should ensure that detailed procedures are in place for staff responsible for the annual billing process. Management should ensure that a clear audit trail exists for all adjustments made during the annual billing process.	Medium	Systems Development and Business Support Team Leader	Agreed – procedures in place for the 2014/15 annual billing.		May 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.2	Appropriate checks should be carried out to ensure that the number of properties that have been excluded from receiving an annual rent charge letter is correct. Management should ensure that the number of letters produced by Document Outsourcing is reconciled to the total number of current tenancies.	Medium	Systems Development and Business Support Team Leader	Agreed		May 2014
3.4.4	Evidence should be obtained to confirm the date of dispatch for the annual rent charge letters.	Medium	Systems Development and Business Support Team Leader	Agreed		In place
3.5.2	Management should ensure that adequate procedures are in place for informing relevant staff of stock transfers from the HRA.	Medium	Service Manager – Community Housing	Agreed		May 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.2 (cont)	Management should ensure that reconciliations of property control totals between the Moores Books and the Orchard system are undertaken on a regular basis. A person independent of processing should check the reconciliation of the property control totals and sign the reconciliation sheet as evidence of the check being carried out.	Medium	Service Manager – Community Housing	Agreed – the Housing Service is considering moving from using Moores Books (hard copy) to electronic records. The Moores Books can be archived for future reference as required. Agreed – stock reconciliation will be checked and verified annually as part of the Scottish Housing Regulator's new Social Housing Charter reporting requirements.		May 2014

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

East Lothian Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 May 2014

BY: Depute Chief Executive - Resources & People Services

SUBJECT: Internal Audit Report – Journal Processing

7

1   PURPOSE

1.1   To inform the Audit and Governance Committee of the recently issued audit report on Journal Processing.

2   RECOMMENDATION

2.1   That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for Journal Processing.

3   BACKGROUND

3.1   A review of Journal Processing was undertaken as part of the audit plan for 2013/14.

3.2   The main objective of the audit was to ensure that the internal controls in place for processing journals were operating effectively.

3.3   The main findings from our audit work are outlined in the attached report.

4   POLICY IMPLICATIONS

4.1   None

5   EQUALITIES IMPACT ASSESSMENT

5.1   This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6   RESOURCE IMPLICATIONS

6.1   Financial - None

6.2   Personnel - None

6.3   Other - None

7   BACKGROUND PAPERS

7.1   None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 May 2014

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
JOURNAL PROCESSING

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2013/14 a review was undertaken of the internal controls surrounding Journal Processing. A sample of 29 manual journal entries was selected for examination and a summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- A detailed Statement of Current Working Method is in place for the processing of journal entries.
- A user access form is held for all staff with access to post manual journals – all forms had been authorised by the appropriate line manager.
- All journals posted on the Great Plains ledger system had been allocated a unique reference number.

1.3 Areas with Scope for Improvement

- There was a lack of adequate segregation of duties – staff with operational responsibility for debtors and banking had been granted access to process journal entries. *Risk – errors and irregularities may occur and remain undetected.*
- The arrangements in place for the review and authorisation of journal entries require review. *Risk – errors and irregularities may arise and remain undetected.*
- The list of users with access to process journal entries requires review – the list contained four members of staff who no longer process journal entries as part of their current duties. *Risk – access levels may be inappropriate.*
- There was a failure to comply with the procedures in place – in three cases there was a lack of adequate documentation on file to support the journal entries processed. *Risk – lack of a clear audit trail.*
- Inconsistencies were identified in the retention of documentation – in four cases Officers had not printed off the journal entries or filed them in a central location. *Risk – lack of a clear audit trail.*

1.4 Summary

Our review of Journal Processing has identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

Mala Garden
Internal Audit Manager   **May 2014**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.2	Management should ensure that a copy of the Statement of Current Working Method is provided to all employees who are currently able to process journals.	Low	Service Manager Corporate Finance	Agreed		May 2014
3.2.1	Management should review the list of users with access to process journals – members of staff who have been inactive or no longer require access as part of their current duties should be removed.	Medium	Service Manager Corporate Finance	Agreed		June 2014
3.3.1	Management should review the adequacy of the control arrangements in place to ensure effective segregation of duties in the processing of journal entries.	Medium	Service Manager Corporate Finance/Service Manager Business Finance	Although Management are prepared to carry out a review, there is a requirement that audit provide greater clarity about the nature and scale of the risk. Whilst it is recognised that segregation of duties can often strengthen controls, this does not necessarily secure optimum use of resources and the most efficient management of risk.		June 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	Management should ensure that appropriate procedures are in place for the review and authorisation of manual journals.	Medium	Service Manager Business Finance	We will ensure the review and countersignature of manual journals on a regular and frequent basis (minimum monthly), allowing the Service Manager to raise any specific query with staff on a timely basis. Prior authorisation is not viewed as an essential or practical requirement, given the low risk level and professional / experience mix of staff involved.		June 2014
3.5.1	Management should ensure that for journals processed, all information is entered in the journal reference section.	Low	Service Manager Corporate Finance/Service Manager Business Finance	Agreed. Relevant staff will be reminded of these requirements.		May 2014
3.5.2	Management should ensure that the procedures in place are adhered to by all staff and that copies of all manual journals processed are printed off and held centrally.	Medium	Service Manager Corporate Finance/Service Manager Business Finance	Agreed		May 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.2 (cont)	Management should explore the possibility of producing a report detailing all manual journals processed and a sample of entries should be checked to ensure compliance with the procedures.			Although there are system constraints, Management will explore the possibility of developing such a report.		June 2014
3.5.3	Management should ensure that appropriate supporting documentation is retained for all manual journals processed.	Medium	Service Manager Corporate Finance/Service Manager Business Finance	Agreed – relevant staff will be reminded.		May 2014

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

East Lothian Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 May 2014

BY: Depute Chief Executive - Resources & People Services

8

SUBJECT: Internal Audit Report – Procurement Scheme of Delegation

1 PURPOSE

1.1 To inform the Audit and Governance Committee of the recently issued audit report on Procurement – Scheme of Delegation.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for Procurement – Scheme of Delegation.

3 BACKGROUND

3.1 A review was undertaken as part of the audit plan for 2013/14.

3.2 The main objective of the audit was to ensure that the internal controls in place for the approval of procurement activity were operating effectively.

3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

4.1 None

5 EQUALITIES IMPACT ASSESSMENT

5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6   RESOURCE IMPLICATIONS

6.1   Financial - None

6.2   Personnel - None

6.3   Other - None

7   BACKGROUND PAPERS

7.1   None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 May 2014

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
PROCUREMENT – SCHEME OF DELEGATION

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2013/14 a review was undertaken of Procurement – Scheme of Delegation.

A sample of 20 procurements from across the Council was selected for examination and a summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council's Corporate Procurement Procedures outline the delegated authority of Officers to initiate a procurement process.

1.3 Areas with Scope for Improvement

- There was a failure to ensure that the most up to date version of the Corporate Procurement Procedures had been formally approved – a number of different versions of the procedures were available to staff on the intranet. *Risk – an inconsistent approach may be adopted.*
- In two cases there was a failure to ensure that the procurement process had been initiated by an Officer with the appropriate delegated authority. *Risk – failure to comply with the Scheme of Delegation.*
- The procedures in place for ensuring that all relevant procurement documentation is fully completed require review. *Risk – documentation held may be inaccurate or incomplete.*
- The guidance available to Officers setting out the circumstances under which procurement activity is reported to Members requires review – at present there is an anomaly between the requirements as specified in the Standing Orders and those outlined in the Corporate Procurement Procedures. *Risk – an inconsistent approach may be adopted.*
- The arrangements in place for uploading live content on the intranet and the Council's website require review. *Risk – information available to both staff and the public may be inaccurate or out of date.*

1.4 Summary

Our review of Procurement – Scheme of Delegation identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

Mala Garden
Internal Audit Manager   **May 2014**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	Management should ensure that the most up to date version of the Council's Corporate Procurement Procedures is formally approved and incorporated in the Standing Orders.	Medium	Service Manager – Legal and Procurement	Agreed		June 2014
	Management should review the existing arrangements in place for updating content on the Council's website and intranet – formal procedures should be developed to provide guidance to staff.	Medium	To be confirmed			
3.2.1	Management should ensure that the Scheme of Delegation is complied with and that all procurement processes are initiated by an Officer with the appropriate authority.	Medium	CMT/Service Managers Service Manager – Legal and Procurement	Agreed Responsibility lies with departments but will be monitored by Procurement.		In Place
3.3.1	Management should ensure that appropriate documentation is fully completed and retained for all procurement activity undertaken.	Medium	CMT/Service Managers Service Manager – Legal and Procurement	Agreed Responsibility lies with departments but will be monitored by Procurement.		In Place

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	**Management should ensure that the existing anomaly between the Corporate Procurement Procedures and the Standing Orders is addressed.** **Management should ensure that guidance available to staff clearly outlines the circumstances under which procurement activity requires to be reported to Members.**	**Medium**	**Service Manager – Legal and Procurement**	**Agreed**		**June 2014**

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

East Lothian Council

REPORT TO:	Audit and Governance Committee
MEETING DATE:	20 May 2014
BY:	Depute Chief Executive - Resources & People Services
SUBJECT:	Internal Audit Report – Trading Operations

9

1   PURPOSE

1.1   To inform the Audit and Governance Committee of the recently issued audit report on Trading Operations.

2   RECOMMENDATION

2.1   That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for Trading Operations.

3   BACKGROUND

3.1   A review of Trading Operations was undertaken as part of the audit plan for 2013/14.

3.2   The main objective of the audit was to ensure that the Council's Trading Operations comply with statutory requirements.

3.3   The main findings from our audit work are outlined in the attached report.

4   POLICY IMPLICATIONS

4.1   None

5   EQUALITIES IMPACT ASSESSMENT

5.1   This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6   RESOURCE IMPLICATIONS

6.1   Financial - None

6.2   Personnel - None

6.3   Other - None

7   BACKGROUND PAPERS

7.1   None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 May 2014

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
TRADING OPERATIONS

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2013/14 a review was undertaken of the Council's Trading Operations. A summary of our main findings is outlined below.

1.2 Key Findings

1.2.1 The Local Government in Scotland Act 2003 brought a formal end to Compulsory Competitive Tendering (CCT) ending the prescriptive regime which had been in place since 1980. The 2003 Act sets out the statutory duty of Best Value, the requirement for Local Authorities to maintain Statutory Trading Accounts for Significant Trading Operations (STOs) and the requirement for STOs to break even over a three year rolling period.

1.2.2 The determination of trading operations is a matter for individual Councils and each Council is expected to structure the delivery of its services in order to achieve Best Value.

1.2.3 We note that the status of the Council's STOs was last reviewed in August 2012. The Council had five STOs up until 2011/12 – Property Maintenance, Road Services, Facilities Services, Older Peoples Care Homes Service and the Domiciliary Care Service. The report to Council of 28 August 2012 recommended that Council approve the cessation of the Older Peoples Care Homes Service and the Domiciliary Care Service as STOs.

1.2.4 East Lothian Council currently operates three STOs: Property Maintenance, Road Services and Facilities Services (which includes Catering, Janitorial and Building Cleaning Services) and maintains Trading Accounts for each of the STOs. For the three years ended 31 March 2013 each of the Council's STOs had met the statutory financial target of breaking even.

1.2.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC) provide guidance to Councils in respect of determining the appropriate identification and treatment of STOs. The guidance states that the determination of trading operations is a matter for individual Councils but that it should be based on consideration of whether a service meets both of the following criteria:

- the service is provided in a competitive environment, i.e. service users have discretion to procure services from an alternative provider; and
- the service is provided on a basis other than a straightforward recharge of costs, i.e. users take the service on the basis of quoted lump sums, fixed periodical charges, or rates, or a combination of these.

1.2.6　In addition to the fundamental tests of competitive environment and charging, the guidance emphasises the importance of applying a test of significance based on financial and non-financial criteria. Only trading operations which are regarded as significant will need to be classed as STOs.

1.2.7　Our review has highlighted that in 2013/14 the vast majority of income generated by each of the Council's STOs was from the provision of services to internal clients within the Council. Income generated from external clients was not significant.

1.2.8　We reviewed the charging arrangements within all three services currently operating as STOs and we note that:

- for Property Maintenance charging is based on a Schedule of Rates;
- for Road Services charging is based on an hourly labour charge out rate and agreed mark-up on costs for materials, hired plant and sub-contractors;
- for Facilities Services a number of charging methods are used including historical contract charges/contract payments and the recharging of costs.

1.2.9　We note that the original guidance issued by CIPFA/LASAAC has been modified and that revised guidance was approved in June 2013. The revised guidance states that identification of STOs should focus only on those services or activities which are external to the local authority and which are not statutory in nature. Externally provided services should be separated out and any cross-subsidisation identified.

1.2.10　The revised CIPFA/LASAAC guidance narrows down the services which may be classified as STOs – internal services may still be accounted for as trading operations, but they may not be relevant trading operations for the purposes of the STO review.

1.2.11　We note that the Council may choose to demonstrate Best Value by continuing to operate Trading Accounts, however this can be achieved without the services operating as STOs or being subject to the statutory requirement to break even over a cumulative three year period.

1.3　Summary

In view of the revised CIPFA/LASAAC guidance issued in June 2013, the Council now has the opportunity to undertake a review of all its services to determine which services (if any) require to be categorised as STOs.

Our review has identified one recommendation which is included in the attached action plan.

Mala Garden
Internal Audit Manager　　　　　　　　　　　　　　　　　　　　　　　　**May 2014**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
1.4	Management should undertake a review of the Council's Significant Trading Operations and ensure compliance with the CIPFA/LASAAC Guidance.	Medium	Head of Council Resources/Service Manager – Business Finance	Agreed		September 2014

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

East Lothian Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 May 2014

BY: Depute Chief Executive - Resources & People Services

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SUBJECT: Internal Audit Progress Report 2013/14

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1   PURPOSE

1.1   To inform the Audit and Governance Committee of Internal Audit's progress against the annual audit plan for 2013/14.

2   RECOMMENDATION

2.1   That the Audit and Governance Committee note the contents of the Internal Audit Progress Report 2013/14.

3   BACKGROUND

3.1   This report is prepared to assist the Committee in their remit to evaluate Internal Audit's work and measure progress against the annual audit plan.

3.2   The progress made to date is outlined in the attached report.

4   POLICY IMPLICATIONS

4.1   None

5   EQUALITIES IMPACT ASSESSMENT

5.1   This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6   RESOURCE IMPLICATIONS

6.1   Financial - None

6.2   Personnel - None

6.3   Other - None

7   BACKGROUND PAPERS

7.1   None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 May 2014

INTERNAL AUDIT PROGRESS REPORT 2013/14

AUDITABLE AREAS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Gifts and Hospitality Policy	We will review the arrangements in place within departments for compliance with the Council's Policy on Acceptance by Employees of offers of Gifts and Hospitality.	August 2013	Completed
Tyne Esk LEADER Programme	A review will be undertaken of the systems and processes in place for administering the Tyne Esk LEADER Programme.	August 2013	Completed
Review of Statutory Performance Indicators	Internal Audit will review the systems in place for the preparation and reporting of Statutory Performance Indicators.	August 2013	Completed
Payments to Scottish Water	The Council is required by law to bill and collect Scottish Water charges along with Council Tax. We will examine the controls in place in respect of payments made by the Council to Scottish Water.	August 2013	Completed
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by management have been properly managed.	August 2013	Completed
Law and Licensing	We will examine the internal controls in place surrounding the receipt of licence fees.	October 2013	Completed

AUDITABLE AREAS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Schools Audit	We will examine the financial procedures in place at one school to ensure that internal controls are operating effectively.	October 2013	Completed
Insurance and Claims	The Council's insurance arrangements will be reviewed, including the processing of and accounting for claims.	October 2013	Completed
Housing Repairs and Maintenance	The audit will review the arrangements in place for repairs and maintenance carried out by the Council's Property Maintenance section.	October 2013	Completed
Contracts Audit	We will review contracts awarded by the Council to ensure compliance with Standing Orders and Corporate Procurement Procedures.	October 2013	Completed
East Lothian Investments Ltd	We will examine the internal controls and procedures operating within East Lothian Investments Ltd.	December 2013	Completed
Welfare Reform	We will review the arrangements in place within the Council for the administration of the Scottish Welfare Fund.	December 2013	Completed
National Fraud Initiative	Internal Audit participates in the National Fraud Initiative, which is coordinated for Scottish Local Authorities by Audit Scotland. This initiative seeks to identify potential frauds and overpayments by matching data held within the Council to that held by other bodies.	December 2013	Completed

AUDITABLE AREAS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Housing Allocations	We will review the arrangements in place for Housing Allocations to ensure compliance with the Council's Policy.	February 2014	Completed
Modernisation Programme	We will review the Modernisation/Extensions (Existing Stock) Programme which forms part of the Council's Housing Capital Investment Plan.	February 2014	In Progress
Community Care Finance Unit (CCFU)	We will examine the operating arrangements in place for the delivery of services currently undertaken by the CCFU.	February 2014	Completed
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by management have been properly managed.	February 2014	Completed
Creditors	The Council spends significant sums on goods and services. We will review the ordering, receipting and payment procedures in place.	April 2014	Completed
Housing Revenue Account	We will examine the controls in place for reconciliations undertaken in respect of the Housing Revenue Account.	April 2014	Completed
Journal Processing	We will review the arrangements in place for the authorisation and processing of journal entries.	April 2014	Completed

AUDITABLE AREAS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Trading Operations	The Council has a number of trading operations and we will review the arrangements in place to ensure compliance with statutory requirements.	April 2014	Completed
Procurement – Scheme of Delegation	We will examine the scheme of delegation to ensure that all procurement activity is undertaken by relevant officers with delegated authority.	April 2014	Completed
Mobile Payment Devices	We will review the internal controls in place for the use of mobile chip and PIN payment devices recently introduced by the Council's Revenues section.	April 2014	In Progress
Residential Units for Young People	We will examine the IT arrangements operating within the Council's Residential Units for Young People to ensure compliance with Council policies and procedures.	April 2014	In Progress

REPORT TO: Audit and Governance Committee

MEETING DATE: 20 May 2014

BY: Internal Audit Manager

SUBJECT: Controls Assurance Statement 2013/14

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1   PURPOSE

1.1 The Internal Audit Manager has the responsibility to independently review the internal control systems within East Lothian Council, make an assessment of the control environment and report annually on the adequacy and effectiveness of internal controls.

2   RECOMMENDATION

2.1 The Audit and Governance Committee is asked to note that the Controls Assurance Statement is a formal confirmation of Internal Audit's opinion on the Council's control environment for the year ended 31 March 2014.

3   BACKGROUND

3.1 Sound Internal Controls

The Council's senior management has responsibility for establishing a sound system of internal control and for monitoring the continuing effectiveness of these controls. The main objectives of the Council's internal control systems are:

- Achievement of the Council's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programmes.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures and contracts.

A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls or the occurrence of unforeseen circumstances. The Council is continually seeking to improve the effectiveness of its system of internal control.

3.2 The Work of Internal Audit

Internal Audit is an independent appraisal function established by the Council to review its internal control systems. Internal Audit objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources.

In 2013/14 the Internal Audit Unit sought to operate in accordance with the Public Sector Internal Audit Standards (PSIAS).

All internal audit reports identifying system weaknesses or non-compliance with expected controls were brought to the attention of the Chief Executive, Depute Chief Executives, the Council's External Auditor and the Audit and Governance Committee.

The weaknesses outlined in our audit reports are those that have come to our attention during the course of our normal audit work and are not necessarily all of the weaknesses, which may exist. It is the responsibility of Management to ensure that proper consideration is given to internal audit reports and that appropriate action is taken on audit recommendations.

3.3 Basis of Opinion

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

1. The policies and procedures of the Council, including:

   - Standing Orders and Financial Regulations;
   - Strategy for the Prevention and Detection of Fraud and Corruption;
   - Information Security Policy;
   - IT Acceptable Use Policy;
   - Code of Conduct;
   - Disciplinary Code;
   - Disciplinary Procedure;
   - Gifts and Hospitality Policy;
   - Whistleblowing Policy.

2. The planning, monitoring, review and reporting arrangements within the Council, including:

   - The Budget Setting Process;
   - Monthly Budget Monitoring Statements;
   - Policy and Performance Review Committee;
   - Performance Management Framework;
   - The work of the Council Management Team.

3. The work undertaken by Internal Audit during 2013/14 including planned audits, investigations, follow-up reviews and one-off exercises.

3.4 Assessment of Controls and Governance

The progress report presented to the Audit and Governance Committee summarises the work of Internal Audit during 2013/14.

An Executive Summary and Action Plan in respect of each system or activity reviewed by Internal Audit during 2013/14 has been reported to the Audit and Governance Committee. The Executive Summaries highlighted a number of areas where expected controls were met in respect of the control environment and also identified opportunities for improvement. The Action Plans contained detailed recommendations including Management responses to the recommendations made.

The majority of Internal Audit recommendations made in 2013/14 were categorised as medium risk (i.e. recommendations which will improve the efficiency and effectiveness of the existing controls) with a small number of high risk recommendations (i.e. recommendations which are fundamental to the system and upon which Management should take immediate action). A summary of all recommendations made during 2013/14 is outlined below:

Recommendations Priority Level	Number of Recommendations	Recommendations %
High	3	2.3
Medium	120	93.8
Low	5	3.9
Total	**128**	**100**

During 2013/14 areas identified with scope for improvement included the following:

- Adherence to Council policies, procedures and guidance.
- Internal financial controls including segregation of duties, approval and authorisation, reconciliations, monitoring and checking arrangements and the recovery of all amounts due to the Council.
- Weaknesses identified from our review of housing allocations.

The implementation by Management of agreed actions to address the weaknesses identified should provide assurance that the system of internal control is operating as intended.

3.5 Opinion

It is my opinion, subject to the weaknesses outlined in section 3.4 above, that reasonable assurance can be placed on the adequacy and effectiveness of East Lothian Council's internal control systems for the year to 31 March 2014.

4   POLICY IMPLICATIONS

4.1   None

5   EQUALITIES IMPACT ASSESSMENT

5.1   This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6   RESOURCE IMPLICATIONS

6.1   Financial - None

6.2   Personnel - None

6.3   Other - None

7   BACKGROUND PAPERS

7.1   None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	8 May 2014