



MINUTES OF THE MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE

TUESDAY 13 SEPTEMBER 2016
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON

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Committee Members Present:

Councillor K McLeod (Convener)
Councillor S Brown
Councillor S Currie
Councillor J Goodfellow
Councillor F McAllister

Other Councillors Present:

Councillor J McMillan (Item 3)

Council Officials Present:

Mr A McCrorie, Depute Chief Executive - Resources and People Services
Mrs M Patterson, Depute Chief Executive – Partnerships and Community Services
Mr J Lamond, Head of Council Resources
Mr R Montgomery, Head of Infrastructure
Mr D Proudfoot, Head of Development
Ms F Robertson, Head of Education
Mr T Shearer, Head of Communities & Partnerships
Mr P Vestri, Service Manager – Corporate Policy and Improvement
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Ms C Borland, Service Manager – Children’s L/Term Care & Support Services
Ms S Fortune, Service Manager – Business Finance
Mr P Grant, Service Manager – Property Maintenance
Ms T Leddy, Service Manager (Adult Wellbeing)
Ms C McCorry, Service Manager – Community Housing
Mr R Parker, Service Manager – Education (Strategy & Operations)

Clerk:

Ms F Currie

Visitors Present:

Mr A Shaw, KPMG LLP
Ms S Burden, KPMG LLP

Apologies:

Councillor J Caldwell
Councillor A Forrest
Councillor J Williamson

Declarations of Interest:

None

The Convener advised Members that, under the terms of Standing Order 5.2, agenda item 10 – East Lothian Council Annual Accounts 2015-16 - had been added as an urgent item of business. He explained that the Accounts should have formed part of the business of the meeting but, due to an oversight, had been omitted from the original agenda. This item would be taken directly following agenda item 2.

Councillor Currie queried the reasons for the Accounts being added to the agenda at such short notice and whether there had also been issues with the preparedness of the document which resulted in its late circulation to Members.

Jim Lamond, Head of Council Resources, explained that it was a combination of factors: the oversight which resulted in its omission from the agenda, and the readiness of the Accounts. He said it had always been the intention to include the Accounts on the agenda with the expectation that they would be ready to circulate to Members the Friday before the meeting. Mr Lamond acknowledged that the timing was tight and that significant work was being undertaken up to the previous week. However, he reminded Members that they had already considered the draft Accounts in some detail and were required to consider the final Accounts before their submission at the end of September.

Councillor Currie thanked Mr Lamond for his response and suggested that, for future years, some thought should be given to the timing of the Committee's September meeting to allow Members sufficient time to fully consider the final Accounts.

1. MINUTES OF THE AUDIT & GOVERNANCE COMMITTEE MEETING HELD ON 14 JUNE 2016 (FOR APPROVAL)

The minutes of the Committee's meeting on 14 June 2016 were approved.

2. ANNUAL AUDIT REPORT TO THE MEMBERS OF EAST LOTHIAN COUNCIL

A report was submitted by KPMG summarising its opinion and conclusions on significant issues arising from the annual audit.

Andy Shaw and Sarah Burden from KPMG presented the report. Mr Shaw summarised the key features of the audit drawing Members' attention to the audit conclusions, significant risks and areas of audit focus. He confirmed that KPMG intended to issue an unqualified audit opinion.

Ms Burden outlined the wider scope of the audit referring to financial management and sustainability, governance and transparency and risk assessment. She indicated that although the report made two low level recommendations on the timeliness of financial reporting and bad debt provision, no significant risk factors had been identified during the audit.

Mr Shaw responded to questions from Members. He confirmed the audit had looked at the reasons for the slippage in capital projects and at the overspend in the Adult

Wellbeing budget. He noted that these areas would continue to be monitored and he was satisfied with the approach being taken by the Council.

On the issue of bad debt recovery, Mr Shaw referred to the comments in the report but said that this was not considered to be a significant risk. He explained that accounting rules were the same for all Local Authorities and the key issue was whether or not the debt was recoverable.

Mr Lamond added that the Council had been wrongly reported in the media as being the third worst in Scotland at recovering debt when in fact it had performed above the national benchmark.

Responding to a question on charging for services, Sarah Fortune, Service Manager – Business Finance, confirmed that the Council could charge for the provision of financial services and had done so for the Musselburgh Joint Racing Committee.

Councillor Currie welcomed the report and the recommendation in relation to the timeliness of financial reporting. He reiterated the importance of Members receiving reports as early as possible to allow them time to properly understand and scrutinise the financial information.

The Convener reminded members that KPMG would shortly cease to be the Council's external auditors and he thanked Mr Shaw and Ms Burden for their contributions.

Decision

The Committee agreed to note the contents of the report.

10. EAST LoTHIAN COUNCIL ANNUAL ACCOUNTS 2015/16

A report was submitted by the Depute Chief Executive (Resources & People Services) to provide those Members charged with governance the 2015/16 Annual Accounts.

Ms Fortune presented the report. She reminded Members that the draft 2015-16 annual accounts had been presented to the Committee on 14 June and had been submitted for audit on 30 June. A copy of the full accounts had been placed in the Members' Library. She advised that the audit review had resulted in a small number of non material amendments and that the group accounts and draft management commentary had also been added. She concluded that the audited accounts would be formally submitted by 30 September 2016.

In response to questions from Members, Mr Lamond clarified the position in relation to staff salaries and agreed to provide additional information on the Council's interest in Lothian Buses.

Regarding the ownership and potential buyout of PFI contracts, Mr Lamond provided the name of the company handling the contracts and agreed to look into their ownership. He also reiterated his previous advice that in order to arrange a buy-out, the contractor had to be willing to agree and, due to the current extremely low levels of investment return, this was unlikely. He added that the cost of such a deal would be significant but that he could explore the options if Council wished him to do so.

Councillor McAllister commented on the importance of knowing who owned the Council's PFI contracts and he welcomed Mr Lamond's offer to look into the matter.

Councillor Currie welcomed the level of detail provided in the accounts and the opportunity for the Committee to scrutinise them in an open and transparent way. However he said that it would be helpful if the Council could publish on its website a summarised version of the accounts, as it was important for the public to understand how the Council budget had been spent.

Decision

The Committee agreed to:

- note the 2015-16 audited final accounts, taking into consideration the External Auditors' Annual Audit Report; and
- note the intention to submit the audited final accounts in accordance with the statutory timetable.

3. EDUCATION RISK REGISTER

A report was submitted by the Chief Executive presenting to the Committee the Education Risk Register for discussion, comment and noting.

Paolo Vestri, Service Manager – Corporate Policy & Improvement, presented the report explaining to Members that although the current Risk Register contained 6 High risks, 10 Medium risks and 2 Low risks, as per the Council's Risk Strategy, only the Very High and High risks were reported to the Committee.

Councillor McAllister enquired about the relationship between the numbers of supply teachers and the sickness absence level among permanent teaching staff. Fiona Robertson, Head of Education, advised that it was the nature and availability of supply teachers which was more of a risk factor than the reason for supply.

In response to a question from the Convener, Ms Robertson indicated that the Council was aiming to increase cover by recruiting 4-6 permanent Primary supply teachers.

Councillor Currie asked about the planned risk control measures in relation to School Estate Management and whether the Condition and Suitability Survey would be extended to secondary schools.

Douglas Proudfoot, Head of Development, advised that the Council was adopting a risk based approach to all public buildings and that the current survey of primary schools would be extended to secondary schools and other public buildings.

Councillor Goodfellow referred to a recent report brought before Cabinet and another in the Members' Library relating to the Council's policy to address the shortage in supply teachers. He congratulated the Education Department on its work in this area.

Decision

The Committee agreed to note the Education Risk Register and, in doing so, note that:

- the relevant risks had been identified and that the significance of each risk was appropriate to the current nature of the risk.
- the total profile of the Education risk could be borne by the Council at this time in relation to the Council's appetite for risk.
- although the risks presented were those requiring close monitoring and scrutiny over the next year, many were in fact longer term risks for Education and were likely to be a feature of the risk register over a number of years.

4. CHILDREN AND ADULT SERVICES RISK REGISTER

A report was submitted by the Chief Executive presenting to the Committee the Children and Adult Services Risk Register for discussion, comment and noting.

Mr Vestri presented the report referring to 7 High risks, 10 Medium Risks and 1 Low risk contained in the current Risk Register. He reminded Members, as per the Council's Risk Strategy, that only the Very High and High risks were reported to the Committee.

Councillor Currie asked about the risk of the failure of a major Care Home, the effect of the recent Care Inspectorate review and the effectiveness of the planned risk control measures. Mr Vestri advised that the risk level was reassessed following the Care Inspectorate's review of services in East Lothian and that control measures were already in place. Trish Leddy, Service Manager in Adult Wellbeing, added that these measures were considered appropriate to manage the level of risk.

In response to a question about delayed discharges, Ms Leddy outlined the measures being put in place to address this issue. She acknowledged that the national target of 'no delays over two weeks' had been a regular topic for discussion but that delivering this would depend on a range of factors.

Councillor Currie said that the Council needed to be clear about its goal - meeting the national target or simply improving the current number of delayed discharges - and that this should be reflected in the document to allow progress and ongoing risk levels to be accurately assessed.

The Convener enquired about the use of Crookston Care Home as a step down facility. Ms Leddy replied that the current step down beds would be replaced by beds at Liberton Hospital and that Crookston would be used for decant of patients from Roodlands Hospital.

Councillor McAllister raised questions about the use of the top floor at Eskgreen Care Home and whether the Social Care Fund could be used to bring these beds into service. Ms Leddy offered to provide information on these matters.

In reply to a further question from Councillor McAllister, Ms Leddy confirmed that the Council would expect independent care providers to maintain the standard of the living wage.

Decision

The Committee agreed to note the Children and Adult Services Risk Register and, in doing so, note that:

- the relevant risks had been identified and that the significance of each risk was appropriate to the current nature of the risk.
- the total profile of the Children and Adult Services risk could be borne by the Council at this time in relation to the Council's appetite for risk.
- although the risks presented were those requiring close monitoring and scrutiny over the next year, many were in fact longer term risks for Children and Adult Services and were likely to be a feature of the risk register over a number of years.

5. ANNUAL WORK PLAN 2016/17

The Convener advised Members that the Annual Work Plan, which outlined the business of the Committee for the coming session, had been submitted for information.

Decision

The Committee agreed to note the contents of the Annual Work Plan 2016/17.

6. INTERNAL AUDIT REPORT – SECTION 75 PAYMENTS

A report was submitted by the Depute Chief Executive – Resources and People Services to inform the Committee of the recently issued audit report on Section 75 Payments.

Mala Garden, Internal Audit Manager, presented the report advising Members that, at the request of Management, a review had been undertaken of the arrangements in place for the administration, management and monitoring of Section 75 payments. She outlined the main findings and the recommendations for action, which had been accepted by Management.

Douglas Proudfoot, Head of Development, responded to questions from Councillor Currie regarding Section 75 agreements, the assessment of education contributions, the revised supplementary planning guidance which would support the proposed Local Development Plan (LDP) and the need for additional staff resource to take forward the next stage of the work.

In response to questions from Councillor Goodfellow, Ms Robertson confirmed that the review of the average New Build Child Per House Ratios had been undertaken. Mr Proudfoot added that the policy looked at the whole life of the LDP and would be subject to statutory consultation. However, this did not preclude subsequent revisions being made to take account of changing circumstances over the life of the LDP.

Ms Garden responded to further questions from Members confirming that where Internal Audit identified any significant weaknesses or failures in controls they would undertake further substantive testing. She said that the report did not quantify loss but rather systems failures and that any inconsistencies would be addressed by the actions agreed with Management.

Councillor Currie commented on the importance of ensuring that areas such as health and social care were factored into the calculations for future developer

contributions. He welcomed the report and that the recommendations would be completed before the implementation of the LDP.

Councillor Goodfellow also welcomed the report which he hoped would offer reassurance that the appropriate policies and systems were in now in place.

Decision

The Committee agreed to note the contents of the Executive Summary and Action Plan.

7. INTERNAL AUDIT REPORT ON DIRECT PAYMENTS – CHILDREN'S WELLBEING

A report was submitted by the Depute Chief Executive – Resources and People Services to inform the Committee of the recently issued audit report on Direct Payments – Children's Wellbeing.

Ms Garden presented the report summarising the areas where controls had been met, those with scope for improvement and the recommendations contained in the Action Plan which had been accepted by Management.

Decision

The Committee agreed to note the contents of the Executive Summary and Action Plan.

8. INTERNAL AUDIT REPORT - HOUSING VOIDS

A report was submitted by the Depute Chief Executive – Resources and People Services to inform the Committee of the recently issued audit report on Housing Voids.

Ms Garden presented the report outlining the findings and the recommendations contained in the Action Plan which had been accepted by Management.

In response to questions from Members, Caitlin McCorry, Service Manager – Community Housing, provided advice on the timescales for preparing void properties for re-letting and the arrangements in place for tenants with rent arrears who applied for a transfer.

Ms Garden advised that of the 40 cases reviewed by Internal Audit, 12 were transfer applications. She said that the reasons for the delays were not always clear and these cases had been passed to Management for further investigation. Ms Garden confirmed that the outcome of this work would be included in the follow up report.

Ms McCorry also informed Members that some of the recommendations would form part of the wider review of the Voids Policy which would begin later in the year and which would require a period of statutory consultation with tenants.

Monica Patterson, Depute Chief Executive, added that recommendations would be acted on as quickly as possible, subject to any legislative constraints.

Councillor Currie welcomed the report which highlighted the complexity of the system. He said it was important to take the time to get the policy right to allow Members and tenants to have confidence in the system. He added that when Members received the follow up report he hoped that it would provide reassurance that the necessary resources were in place.

Councillor Goodfellow commented that there should be something in the tenancy agreement which required tenants seeking a transfer to agree to a pre-transfer inspection.

Councillor McAllister observed that the less obvious aspect of housing voids was the impact on the surrounding community. He added that properties left empty over a long period often attracted anti social behaviour.

Decision

The Committee agreed to note the contents of the Executive Summary and Action Plan.

9. INTERNAL AUDIT PROGRESS REPORT 2016/17

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 2016/17.

Ms Garden presented the report which had been prepared to assist the Committee in their remit to evaluate Internal Audit’s work and measure progress against the annual audit plan.

Decision

The Committee agreed to note the contents of the Internal Audit Progress Report 2016/17.

Signed

Councillor Kenny McLeod
Convener of the Audit and Governance Committee

Dear Mr Lamond

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Introduction

Audit Scotland is a statutory body set up under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission for Scotland check that organisations spending public money use it properly, efficiently and effectively (<http://www.audit-scotland.gov.uk/about-us/audit-scotland>).

Audit appointments are made by the Accounts Commission and the Auditor General for a five year term. They are made either to Audit Scotland or to private firms of accountants. Audit Scotland will be your appointed auditor from 2016/17 to 2020/21.

In July 2016 Fiona Kordiak, Director of Audit Services, contacted you to share information about Audit Scotland, the principles that guide our work, and the senior management team appointed to carry out the audit of East Lothian Council. In that communication she agreed to provide further information on the wider audit team and our audit approach, meetings and timescales for reporting. I can now share that information with you, as follows.

Appointed auditors responsibilities

Auditor responsibilities are set out in the [Code of Audit Practice](#) which takes account of the statutory requirements, International Standards on Auditing (UK and Ireland) and professional requirements.

Building relationships and adding value

Whilst the foundation of our work is providing independent assurance about governance, financial management and performance we also look to add value by providing independent, evidence-based recommendations. We analyse strategic issues across the public sector so our audits can support continuous improvement.

At the outset of the audit appointment we will meet with relevant key officers to discuss your expectations from the audit and how we can add value through our approach. We will endeavour to maintain these constructive discussions throughout the audit appointment.

Maintaining open and constructive relationships will help us deliver an effective 'no surprises' audit through establishing a good understanding of the environment in which you operate, your objectives and the challenges you face.

Your local audit team will also act as a link to other parts of Audit Scotland and would be happy to arrange briefings on any of the national reports we publish.

The external audit team

The core audit team consists of the following staff and will be supported at peak times with additional resources to ensure key reporting deadlines are met:



Gillian Woolman

Assistant Director

✉ gwoolman@audit-scotland.gov.uk ☎ 0131 625 1981

Engagement lead established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

Gillian took up post as Assistant Director in 2001. Gillian trained with the private sector and worked overseas for five years before joining the NHS as a Chief Internal Auditor. Gillian has extensive experience of public sector audit in local government, central government and the NHS. Gillian is a member of LASAAC and chair of the regional strategic board of the ICAEW.



Esther Scoburgh

Audit Manager

✉ escoburgh@audit-scotland.gov.uk ☎ 0131 625 1735

Overall control of the delivery and quality of the audit including audit engagement and ensuring audit is properly planned, resourced and concluded within time.

Esther has over 16 years public sector audit experience in Scotland and has audited and managed a variety of organisations from health boards, local authorities, NDPBs, the Scottish Government and the Scottish Police Authority. Esther trained for her CIPFA qualification with Audit Scotland and prior to this Esther was a tax auditor in Canada.



Carol Foster

Senior Auditor

✉ cfoster@audit-scotland.gov.uk ☎ 0131 625 1720

Lead the audit team including being the main client contact for the audit of the financial statements and governance.

Carol has 11 years experience of public sector audit with Audit Scotland, covering local government and central government. Prior to this, she spent 9 years in an internal audit role in a Scottish local authority. Carol trained in a private sector accountancy practice before moving to the public sector.

Audit approach

Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of East Lothian Council. We also consider the key audit risks and challenges in the local government sector, this includes:

- understanding the business of East Lothian Council and the risk exposure which could impact on the financial statements
- assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how East Lothian Council will include these in the financial statements
- assessing and addressing the risk of material misstatement in the financial statements
- determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.

We also consider and document the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements.

In addition to the financial statements audit the Code of Audit Practice requires us to conclude on the four dimensions of the wider scope of public sector audit: Financial sustainability, financial management, governance and transparency and value for money. The conclusions reached contribute to an overall assessment and assurance on Best Value by assessing whether the audited body is demonstrating it is securing Best Value through continuous improvement.



Audit reporting and outputs

Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy. A copy of all final agreed reports will be made available to an agreed circulation list.

Over the course of an audit year we will issue a number of audit outputs in line with the Code of Audit Practice. These will include:



- Annual audit plan – summarises the annual plan of audit work based on an assessment of risk.
- Independent auditor’s report – provides the appointed auditor’s opinion on East Lothian Council financial statements and other prescribed matters.
- Annual audit report – summarises the findings arising from the annual audit of East Lothian Council and recommendations to address any high level risks identified.

In addition to these mandatory outputs, the following optional outputs may be issued during the course of the audit:

- Interim report
- Certification of relevant grant claims
- Any additional reports to management as deemed necessary during the course of the audit.

In the interests of transparency all our audit reports will be published on the Audit Scotland website www.audit-scotland.gov.uk.

Key timescales

An indicative timetable for the 2016/17 audit is included at Exhibit 1 below. We are happy to discuss this timetable in further detail and will try and accommodate any suggested changes you may have.



Exhibit 1: 2016/17 audit – indicative timetable



Key stage



Date

Key stage	Date
Audit planning	November 2016 – January 2017
Issue annual audit plan	February 2017
Testing internal control systems and transactions	February 2017 – March 2017
Issue interim report	May 2017
Latest submission date of unaudited financial statements with working papers package	30 June 2017
Financial statements audit fieldwork	July 2017 – September 2017
Agreement of audited financial statements, and issue of Annual audit report	September 2017
Independent auditor’s report signed	September 2017

Audit team accommodation and access to IT systems

As Audit Scotland are newly appointed auditors for East Lothian Council we feel it is important, in the first year of the appointment, for the audit team to be conducting work onsite more regularly as it helps establish good working relationships and to increase our knowledge of your organisation.

In order for the fieldwork to be carried out, it will be necessary for our audit team, whilst onsite, to have access to workstations and, potentially, relevant IT systems. It may also be necessary for them to be able to access the Audit Scotland network. We would also like to confirm that our staff would be covered by your health and safety arrangements whilst onsite.

There are a number of options to facilitate our onsite work and it would be helpful if we could be provided with the contact details of the most appropriate person within East Lothian Council to discuss this with.

Quality

Audit Scotland's vision is "To be a world class audit organisation that improves the use of public money". High quality audit work is fundamental to achieving this vision and we apply the same quality principles to all audit work we undertake. This commitment to quality has been formalised through the adoption of a Corporate Quality Framework, the principles of which apply equally to all of our work and all of our staff.

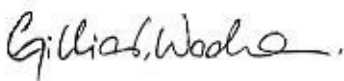
Handover arrangements

We have developed guidance to support auditors in achieving an efficient audit handover that minimises disruption to audited bodies.

In addition to the meetings between incoming and outgoing audit teams, early priority is for the new audit team to engage with key client contacts to exchange information.

We look forward to working with you over the next five years. In the meantime, should you wish to discuss matters further please do not hesitate to contact me.

Yours sincerely



Gillian Woolman, Appointed Auditor

Audit and Governance Committee - Annual Work Plan 2016/17

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Date	Internal Audit Reports	External Audit Reports	Accounts Commission/ Audit Scotland reports	Governance	Risk
29/11/16	Roads Contracts Public Services Network Payments to Third Sector Organisations Follow-up Reports Progress Report 2016/17	Client introductory document – short paper introducing the audit team		Treasury Management Mid-Year Review Report Council Improvement Plan Monitoring Report	Council Resources Risk Register
24/01/17	Schools Audit Prevention of Tenancy Fraud PPP Contract Monitoring Gas Servicing and Maintenance Income – Waste Services Information Security	Introducing the new Code of Audit Practice	Maintaining Scotland's Roads Social Work in Scotland		Risk Management Strategy Update
14/03/17	Freedom of Information (FOI) Workforce Planning Review of Performance Indicators	2016/17 Annual Audit Plan	How Councils Work – Roles and Responsibilities	2017 Corporate Governance Self-evaluation/ Annual Governance Statement	Service Risk Register

Date	Internal Audit Reports	External Audit Reports	Accounts Commission/ Audit Scotland reports	Governance	Risk
	Review of Previous Years' Work Internal Audit Plan 2017/18 Fuel Management Home to School Transport				
20/06/17	Capital Projects – Payment Certificates Housing Rents Housing Benefit and Council Tax Reduction Annual Internal Audit Report 2016/17 Controls Assurance Statement 2016/17	2016/17 Interim Management Report	Overview of Scottish Local Government (Mar 2017)	Draft 2015/16 Annual Accounts Treasury Management Statement	Corporate Risk Register

REPORT TO: Audit and Governance Committee
MEETING DATE: 29 November 2016
BY: Chief Executive
SUBJECT: Council Resources Risk Register

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1 PURPOSE

- 1.1 To present to the Audit and Governance Committee the Council Resources Risk Register (Appendix 1) for discussion, comment and noting.
- 1.2 The Council Resources Risk Register has been developed in keeping with the Council's Risk Management Strategy and is a live document which is reviewed and refreshed on a regular basis, led by the Council Resources Local Risk Working Group (LRWG).

2 RECOMMENDATIONS

- 2.1 It is recommended that the Audit and Governance Committee notes the Council Resources Risk Register and in doing so, the Committee is asked to note that:
 - the relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk.
 - the total profile of the Council Resources risk can be borne by the Council at this time in relation to the Council's appetite for risk.
 - although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer term risks for Council Resources and are likely to be a feature of the risk register over a number of years.

3 BACKGROUND

- 3.1 The Risk Register has been compiled by the Council Resources LRWG. All risks have been evaluated using the standard (5x5) risk matrix which involves multiplying the likelihood of occurrence of a risk (scored 1-5) by

its potential impact (scored 1-5). This produces an evaluation of risk as either 'low (1-4)', 'medium' (5-9), 'high' (10-19) or 'very high' (20-25).

3.2 The Council's response in relation to adverse risk or its risk appetite is such that:

- Very High risk is unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position;
- High risk may be tolerable providing the Council is assured that adequate and effective control measures are in place;
- Medium risk is tolerable with control measures that are cost effective;
- Low risk is broadly acceptable without any further action to prevent or mitigate risk.

3.3 The current Council Resources Risk Register includes 3 Very High risks, 6 High risks, 26 Medium risks and 11 Low Risks. As per the Council's Risk Strategy only the Very High and High risks are being reported to the Committee.

3.4 A copy of the risk matrix used to calculate the level of risk is attached as Appendix 2 for information.

4 POLICY IMPLICATIONS

4.1 In noting this report the Council will be ensuring that risk management principles, as detailed in the Corporate Risk Management Strategy are embedded across the Council.

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - It is the consideration of the Council Resources Local Risk Working Group that the recurring costs associated with the measures in place for each risk are proportionate to the level of risk. The financial requirements to support the Risk Register for the year ahead should be met within the proposed budget allocations. Any unplanned and unbudgeted costs that arise in relation to any of the corporate risks identified will be subject to review by the Corporate Management Team.

6.2 Personnel - There are no immediate implications.

6.3 Other - Effective implementation of this register will require the support and commitment of the Risk Owners identified within the register.

7 BACKGROUND PAPERS

7.1 Appendix 1 – Council Resources Risk Register

7.2 Appendix 2 – Risk Matrix

AUTHOR'S NAME	Scott Kennedy Paolo Vestri
DESIGNATION	Emergency Planning and Risk Officer Service Manager - Corporate Policy and Improvement
CONTACT INFO	skennedy@eastlothian.gov.uk 01620 827900 pvestri@eastlothian.gov.uk 01620 827320
DATE	17 November 2016

Council Resources Risk Register

Date reviewed: 17 November 2016

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
CR 1	<p>Welfare Reform</p> <p>The rollout of Universal Credit, (UC) in East Lothian started in April 2015. Whilst initially involving only a small number of cases the subsequent rollout by JCP/DWP of the Universal Credit Full (Digital) Service in East Lothian on 23rd March 2016 has seen a significant number of households migrate from legacy benefits to UC.</p> <p>This phase is called "Natural Migration". It will be followed by a "Managed Migration" phase during which all remaining working age HB cases will migrate to UC Housing. In spite of a reducing HB caseload, there has been a significant increase in workload as a result.</p> <p>The main risks/issues associated with the UC rollout include:</p> <ul style="list-style-type: none"> A wider range of people in scope for claiming UC & higher volume of cases as a consequence UC claimants need to make/maintain their claim online & make full-use their "journal". The built in 7 day waiting period for the majority new UC claims Extended processing times for UC claims, (min 32 days but potentially 42 days to 1st payment) Additional demand for (SWF) Crisis Grants. (Risk of overspend) The payment of UC Housing Costs direct to the claimant Increasing rent arrears for UC Claimants, (82% of ELC tenants claiming UC now in arrears), The interruption of the established link between Housing Benefits and Council Tax Reduction, (previously claimed jointly) An increased risk of take up of Council Tax Reduction, (CTR), (7.6% reduction in CTR expenditure during 1st 2 quarters of 2016/17) Risk of HB Admin' Subsidy reduction due to falling caseload. Increased reliance on automated data transfer between DWP/JCP and the Council 	<p>The Council has received several update reports and will continue to be updated.</p> <p>The Council has established a Welfare Reform Task Group to plan for the changes to the welfare system. The Task Group has a detailed action plan to ensure that the Council takes the necessary measures to prepare for the changes to the welfare system. The Task Group and its work stream sub groups are continuing to meet regularly and will continue to report back to the Council Management Team and to the Council.</p> <p>The Benefit Service is continuing to make full use of additional Discretionary Housing Payment, (DHP) funding to mitigate for the impact of the removal of the spare room subsidy & other forms of housing related hardship wherever possible. DHP is now also the main potential source of mitigation for detriment caused by either the introduction of the Benefit Cap and/or in Temporary Accommodation cases which no longer receive the "management fees" element via UC housing costs.</p> <p>An impact analysis report (UC on rent collection) has been produced and has been considered by Senior Management.</p> <p>The ELC Chief Executive has written to the UC Project to highlight the impacts of the UCFS rollout of EL residents and Council Services.</p> <p>The ELC Chief Executive and Service Managers have met with the Universal Credit Director General to discuss ongoing concerns with the UCFS rollout</p> <p>The Benefit Service is monitoring it's SWF & DHP expenditure. Whilst the goal is to contain expenditure within the confines of the existing budgets the Service regularly reports on the risk of any potential overspend to the CMT & Elected Members.</p> <p>Revenues & Benefits Services engage in meetings between other colleagues, CoSLA and DWP/Job Centre Plus staff to ensure a managed transition to Universal Credit is achieved.</p> <p>Castle Rock HA providing personal budgeting support for East Lothian UC claimants.</p>	5	4	20	<p>A further update report to Council is being drafted.</p> <p>A report about the impact of UC on HB/CTR and Rent Income Performance will be submitted to PPRC.</p> <p>The ELC Chief Executive has agreed to send further correspondence to the UC Director General to highlight the continuing impacts of the UCFS rollout of EL residents and Council Services.</p> <p>The Revenues and Benefits Services stand ready to co-operate with a planned engagement with the DWP's Operational Excellence Group, (OEG).</p> <p>The Revenues and Benefits Services will continue monitor the development of the Scottish Social Security Agency and all potential forms of mitigation which may be deployed to tackle welfare detriment in Scotland.</p> <p>ELC Management & staff will continue to engage with JCP/DWP, CoSLA and Scottish Governments at a range of levels to ensure that all lessons are learned from the rollout of UC Full Service in East Lothian and are incorporated into future plans for welfare.</p> <p>Regular Budget Planning Meetings will be held with ELC Budget Advisor in order to factor in all known funding information to service budgets.</p>	4	4	16	Depute Chief Executive – Resources and People Services	<p>20 December 2016</p> <p>11 January 2017</p> <p>TBC</p> <p>TBC</p> <p>Review Report due by 31 March 2017</p> <p>Initial Scottish Flexibilities April 2018, (TBC)</p> <p>Next CoSLA Welfare Advisors Group Meeting 18 November 2016</p> <p>Next UC Full Service Workshop January 2017</p> <p>Next Budget Planning meeting 17 November 2016</p> <p>Scottish Government and DWP Funding announcements expected in December 2016</p> <p>Natural Migration of Working Age HB Claims to UC due to be completed by 31 July 2019</p>	9	<p>Risk refreshed by Service Manager – Benefits, November 2016 with Current Risk Score increased from 16 to 20 due to the introduction of the Universal Credit "Full Service" since March 2016 with its inherent, underdeveloped processes etc along with other reforms coming on line, (such as Benefit Cap etc) all bringing a greater likelihood of detriment occurring, (should mitigating actions not be possible or fail to mitigate).</p>

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
	<ul style="list-style-type: none"> Previously agreed data sharing protocols no longer apply under UC "Full Service" (curtailing Council Officer's ability to make telephone enquiries about UC claimant's entitlement) Temporary Accommodation management charges not being covered by UC Housing Costs Increased demand for Discretionary Housing Payments, (DHP).risk of funding gap. Insufficient Housing Costs information to facilitate DHP decisions, (increasing the burden of proof on the DHP claimant) Concerns raised by Council Services over Job Centre Plus' ability to support vulnerable claimants through the migration to UC Early indications of UC becoming an increasing factor associated in instances of petty crime <p>Other reforms which continue to pose significant risks include:</p> <ul style="list-style-type: none"> The removal of the spare room subsidy from those claiming housing benefit and under occupying their homes. This reform is also known as the 'bedroom tax'. The introduction of a further Benefit Cap by the DWP, (from 7th November 2016) Temporary Accommodation funding uncertainties. <p>Efficient Workforce Management, restructures, budget restrictions and DWP/Scottish Government cuts could result in both the Revenues and Benefits services not being able to maintain levels of staff to allow the services currently provided to continue in their present form.</p>	<p>Approval was given in December 2015 for additional staffing resource within the Rent Income team to help manage the impact of UC on rent collection. 0.5FTE with immediate effect and provision made to increase establishment by 1 additional FTE in 2016/17 and 1 additional FTE in 2017/18, subject to management review.</p> <p>Recruitment has been ongoing to maintain current benefits establishment.</p> <p>DWP funding has been utilised to appoint a Welfare Development Officer and an additional Benefit Officer to assist in responding to UC pressures. (Both posts are temporary for 1 year).</p> <p>Promotion of ELC 'Right Benefit Campaign' objectives to maximise opportunity to qualify for FERIS incentive payments (to offset HB admin subsidy reductions).</p> <p>The Benefits & Financial Assessments Service Manager has joined the CoSLA Welfare Reform Advisor's Group.</p> <p>Council Officers have engaged in the Scottish Government's consultation process being carried out to inform plans for the devolved administration of up to 15% of the UK Welfare State. To-date this has included:</p> <ul style="list-style-type: none"> A substantial response to the SG's consultation exercise. Council Officers giving evidence to the Scottish Parliament's Social Security Committee. <p>The Revenues and Benefits Service Managers have attended PPRC to answer questions relating to the impact of the UC rollout on HB/CTR and Rent Collection performance.</p>											

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
CR 2	<p>Council IT systems are compromised by criminal 3rd party (e.g. hacker, terrorism) - causing the loss of a system, virus/Trojan/ransomware infection or loss/disclosure of data. This potentially could have a serious impact on one or more Council services.</p> <p>The Council's increased participation in shared services escalates this risk as the council's network boundaries are being opened up to enable data sharing with other agencies.</p>	<p>Systems are protected from the outside world by firewall.</p> <p>All external facing systems are vulnerability tested once a year and extra testing takes place on any change to form or function. Security logs are reviewed daily by IT staff. Comprehensive change control and IT security measures also in place to ensure confidentiality, integrity and availability of systems. All IT staff are trained in the change control procedure.</p> <p>Information security awareness training of employees provided council wide to ensure they are aware of risks.</p> <p>Take regular software and data backups to allow systems and data to be restored. Keep up to date with new and emerging threats.</p> <p>Ensure purchase of secure systems and maintain security through system life cycle. The Council complies with ISO27001 the International standard for Information Security (which sets out a risk based approach to ensure the confidentiality, integrity and availability of Council held information & information systems).</p> <p>Continual vulnerability testing.</p> <p>Continual review of security systems to ensure they are still capable of controlling new and emerging threats.</p> <p>Security systems are patched regularly every 2 months and reviewed to see if the hardware is fit for purpose.</p> <p>Receive and share information on cyber risk from UK Governments National Cyber Security Centre.</p> <p>The Council has carried out a programme of Information Security Awareness sessions within all schools.</p> <p>Procurement Initiation documents check whether IT issues have been considered by new procurements.</p> <p>All known proposals to share information are scrutinised by the IT Security Officer and Information Governance Compliance Officer.</p>	4	5	20	Acceptable use policy for all ELC employees is to be refreshed by March 2017 and all employees will be expected to re-sign.	3	5	15	Head of Council Resources Service Managers - IT Infrastructure and IT Business Services	March 2017		<p>Risk reviewed and updated by IT following delivery of training programme to staff, October 2016.</p> <p>Risk refreshed December 2015 with Current score increased from 15 to 20 and residual from 12 to 15 due to recent breach.</p> <p>Risk refreshed November 2014. Current Risk Score increased from 10 to 15 and Residual Risk score increased from 5 to 12 due to heightened risk.</p>

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
CR 3	<p>Council IT systems are compromised by the actions of an internal employee - causing the loss of a system, virus/trojan/ransomware infection or loss/disclosure of data. This potentially would have a serious impact on the business of the Council.</p> <p>HMG and UK Governments National Cyber Security Centre class the risk of cyber-attack in the UK as severe and threat from internal has risen due to ransomware attack increase.</p>	<p>Internal IT Systems are protected by antivirus, group policy etc. Employees sign the Acceptable Usage Policy and are party to various HR policies and legislation such as the Data Protection Act and Computer misuse act. Information security awareness, HR and Data Protection training etc is provided for employees.</p> <p>Continue to constantly improve security measures and keep up to date with new and emerging threats. Security logs are reviewed daily by IT staff. Comprehensive change control and IT security measures also in place to ensure confidentiality, integrity and availability of systems while all IT staff are trained in the change control procedure. Take regular software and data backups to allow systems and data to be restored. Keep up to date with new and emerging threats.</p> <p>Ensure we purchase secure systems and maintain security throughout the system life cycle. The Council complies with ISO27001 the International standard for Information Security (which sets out a risk based approach to ensure the confidentiality, integrity and availability of Council held information & information systems). Continual vulnerability testing. Continual review of security systems to ensure they are still capable of controlling new and emerging threats. Security systems are patched regularly every 3 months and reviewed to see if hardware fit for purpose. The Council has carried out a programme of Information Security Awareness sessions within all schools.</p>	5	4	20	<p>Acceptable use policy for all ELC employees is to be refreshed by 2017 and all employees will be expected to re-sign.</p>	3	4	12	<p>Head of Council Resources</p> <p>Service Managers - IT Infrastructure and IT Business Services</p>	March 2017	N/A	<p>Risk reviewed and updated by IT management October 2016 and with Current Risk score raised from 16 to 20 and residual score from 9 to 12 due to increase in current attacks in the UK.</p> <p>Risk refreshed December 2015 with Current score increased from 12 to 16 due to recent breaches.</p> <p>Risk refreshed November 2014 and Residual Risk Score increased from 6 to 9.</p>
CR 4	<p>Complete loss of ELC's circuit to the Internet, resulting in no access to external systems which include but not limited to Pecos, SEEMIS (schools management system) external email, home working access etc. This would have a serious impact on the business of the Council.</p>	<p>SLA's in place with supplier who has resilient backbone in place.</p>	3	5	15	<p>Introduce a second link to Internet from network outwith Haddington. Note: Capital funding bid not successful in 2016/17.</p>	1	5	5	<p>Head of Council Resources</p> <p>Service Manager - IT Infrastructure</p>	Review November 2016 to make another bid for funding	N/A	<p>Risk reviewed and updated by IT, October 2016.</p>
CR 5	<p>Loss/Theft of I.T. Hardware covering mobile devices (laptops, mobile phones and blackberries), memory sticks, external drives etc.</p> <p>This risk creates potential compromise of our infrastructure, data loss and disclosure and is also a cost to ELC as mobile devices can be very expensive.</p>	<p>Mobile devices above a specified value are asset tagged and recorded on the IT asset database and allocated to a user.</p> <p>Responsibility for the safety of the device lies with the user/s.</p> <p>Business Units must keep a record of each mobile device they are allocated and ensure regularly that the device is still with the allocated user.</p> <p>If device cannot be found then this must be reported immediately to IT Service Desk so</p>	4	3	12	<p>IT to communicate to all business units the need to maintain a record of each device, ensure each is with the allocated user, signed in and out if a shared device and regularly carry out a full check on all devices. This will be communicated via e-mail and ELNet initially and then repeated annually.</p>	3	3	9	<p>Head of Council Resources</p> <p>Service Managers - IT Infrastructure and IT Business Services</p>	March 2017		<p>Risk reviewed and updated by IT, Management October 2016.</p> <p>New risk created by Team Leader – Infrastructure & Security November 2015.</p>

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			L	I	L x I		L	I	L x I				
		<p>correct procedures for lost/stolen devices can take place.</p> <p>For shared/pool devices a responsible person in the business unit should be identified and should then ensure devices are signed out and back in when used. A count of devices must be taken regularly.</p>											
CR 6	<p>Breach of Data Protection or other confidentiality requirements through the loss or wrongful transmission of information (including information stored electronically). This could occur through:</p> <ul style="list-style-type: none"> - private committee reports, minutes or constituent correspondence not being stored or disposed of appropriately; - loss of material during transit; - individuals not being aware of their responsibilities in respect of confidential material; - lack of appropriate facilities for storage or disposal of material; <p>Effects could include:</p> <ul style="list-style-type: none"> - breach of relevant laws; - breach of duty of care; - harm to individuals; - legal action and fines; - requirement to pay compensation; - adverse publicity; - damage to the Council's reputation. <p>The Council's increased participation in shared services poses a risk for information security/data protection, as the council's network boundaries are being opened up to enable data sharing with other agencies.</p> <p>Any breaches could result in loss of PSN connection or fines from the Information Commissioner.</p>	<p>Arrangements for secure filing and storage of confidential papers.</p> <p>Disposal of confidential waste separately from other papers.</p> <p>Internal mail and/or Council Contractor used to transport Private & Confidential materials.</p> <p>Council PCs and laptops do not accept unencrypted external storage devices.</p> <p>Committee documents dealing with sensitive personal information (e.g. criminal convictions) are now issued only in hard copy, not electronically.</p> <p>Checks on licensing sub-committee documents are made by a second clerk when relevant documents are uploaded.</p> <p>Data Compliance Officer carrying out a programme of data protection health checks and the Data Protection Policy has been approved.</p> <p>Revenues Information Security Procedure in place.</p> <p>Continual reviewing of arrangements.</p> <p>Maintaining staff awareness through team meetings, briefing sessions and health checks.</p> <p>Online Data Protection Training rolled out to all employees and repeated every 2 years.</p> <p>All known proposals to share information are scrutinised by the IT Security Officer and Information Governance Compliance Officer.</p> <p>Procurement Initiation documents check whether IT issues have been considered by new procurements.</p> <p>The Council has carried out a full programme of Information Security Awareness sessions within all schools.</p>	3	4	12	<p>Acceptable use policy for all ELC employees is to be refreshed by March 2017 and all employees will be expected to re-sign.</p> <p>Monitoring of take up of compulsory Data Protection training with service managers being alerted to those members of staff who have not completed up to date training.</p>	3	3	9	<p>Service Manager - Licensing, Admin & Democratic Services</p> <p>All managers.</p>	<p>March 2017</p> <p>March 2017</p>	<p>Risk refreshed October 2016.</p> <p>Risk refreshed December 2015 with current score increased from 9 to 12 due to recent breach and involvement of Information Commissioner.</p>	
CR 7	<p>Failure of client services to comply with our procurement processes through lack of knowledge/experience and/or also business failure of key suppliers leads to service failure, poor value for money, fraud, loss of reputation and/or legal action.</p>	<p>Corporate Procurement Strategy and Procedures in place.</p> <p>Purchase Card Procedures</p> <p>Procurement Improvement Panel (PIP) in place.</p> <p>Regular reporting to PIP and CMT.</p> <p>Procurement Skills Training carried out.</p> <p>Controls in place over New Suppliers.</p> <p>Supplier Finder on Intranet.</p> <p>Close working with internal audit and departments (Audited regularly).</p> <p>CMT ensuring improved compliance with existing Procurement Procedures by championing them and taking action when breaches are found.</p>	3	4	12	<p>Recruiting additional procurement staff to enable increased staff training and more focus on contract management and the improved contract management procedures.</p>	2	4	8	<p>Service Manager – Legal & Procurement</p> <p>All ELC Service Managers</p>	<p>January 2017</p>	<p>N/A</p>	<p>Risk Refreshed October 2016 by Service Manager - Legal and Procurement with no change to score and new planned measure added.</p>

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review	
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			L	I	L x I		L	I	L x I					
CR 8	Risk of losing PSN accreditation which gives us connection to systems such as Blue Badge, Registrars of Scotland, DWP, Police etc. which could be caused by failure to comply with PSN Code of Connection and would seriously impact upon the business of the Council.	Complying with mandatory controls set by HMG to ensure we are able to meet government PSN Code of Connection.	2	5	10	Constant monitoring of code of connection and how we align with it. Keeping security and other devices up to date - patching etc.	1	5	5	Head of Council Resources Service Managers - IT Infrastructure and IT Business Services	March 2017	N/A	Risk reviewed and updated by IT, October 2016.	
CR 9	Council wide Catastrophic failure of central IT systems (inc Telephony) which could be caused by a fire/flood event, terrorist attack or a major virus. This would have a serious impact on the business of the Council. The Council's increased participation in shared services escalates this risk as the council's network boundaries are being opened up to enable data sharing with other agencies.	Disaster Recovery Plan in place for major systems. Business Continuity plan in place - backup site for systems identified and core system backup plan created. All known proposals to share information are scrutinised by the IT Security Officer and Information Governance Compliance Officer.	2	5	10	Continual development of IT disaster recovery plan based on lessons learned from regular testing of existing plan.	1	4	4	Head of Council Resources Service Managers - IT Infrastructure and IT Business Services	March 2017	N/A	Risk reviewed and updated by IT, October 2016.	
Original date produced (Version 1)		19th December 2011										Risk Score	Overall Rating	
File Name		CH&PM Risk Register										20-25	Very High	
Original Author(s)		Scott Kennedy, Risk Officer										10-19	High	
Current Revision Author(s)		Scott Kennedy, Risk Officer										5-9	Medium	
Version	Date	Author(s)	Notes on Revisions										1-4	Low
1	19/12/2011	S Kennedy	Original Version											
2	31/05/2012	S Kennedy	IT Risks updated by S Buczyn and Register revised following Senior Management Restructure											
3	19/11/2012	S Kennedy	Updated following update of Risk Strategy											
4	Jan-June 2013	S Kennedy	Updated following review of Legal Services Risks.											
5	Feb – May 2013	S Kennedy	H&S transferred to Policy & Partnerships, IT and HR risks updated and Welfare Reform risk added.											
6	June-July 2013	S Kennedy	Revenues & Benefits and Finance Risks updated.											
7	September 2013	S Kennedy	Slight alterations to risks by Head of Council Resources											
8	October 2013	S Kennedy	Welfare Reform Risk updated by Task Group and Internal Audit Risk updated (no changes to risk rating).											
9	December 2014/January 2015	S Kennedy	Legal and Procurement, Licensing, Administration & Democratic Services, I.T, HR/Payroll, Finance and Revenues & Benefits risks refreshed.											
10	February 2015	S Kennedy	Finance Risks reviewed and refreshed and Benefits risks further refreshed.											
11	December 2015	S Kennedy	Legal & Procurement, Revenues & Benefits, I.T. and HR & Payroll Risks refreshed.											
12	February 2016	S Kennedy	Finance Risks reviewed and refreshed.											
13	October 2016	S Kennedy	All risks reviewed and refreshed.											

Appendix 2
East Lothian Council
Risk Matrix

Likelihood Description

Likelihood of Occurrence	Score	Description
Almost Certain	5	Will undoubtedly happen, possibly frequently >90% chance
Likely	4	Will probably happen, but not a persistent issue >70%
Possible	3	May happen occasionally 30-70%
Unlikely	2	Not expected to happen but is possible <30%
Remote	1	Very unlikely this will ever happen <10%

Impact Description

Impact of Occurrence	Score	Description						
		Impact on Service Objectives	Financial Impact	Impact on People	Impact on Time	Impact on Reputation	Impact on Property	Business Continuity
Catastrophic	5	Unable to function, inability to fulfil obligations.	Severe financial loss (>5% budget)	Single or Multiple fatality within council control, fatal accident enquiry.	Serious - in excess of 2 years to recover pre-event position.	Highly damaging, severe loss of public confidence, Scottish Government or Audit Scotland involved.	Loss of building, rebuilding required, temporary accommodation required.	Complete inability to provide service/system, prolonged downtime with no back-up in place.
Major	4	Significant impact on service provision.	Major financial loss (3-5% budget)	Number of extensive injuries (major permanent harm) to employees, service users or public.	Major - between 1 & 2 years to recover pre-event position.	Major adverse publicity (regional/national), major loss of confidence.	Significant part of building unusable for prolonged period of time, alternative accommodation required.	Significant impact on service provision or loss of service.
Moderate	3	Service objectives partially achievable.	Significant financial loss (2-3% budget)	Serious injury requiring medical treatment to employee, service user or public (semi-permanent harm up to 1yr), council liable.	Considerable - between 6 months and 1 year to recover pre-event position.	Some adverse local publicity, limited damage with legal implications, elected members become involved.	Loss of use of building for medium period, no alternative in place.	Security support and performance of service/system borderline.
Minor	2	Minor impact on service objectives.	Moderate financial loss (0.5-2% budget)	Lost time due to employee injury or small compensation claim from service user or public (First aid treatment required).	Some - between 2 and 6 months to recover.	Some public embarrassment, no damage to reputation or service users.	Marginal damage covered by insurance.	Reasonable back-up arrangements, minor downtime of service/system.
None	1	Minimal impact, no service disruption.	Minimal loss (0.5% budget)	Minor injury to employee, service user or public.	Minimal - Up to 2 months to recover.	Minor impact to council reputation of no interest to the press (Internal).	Minor disruption to building, alternative arrangements in place.	No operational difficulties, back-up support in place and security level acceptable.

Risk	Impact				
	None (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost Certain (5)	5	10	15	20	25
Likely (4)	4	8	12	16	20
Possible (3)	3	6	9	12	15
Unlikely (2)	2	4	6	8	10
Remote (1)	1	2	3	4	5

Key

Risk	Low	Medium	High	Very High
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REPORT TO: Audit and Governance Committee

MEETING DATE: 29 November 2016

BY: Depute Chief Executive - Resources and People Services

SUBJECT: Treasury Management Strategy Statement and Annual Investment Strategy – Mid Year Review 2016/17

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1 PURPOSE

- 1.1 To update the Committee on Treasury Management activity during the first half of 2016/17.

2 RECOMMENDATIONS

- 2.1 The Committee are asked to note the content of the report

3 BACKGROUND

- 3.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in a way which takes account of risk and return.
- 3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 3.3 Specialist Treasury Management advice is provided to the Council on a contractual basis by Capita Asset Services. This service includes daily market updates and regular review meetings. Operational decisions are made by the Service Manager - Corporate Finance in accordance with the approved Treasury Management Strategy, in consultation with the Head of Council Resources and after considering the advice provided by Capita Asset Services.

- 3.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:
- An economic update for the 2016/17 financial year to 30 September 2016;
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy approved by the Council on 23th February 2016;
 - A review of the Council's borrowing for 2016/17
 - A review of the Council's investment activity for 2016/17

Extract from Economic update by Capita Asset Services

- 3.5 The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, prior to the outcome of the USA elections subsequent surveys had shown a sharp recovery in confidence.
- 3.6 The current situation is that markets remain uncertain in the wake of Donald Trump's election. There are concerns about how the President elect will interact with his colleagues on Capitol Hill, and what his policies actually are and how he plans to fund them.
- 3.7 The FTSE 100 fell as gold miners and other defensive stocks slipped amid expectations that there will be a large US economic stimulus based on President Trump's pledges of cuts and infrastructure spending. Meanwhile sterling made headway against the US Dollar as markets consider the Trump effect.
- 3.8 European markets edged lower as losses in utility stocks offset gains in the financial sector. With the triumphs of Brexit and Trump, there are concerns about the political risks within the Euro zone given the domestic elections facing member states, not least France. In the wake of this the Euro suffered, dropping low against Sterling.
- 3.9 Wall Street had a mixed session as the banking sector surged to levels not seen since 2008, but technology sank as investors reassessed the prospect of the Trump presidency.
- 3.10 The annualised decline in Japanese producer prices continues to weaken for a fourth straight month. Overall Asian markets saw shares stumble as soaring US bond yields raised concerns about outflows
- 3.11 Gilt sales say yields pushed to their highest level since the June Brexit vote, as investors were swept along by inflation expectations on Trump's spending plans and reduction in trade openness.
- 3.12 Interest rates were cut to the lowest ever levels as expected in the light of the Bank of England's post Brexit comments. There remains speculation

that there could be further stimulus to come. Rates are expected to remain low for a prolonged period of time.

3.13 The following table shows Capita Asset Services' forecast for interest rates:

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

Review of the Treasury Management Strategy Statement and Annual Investment Strategy.

3.14 There are no policy changes to the Treasury Management Strategy Statement (TMSS) approved by the Council on 23 February 2016. No changes are required to the prudential indicators approved in the TMSS and approved prudential indicators have been complied with during the first six months of 2016/17.

Borrowing Update

3.14 The Council's capital financing requirement (CFR) for 2016/17 is £399m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

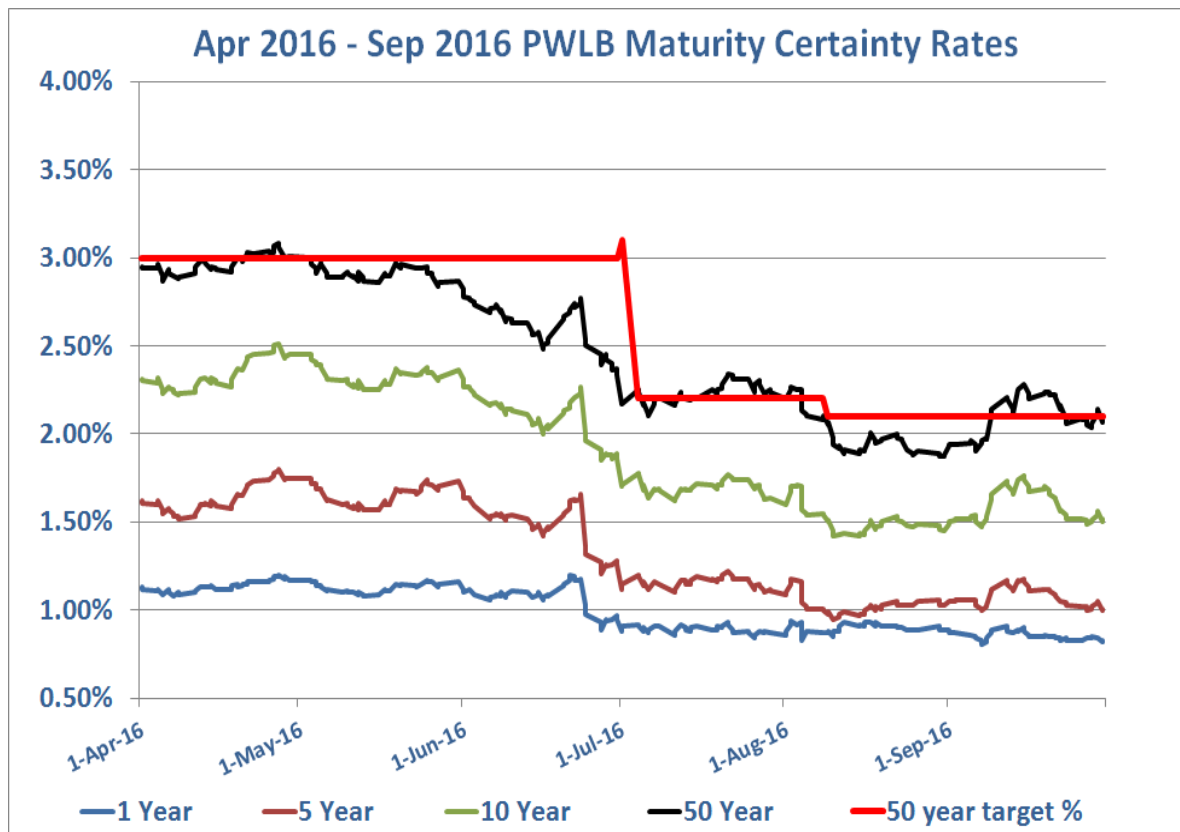
3.15 Due to the overall financial position and the underlying need to borrow for capital purposes (the capital financing requirement - CFR), new external borrowing of £20m was undertaken from the PWLB:

Date of Borrowing	Principal	Maturity	Interest Rate
28/06/16	£5m	46 years	2.49%
18/08/16	£5m	49 years	1.91%
18/08/16	£5m	43 years	1.91%
30/08/16	£5m	49 years	1.88%

3.16 The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date for comparison:

PWLB Certainty Rates 1 April 2016 to 30 September 2016

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
30/9/16	0.83%	1.01%	1.52%	2.27%	2.10%
Low	0.81%	0.95%	1.42%	2.08%	1.87%
Date	07/09/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.99%	1.33%	1.92%	2.69%	2.46%



3.17 One PWLB loan matured during the first six months and was repaid:

Date repaid	Principal	Maturity	Interest rate
24/9/16	£5m	7 years	3.48%

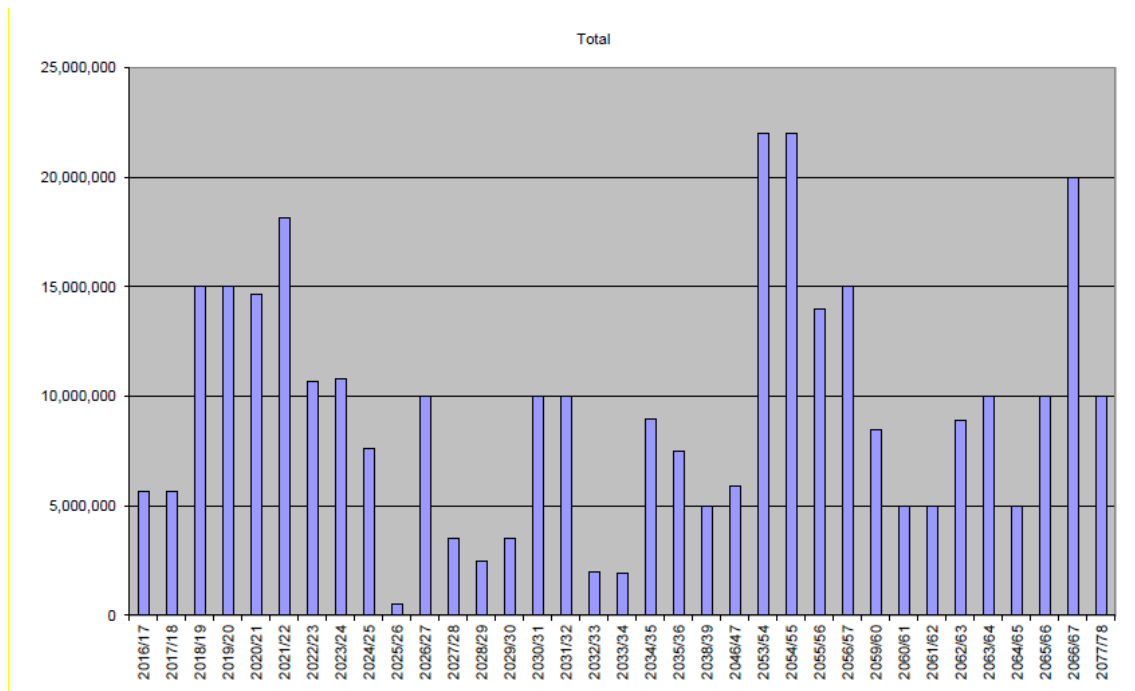
3.18 There were no short term loans taken and the following short term loan matured and was repaid:

Date of borrowing	Lender	Amount	Interest rate	Date repaid
29/03/16	Kensington & Chelsea	£5m	0.60%	26/09/16

3.19 Due to this the Council's overall external borrowings are £346m at 30 September.

3.20 There is a further maturity of £0.7m in December.

Current Maturity Profile



- 3.21 We are monitoring our cash flow carefully and it is anticipated that further borrowing will be undertaken during this financial year. However should market conditions change the council is well placed to support any additional borrowing or investments activity that may arise.

Debt Rescheduling

- 3.22 No debt rescheduling was undertaken during the first six months of 2016/17 as debt rescheduling opportunities have been limited in the current economic climate, with the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010.
- 3.23 In accordance with a request made by the Audit and Governance Committee, some exploratory work is being undertaken to assess any potential opportunity for review of the Council's existing contractual commitments under the PPP. The Committee will be kept up to date with any developments as they become known.

Investment Update

- 3.23 Investment decisions during the first 6 months of 2016/17 were taken in accordance with the approved strategy. There were no new investments during the period and surplus cash balances were held in the Council's bank account, East Lothian Council Common Good funds and Charitable Trust funds are managed in two separate portfolios by an external investment management company, Investec. At 30 September 2016, the East Lothian Charitable Trust portfolio was valued at £3.091m, which represents an increase of £0.284m over the 6 month period. The Common Good portfolio was valued at £3.143m which represents an increase of £0.294m over the 6 month period.

4 POLICY IMPLICATIONS

- 4.1 There are no direct policy implications associated with this report however the Council's treasury management activity is determined by the policy framework set out in the approved Treasury Management Strategy.

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 - There are no direct financial implications associated with this report however the Council's Treasury Management activity clearly has a significant impact on the management of the Council's financial resources.

6.2 Personnel – None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 Treasury Management Strategy 2016/17 to 2018/19 – East Lothian Council 23 February 2016.

AUTHOR'S NAME	Liz Shaw
DESIGNATION	Corporate Finance Manager
CONTACT INFO	lshaw@eastlothian.gov.uk
DATE	17 November 2016

REPORT TO: Audit and Governance Committee
MEETING DATE: 29 November 2016
BY: Depute Chief Executive - Partnerships and Community Services
SUBJECT: 2016/17 Council Improvement Plan Monitoring Report

6

1 PURPOSE

- 1.1 To present the 2016/17 Council Improvement Plan six-month monitoring report to the Audit and Governance Committee.

2 RECOMMENDATIONS

- 2.1 That the Committee notes the progress in achieving the Council Improvement Plan as detailed in the monitoring report (Appendix 1).

3 BACKGROUND

- 3.1 The 2016/17 Council Improvement Plan was approved by Council on 25 June 2016. The action points in the Plan are primarily drawn from the results of the How Good is Our Council? (HGIOC) self-evaluation carried out by all services and the Corporate Governance self-evaluation. Consideration was also given to the findings and recommendations contained in Audit Scotland's Overview of Local Government in Scotland, Audit Scotland's Annual Report to Members and the Shared Risk Assessment prepared by the Local Area Network, although no specific improvement points were identified from these reports.
- 3.2 The six month monitoring report (Appendix 1) outlines progress that has been made in completing the 12 actions in the Improvement Plan since the Plan was adopted in June 2016. It shows that significant progress has been made on most actions and that all actions will be completed by March 2017.

4 POLICY IMPLICATIONS

- 4.1 The 2016/17 Council Improvement Plan will assist the Council in demonstrating that it is achieving Best Value. It will provide the necessary focus to improve key areas of the Council at a corporate level, thus aiding delivery of the Council Plan. Moreover, it will support East Lothian Council in its constant striving for continuous improvement, to continue improving the quality and delivery of its services and to meet the Council Plan objective:

Growing the capacity of our Council to deliver excellent services as effectively and efficiently as possible within our limited resources.'

4.2 All the improvement points in the 2016/17 Improvement Plan will contribute to meeting this outcome. Also, the Plan supports the Council's improvement programme based around the following four key elements:

- Services built around people and communities
- Effective, efficient and excellent services
- Working together to achieve outcomes
- Prioritising prevention and promoting equality.

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial – none.

6.2 Personnel – none directly, although certain actions within the Plan are likely to require the commitment of staff resources.

6.3 Other – none.

7 BACKGROUND PAPERS

7.1 Appendix 1: 2016/17 Council Improvement Plan Monitoring Report

7.2 Council Improvement Plan; report to Council, 25 June 2016

AUTHOR'S NAME	Paolo Vestri
DESIGNATION	Corporate Policy and Improvement Manager
CONTACT INFO	pvestri@eastlothian.gov.uk 01620 827320
DATE	18 November 2016

Appendix 1: 2016/17 Council Improvement Plan Monitoring Report

2016/17 Council Improvement Plan – Update Nov 2016

We deliver excellent services as effectively and efficiently as possible

	ACTION	LEAD	TIME-SCALE	Update
1	Begin developing a new Council Plan for 2017 – 2022 in autumn 2016. The Draft Plan will be presented to Council in early 2017 and form the basis of the Plan to be adopted by Council in August 2017. The work to develop the Draft Plan will include review of the East Lothian Profile, challenges and opportunities facing East Lothian and East Lothian Council and a review of Council policies to ensure they are relevant and up-to-date	Service Manager Corporate Policy & Improvement	Feb 2017	The process of preparing the draft Council Plan has begun and is on schedule to present draft Plan to Council in Feb 2017
2	Undertake benchmarking exercises on three service areas in order to better understand the variance in East Lothian Council performance against other councils	Service Manager Corporate Policy & Improvement and relevant Service Managers	Mar 2017	The Council is participating in benchmarking exercises supported by the Improvement Service
3	Carry out a Review of at least one service during 2016/17 using PIs, benchmarking data, customer satisfaction etc	Service Manager Corporate Policy & Improvement and relevant Service Managers	Mar 2017	Service review will be undertaken by March 2017
4	Prepare an elected members' Induction Programme, including mandatory elements, a briefing on the role of elected members on partnership bodies and arms length organisations and offering the opportunity to undertake a Continuous Personal Development Programme, in consultation with elected members for council approval prior to the 2017 Council elections	Service Manager Democratic Services	Jan 2017	Elected members' induction programme is being prepared – on schedule for report to be presented to Council in Feb 2017
5	Review Standing Orders including the Scheme of Administration (roles and responsibilities of Council Committees) and the Scheme	Service Manager Democratic	Mar 2017	Review of Standing Orders to be carried out

	of Delegation	Services		and will be completed by March 2017
6	Review the Workforce Development Plan	Service Manager Corporate Policy & Improvement	Completed	Workforce Development Plan 2012-2017 is still relevant and guiding priorities for training development. A new plan will be prepared following IIP assessment in March 2017
7	Promote greater awareness of Council policies such as the Gifts and Hospitality policy and Register of Interests	Service Manager Democratic Services	Oct 2016	A programme to increase awareness of Council policies including Gifts and Hospitality policy is being developed. This will include staff briefings and use of the new Intranet and staff 'e-zine'
8	Review and where appropriate, act on the recommendations of the East Lothian Poverty Commission	Service Manager Corporate Policy & Improvement	Oct 2016	The Poverty Commission report was approved in principle by Council (Oct 2016). An Action Plan based on the report's recommendations will be considered as part of development of the new Council Plan (Feb 2016) and the new East Lothian Plan
9	Review and where appropriate, act on the new duties and responsibilities arising the Community Empowerment (Scotland) Act 2015	Service Manager Corporate Policy & Improvement	Oct 2016	Publication of Guidance on the Act has been delayed until mid-December. Guidance on how the Council will respond to the new

				duties and responsibilities is being prepared and policy issues will be considered by Cabinet when developed
10	The Council will follow up the review of STRIVE (the Third Sector interface) to further strengthen the relationship between the third sector, the Council and East Lothian Partnership	Service Manager Corporate Policy & Improvement	Dec 2016	The final report of the review of STRIVE was presented to East Lothian Partnership in October. Further discussions are being held to agree proposals for taking the report's recommendations forward
11	Implement staff communications plan to ensure staff are fully informed and engaged; including identifying ways to recognise and celebrate excellent performance and employee achievement	Service manager Corporate Policy & Improvement	Completed	Staff communications is being developed through new Intranet and new staff 'e-zine'. STAR Awards recognises and celebrates employee achievement
12	Implement the Web Development strategy to provide a more responsive and effective Council website that will support more 'self-service' activity by council service users – 'Channel Shift'	Service Manager Corporate Policy & Improvement	Mar 2017	Web Development and 'Chanel Shift' work is being undertaken including procurement of responsive website and on-line service delivery which will provide Customer Relations Management functionality with a view to procurement taking place early 2017

REPORT TO: Audit and Governance Committee
MEETING DATE: 29 November 2016
BY: Depute Chief Executive – Resources & People Services
SUBJECT: Internal Audit Report – Roads Contracts

7

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Roads Contracts.

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A review of Roads Contracts was undertaken as part of the audit plan for 2016/17.
- 3.2 The main objective of the audit was to ensure that the internal controls in place for the administration of Roads Contracts 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 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

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	17 November 2016

EAST LOTHIAN COUNCIL – INTERNAL AUDIT ROADS CONTRACTS

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls surrounding the administration of Roads Contracts was undertaken as part of the Audit Plan for 2016/17. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has in place an approved Corporate Procurement Procedures Manual, which forms part of the Council's Standing Orders – access to these procedures is available via the Council's intranet.
- Adequate arrangements are in place for the authorisation of interim and final certificates of payment.

1.3 Areas with Scope for Improvement

- In some instances, there had been a failure to follow the Council's Corporate Procurement Procedures – additional work had been awarded to existing contractors without following the appropriate procurement procedures. *Risk – failure to obtain best value.*
- In one case, the contract was awarded to a contractor who had failed to submit all requested tender documentation – the signed contractor's offer, the goods vehicle operator licensing certificate, the prompt payment certificate and the anti-collusion certificate did not form part of the tender submission, but were accepted by the Council after the deadline date. *Risk – failure to comply with the Council's procedures.*
- There was a failure to ensure that contract variations had been appropriately documented and properly authorised – in a number of cases variation orders had not been issued where additional costs had been incurred during the course of the contract. *Risk – errors or irregularities may occur and remain undetected.*
- There was a lack of appropriate checking procedures in place to confirm that contractors held a valid insurance certificate. *Risk – failure to comply with the Council's insurance requirements.*
- The procedures in place for calculating liquidated and ascertained damages require review – in a number of cases the rates had been incorrectly calculated. *Risk – failure to recover all amounts due.*
- In two cases, no VAT receipts were held in respect of significant payments made to contractors. *Risk – failure to comply with HMRC requirements.*
- In some cases, an inconsistent approach had been adopted for calculating contract over or under spends on the final certificate of payment. *Risk – errors and anomalies may occur and remain undetected.*

1.4 Summary

Our review of Roads Contracts 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

November 2016

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
ROADS CONTRACTS**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.2	Management should review the adequacy and effectiveness of the existing procedures in place.	Medium	Acting Team Manager – Engineering and Operations	Agreed		February 2017
3.2.1	Management should ensure that cost estimates provided on the Procurement Initiation Document are consistent with the programme of works.	Medium	Acting Team Manager – Engineering and Operations	Agreed – where rates change the programme of works will be updated.		November 2016
3.2.2	Management should ensure that all works are properly procured in line with the Council's Corporate Procurement Procedures.	High	All Service Managers	Agreed – raising awareness of Council's Corporate Procurement Procedures. Provision of Procurement training.		November 2016 Spring 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.2 (cont)	Management should ensure that all Procurement advice provided to service areas is clearly documented.	High	Service Manager – Legal and Procurement	Agreed – Procurement advice to be confirmed in writing.		November 2016
3.2.3	Management should review the current practice of accepting tender submissions where there has been a failure by the contractor to submit all requested tender documentation.	Medium	Service Manager – Legal and Procurement	Agreed – review of current practice and development of guidelines regarding what is considered essential tender information.		November 2016
3.2.4	Management should ensure that the successful contractor is formally advised of the contract award. Management should ensure that the signed copy of the Council's acceptance of the contractor's offer is sent to the successful contractor.	Medium	Acting Team Manager – Engineering and Operations	Agreed		November 2016
3.3.1	Management should ensure that all tender documents issued by the Council clearly set out the contractors' insurance requirements.	Medium	Acting Team Manager – Engineering and Operations	Agreed		November 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1 (cont)	Management should ensure that appropriate checking procedures are in place to confirm contractors hold a valid insurance certificate.	Medium	Acting Team Manager – Engineering and Operations	Agreed		November 2016
3.4.1	<p>Management should ensure that the daily rate for liquidated and ascertained damages is correctly calculated – evidence of the calculation should be retained on file.</p> <p>Management should ensure that calculations for liquidated and ascertained damages are checked and approved by a person independent of the preparer.</p>	Medium	Acting Team Manager – Engineering and Operations	Agreed		November 2016
3.5.1	<p>Management should review the existing arrangements in place for contract variations.</p> <p>Management should ensure that contract variations are appropriately documented and properly authorised.</p>	Medium	Acting Team Manager – Engineering and Operations	Agreed		November 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.7.1	<p>Management should ensure that contractors are notified of wrongly assessed amounts – evidence should be retained on file.</p> <p>Management should ensure that valid VAT receipts are obtained for payments made to contractors in line with HMRC requirements.</p>	Medium	<p>Acting Team Manager – Engineering and Operations</p> <p>Service Manager – Corporate Finance</p>	<p>Agreed</p> <p>Agreed – requests will be made weekly for all outstanding VAT receipts – electronically where possible. This will then be reconciled on a monthly basis to ensure that receipts are being received within an appropriate timescale.</p>		<p>November 2016</p> <p>Ongoing</p>
3.7.2	<p>Management should ensure that the information submitted on the final certificate of payment is accurate and complete.</p> <p>Management should review and update the final certificate of payment form.</p>	Medium	Acting Team Manager – Engineering and Operations	<p>Agreed</p> <p>Agreed</p>		<p>November 2016</p> <p>February 2017</p>

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: 29 November 2016

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – Public Services Network

8

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Public Services Network (PSN) compliance.

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A high level review of PSN compliance was undertaken as part of the audit plan for 2016/17.
- 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 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

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	17 November 2016

EAST LOTHIAN COUNCIL – INTERNAL AUDIT PUBLIC SERVICES NETWORK

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2016/17 a high level review of Public Services Network (PSN) compliance was undertaken. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has successfully achieved the PSN connection compliance certificate for 2016/17 – the certificate was issued on 3 November 2016 following completion of the PSN compliance verification process.
- The Council has a number of policies in place covering information security.
- A unique user ID is assigned to all users with access to the corporate network.
- Access to the Council's data centres is restricted to key members of staff.
- Adequate arrangements are in place to ensure that annual independent IT Health Checks are undertaken to identify ICT security weaknesses.
- A clear audit trail is maintained of all security incidents and of the action taken.
- Remediation Action Plans are prepared to address risks identified by the IT Health Checks.

1.3 Areas with Scope for Improvement

- The existing processes in place for the patching and upgrading of systems and application software require to be formalised. *Risk – an inconsistent approach may be adopted.*
- There was a lack of evidence to demonstrate that regular reviews are undertaken of user accounts and administrator accounts. *Risk – lack of a clear audit trail.*
- The Council's 2015/16 PSN submission records that all employees are required to re-sign the Council's IT Acceptable Use Policy every two years, however we found that this has yet to be actioned. *Risk – failure to ensure staff awareness of Council policy.*
- A Council-wide Information Security Forum has been established to discuss information security issues and to risk assess any new services or systems, however the Forum has not met since 2012. *Risk – failure to meet information security standards.*
- The existing arrangements in place for third party access to Council systems require review. *Risk – lack of a clear audit trail.*
- The draft information security incident procedure requires to be formalised. *Risk – an inconsistent approach may be adopted.*

1.4 Summary

Our review of PSN compliance 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

November 2016

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
PUBLIC SERVICES NETWORK**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.2	Management should ensure that all relevant members of staff re-sign the IT Acceptable Use Policy as set out in the Council's PSN submission.	Medium	Service Manager – IT Infrastructure	The Acceptable Use Policy will be reviewed and reissued for all relevant staff to sign.		August 2017
3.1.3	Management should ensure that the Council's Information Security Forum is re-established to ensure compliance with PSN requirements.	Medium	Service Manager – IT Infrastructure	Agreed – this will require support from Senior Management across the Council.		January 2017
3.2.2	Management should ensure that a clear audit trail exists to confirm that user accounts and administrator accounts are regularly reviewed.	Medium	Service Manager – IT Infrastructure	Accounts and privileges are reviewed throughout the year as part of our day to day operations. Providing evidence of this is difficult. We will review our procedures to see if there is a way of evidencing the work done.		March 2017
3.2.3	Management should review the existing arrangements in place for third party access to the Council's infrastructure.	Medium	Service Manager – IT Business Systems & Service Manager – IT Infrastructure	Agreed		June 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1	Management should ensure that the existing processes in place for the patching and upgrading of systems and application software are formally documented.	Medium	Service Manager – IT Infrastructure	Agreed		March 2017
3.4.1	Management should ensure that the draft information security incident procedure in place is formalised.	Medium	Service Manager – IT Infrastructure	Agreed		January 2017

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: 29 November 2016

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – Payments to Third Sector Organisations

9

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Payments to Third Sector Organisations.

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A review of Payments to Third Sector Organisations was undertaken as part of the audit plan for 2016/17. Internal Audit have undertaken a series of audits on following the public pound – in 2014/15 we examined payments made by Community Partnerships, in 2015/16 we reviewed payments made by Adult Wellbeing and our current review relates to payments to Third Sector Organisations by Children’s Services.
- 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 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

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	17 November 2016

EAST LOTHIAN COUNCIL – INTERNAL AUDIT PAYMENTS TO THIRD SECTOR ORGANISATIONS

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of Payments to Third Sector Organisations by Children's Services was undertaken as part of the Audit Plan for 2016/17. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were met

- Adequate arrangements are in place for the approval of grant awards to Third Sector Organisations – grant awards made by Children's Services in 2015/16 and 2016/17 were approved by Cabinet.
- Award letters are sent to organisations confirming the grant award and the payment dates.

1.3 Areas with Scope for Improvement

- At present, there is a lack of guidance in place clearly setting out the procedures to be followed for grants awarded to Third Sector Organisations. *Risk – lack of a consistent approach.*
- In some cases, no Service Level Agreements were in place between the Council and the organisations receiving grant funding. *Risk – failure to achieve desired outcomes.*
- At present no arrangements are in place to ensure regular reconciliations are undertaken between grant amounts approved and amounts paid. *Risk – over or underpayments may occur and remain undetected.*
- In one case, no regular monitoring meetings were being held to assess if grant conditions were being met. *Risk – failure to achieve desired outcome.*
- The reporting to Cabinet of grant funding to Third Sector Organisations requires review – we found that grant awards made by the Council's Homelessness Section did not form part of the Cabinet report submitted for approval. *Risk – failure to adopt a consistent approach.*
- The standing data on the creditors system requires review – in two cases duplicate creditor accounts were identified for organisations receiving grant funding. *Risk – duplicate payments may be made.*

1.4 Summary

Our review of Payments to Third Sector Organisations 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**

November 2016

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
PAYMENTS TO THIRD SECTOR ORGANISATIONS**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should ensure that detailed guidance is developed clearly setting out the procedures to be followed for grants awarded to third sector organisations.	Medium	Service Manager – Children’s Long Term Care & Support Services	2017/18 grants system will be developed by modifying the existing partnership funding system which is in place elsewhere in the Council. This application and monitoring process will be a clear system and process to achieve this recommendation.		March 2017
3.4.1	Management should ensure that Service Level Agreements are in place for organisations receiving grant funding – all agreements should be signed by both the Council and the organisation.	Medium	Service Manager – Children’s Long Term Care & Support Services	Along with legal services, a new agreement system is being developed which will be in place for the awarding of the 2017/18 grants.		March 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1	Management should ensure that adequate monitoring arrangements are in place for third sector organisations receiving funding.	Medium	Service Manager – Children’s Long Term Care & Support Services	Monitoring systems are now in place with agencies being visited quarterly where appropriate and annually otherwise.		November 2016
3.6.1	Management should ensure that the general ledger accurately reflects all grant funding provided.	Medium	Service Manager – Children’s Long Term Care & Support Services	Finance will be asked to reflect that the grant to East Lothian Special Needs Play Schemes includes the in kind transport provided by Transport Services (£39,905 p.a.).		March 2017
3.7.1	Management should ensure that regular reconciliations are undertaken between the grant amounts approved and the amounts paid to organisations. All variances identified should be investigated.	Medium	Service Manager – Children’s Long Term Care & Support Services	Children’s Services will produce a regular reconciliation to show actual amounts paid to organisations against amounts approved.		March 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.8.1	<p>Management should ensure that a review of creditor accounts is undertaken to highlight all duplicate accounts and appropriate action should be taken.</p> <p>Management should ensure that new creditor accounts are not set up for existing creditors already on the system.</p>	High	Service Manager – Corporate Finance	Agreed – reviews are currently being carried out.		March 2017
3.9.1	Management should ensure that a consistent approach is adopted for the reporting to Cabinet of grant funding to Third Sector Organisations.	Medium	Homelessness Manager	Agreed – grant payments made by the Homelessness Section will be reported to Cabinet.		March 2017

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: 29 November 2016
BY: Depute Chief Executive – Resources & People Services
SUBJECT: Internal Audit Follow-up Reports

10

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recent follow-up work undertaken by Internal Audit.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the findings of Internal Audit's follow-up work on Musselburgh Burgh Primary School, Bad Debt Write-offs, Waste Management and Out of Authority Placements.

3 BACKGROUND

- 3.1 As part of the audit plan for 2016/17 Internal Audit has followed up the recommendations made in previously issued audit reports to ensure that they have been implemented as agreed by Management. Our findings are detailed below.

Musselburgh Burgh Primary School

- 3.2 Internal Audit's report on Musselburgh Burgh Primary School was issued in November 2015. Our follow-up review has highlighted that of the 13 recommendations made, 12 have been implemented and one recommendation is currently outstanding. Details of Management's response and the revised date of completion are attached in Appendix A.

Bad Debt Write-offs

- 3.3 Internal Audit's report on Bad Debt Write-offs was issued in November 2015. Our follow-up review has highlighted that of the seven recommendations made, four have been implemented, one has been partly implemented and two recommendations are currently outstanding. Details of Management's response and the revised dates of completion are attached in Appendix A.

Waste Management

3.4 Internal Audit's report on Waste Management was issued in November 2015. Our follow-up review has identified that of the six recommendations made, five have been fully implemented and one has been partly implemented. Details of Management's response and the revised date of completion are attached in Appendix A.

3.5 Out of Authority Placements

Internal Audit's report on Out of Authority Placements was issued in January 2016. Our follow-up review has highlighted that all seven recommendations made have been implemented.

4 POLICY IMPLICATIONS

4.1 None

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

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	17 November 2016

Appendix A

Musselburgh Burgh Primary School

Our follow-up review has identified that of the 13 recommendations made, 12 have been fully implemented and one is currently outstanding. The recommendation that is currently outstanding is detailed below, together with Management's response.

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
3.2.1	The authorised signatories for the Petty Cash Imprest bank account require to be updated to ensure a minimum of two signatories.	Medium	Head Teacher	Agreed	December 2016

Bad Debt Write-offs

Our follow-up review has identified that of the seven recommendations made, four have been fully implemented, one has been partly implemented and two are currently outstanding. The recommendations that are partly implemented or currently outstanding are detailed below, together with Management's response.

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
3.1.1	<u>Currently Outstanding</u> Management should ensure that the draft Bad Debt & Credit Balance Write-off Policy is finalised and formally approved.	Medium	Service Manager – Revenues	Agreed	March 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
3.2.1	<p><u>Currently Outstanding</u></p> <p>Management should ensure that debts over £10,000 recommended for write-off are submitted timeously to Cabinet for approval.</p>	Medium	Service Manager – Revenues	Agreed	March 2017
3.5.1	<p><u>Partly Implemented</u></p> <p>For Council Tax, Non-Domestic Rates and Housing Rents, a reconciliation should be undertaken between the approved write-off list and the total amounts written off in the main systems.</p> <p>All differences identified should be fully investigated and appropriate action taken.</p>	Medium Medium	Service Manager – Revenues	<p>For Non-Domestic Rates and Housing Rents, reconciliations have been carried out.</p> <p>Reconciliation for Council Tax is currently in progress.</p>	November 2016

Waste Management

Our follow-up review has identified that of the six recommendations made, five have been fully implemented and one has been partly implemented. The recommendation that is partly implemented is detailed below, together with Management's response.

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
3.1.1	<p>Management should ensure that a detailed Waste Management Strategy is developed to ensure the Council meets its legislative requirements and targets.</p> <p>Management should ensure that the Waste Management Strategy is included in the Council Plan as one of the Council's key strategies and plans.</p>	Medium	Service Manager – Waste	In progress, although linked to the Scottish Government Household Waste Charter and Code of Practice. A report is being submitted to the December Cabinet meeting seeking approval to sign the Charter.	Ongoing

REPORT TO: Audit and Governance Committee

MEETING DATE: 29 November 2016

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Progress Report 2016/17

11

1 PURPOSE

1.1 To inform the Audit and Governance Committee of Internal Audit's progress against the annual audit plan for 2016/17.

2 RECOMMENDATION

2.1 That the Audit and Governance Committee note the contents of the Internal Audit Progress Report 2016/17.

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 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

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	17 November 2016

INTERNAL AUDIT PROGRESS REPORT 2016/17

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Housing Voids	We will assess the arrangements in place for the management and reporting of housing voids.	September 2016	Completed
Contracts Audit	We will examine a sample of contracts to ensure that the Council's Corporate Procurement Procedures have been properly complied with.	September 2016	Completed
Road Services Contracts	We will examine the arrangements in place for the procurement and monitoring of contracts within Road Services.	November 2016	Completed
Public Services Network (PSN)	We will evaluate the Council's security arrangements, policies and controls to ensure PSN compliance.	November 2016	Completed
Property Maintenance – Housing Repairs	Our review will cover both housing repairs undertaken directly by Property Maintenance and work allocated to external contractors.	November 2016	Completed
Funding – Third Sector Organisations	We will continue our review of the partnership arrangements in place with Third Sector Organisations and assess if the Council is getting value for money from grants awarded to Third Sector Organisations. In 2016/17 we will examine the grant awards made by Children's Wellbeing.	November 2016	Completed

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
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.	November 2016	Completed
Schools Audit	We will examine the internal controls operating within one secondary school in East Lothian.	January 2017	
Prevention of Tenancy Fraud	We will review the adequacy and effectiveness of the arrangements in place for the prevention of tenancy fraud, including a review of tenancy changes.	January 2017	
PPP Contract Monitoring	A review will be undertaken of the arrangements in place for the performance monitoring of the PPP contract.	January 2017	
Gas Servicing and Maintenance	We will review the adequacy and effectiveness of the contractual arrangements in place for undertaking gas servicing and maintenance of all Council properties (both HRA and non HRA).	January 2017	
Income – Waste Services	We will review the current arrangements in place for the collection and re-sale of recycled materials.	January 2017	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Information Security	We will carry out an assessment of the arrangements in place within the Council to ensure that information is appropriately controlled.	January 2017	
Freedom of Information (FOI)	We will carry out a review of the arrangements in place to ensure compliance with legislative requirements and timescales for responding to FOI requests.	March 2017	
Workforce Planning	We will review the processes and controls in place for managing secondments and 'acting up' roles.	March 2017	
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	March 2017	
Home to School Transport	We will examine the payments made to operators for Home to School transport for both Mainstream and Additional Support Needs pupils to ensure compliance with the contract rates in place.	March 2017	
Fuel Management	We will review the fuel management arrangements in place at the Council's fuel depots.	March 2017	
Internal Audit Plan 2017/18	Internal Audit will present the detailed operational Audit Plan for 2017/18 for approval to the Audit and Governance Committee.	March 2017	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
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.	March 2017	
Capital Projects – Payment Certificates	We will review the issuing, authorisation and payment of interim and final certificates for capital projects.	June 2017	
Housing Rents	We will examine the processes and controls in place for housing rents.	June 2017	
Housing Benefit and Council Tax Reduction	We will examine the systems in place for the processing, assessment and payment of Housing Benefit and the award of Council Tax Reduction.	June 2017	
Annual Internal Audit Report 2016/17	We will present the Annual Internal Audit Report based on Internal Audit activity undertaken for financial year 2016/17, as required by the Public Sector Internal Audit Standards.	June 2017	
Controls Assurance Statement 2016/17	Internal Audit will provide an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for the financial year 1 April 2016 to 31 March 2017.	June 2017	