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East Lothian Council

Interim management report – information technology

Year ending 31 March 2012

11 June 2012

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This interim management report is presented under the terms of our appointment by the Accounts Commission for Scotland.

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About this report

This report has been prepared in accordance with the responsibilities set out within Audit Scotland's *Code of Audit Practice* ("the Code").

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

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This report summarises the findings of our work on the IT control environment and financial IT systems.

Introduction

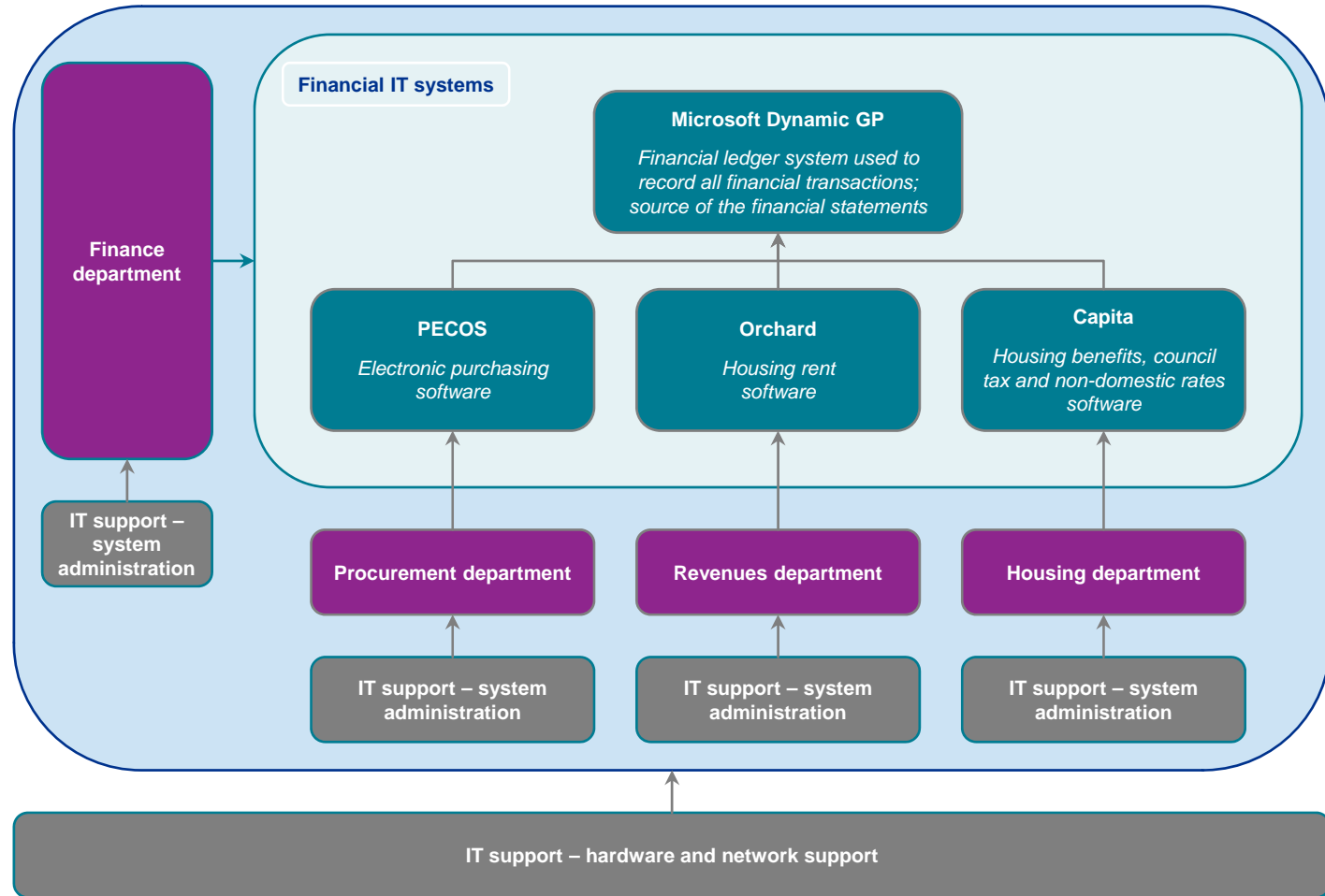
Information technology controls often have a pervasive impact on controls at the application level. IT also poses specific risks to an organisation's internal control, including:

- reliance on systems or programs that are inaccurately processing data or processing inaccurate data;
- unauthorised access to data may result in destruction of data or improper changes to data, including the recording of unauthorised or non-existent transactions;
- the possibility of IT personnel gaining access privileges beyond those necessary to perform their assigned duties;
- unauthorised changes to data in master files, systems or programs;
- inappropriate manual intervention; and
- potential loss of data or inability to access data as required.

We therefore conducted an IT general controls review of key financial systems to evaluate whether these IT controls were appropriately designed and were operating effectively. The results of the review provide management with an assessment of the general IT control environment underpinning the key financial systems, the risks associated with any deficiencies identified and recommendations on how these can be mitigated going forward. Our review covered the following specific areas:

- access to programs and data;
- program changes and developments;
- computer operations; and
- end-user computing.

The diagram below summarises the financial systems and the primary departments in which they are used, along with IT support arrangements. We included all four systems in the scope of our work.




Area	Detailed findings
Structure	<p>The IT department consists of around 40 staff and the head of department reports to the executive director – support services. The department provides two services:</p> <ul style="list-style-type: none"> ▪ IT services: responsible for infrastructure and security; and ▪ IT business services: providing support to all IT users across the Council.
Change management	<p>All IT software changes are developed by third parties under service level agreements. Implementation is managed by the IT department; some upgrades are implemented with the assistance of the third party software developer.</p>
Physical security	<p>All applications are located at the Council’s headquarters and subject to expected controls, including:</p> <ul style="list-style-type: none"> ▪ restricted access to the room; ▪ CCTV coverage and a visitors log; ▪ temperature control, air conditioning and cooling systems; and ▪ smoke and heat detection and gas suppression systems.
Back-up and disaster recovery	<p>All server data is backed up regularly and stored in one of two separate locations (Haddington and Macmerry). Disaster recovery and business continuity plans exist; disaster recovery plans associated with systems classified (by management) as ‘high priority’ are tested annually.</p>

Area	Detailed findings	Action plan reference	Overall findings
Policy	<p>All new employees receive a copy of the IT acceptable use policy and must sign an acknowledgement form to confirm that they have read and understood the policy.</p> <p>The policy is being reissued to all education staff following a recent data security breach. However, there is otherwise no scheduled periodic resigning or training to ensure and enhance awareness and compliance with the policy.</p>	One	
Policy	<p>There is no defined timetable to update the IT acceptable use policy and it has not been updated since January 2010. While our high level review of the policy did not identify any significant weaknesses, the IT environment and the way in which staff operate, continues to develop and evolve, with an ever-increasing emphasis on portable data and handheld devices.</p>	Two	
Access	<p>The IT policy requires that system passwords are at least eight characters in length and must include special and numeric characters. We identified the following non-compliance with the policy:</p> <ul style="list-style-type: none"> ▪ the housing rent system requires only that passwords are six characters; and ▪ the over-arching Windows, financial ledger and procurement system passwords can also be six characters, with no requirement for special or numerical characters. <p>The IT policy is consistent with good practice, however the main financial systems allow staff to use passwords which do not meet the defined criteria.</p> <p>In addition, there are inconsistencies in the time required between forced password changes, ranging from 45 to 90 days.</p>	Three	

- Key:
- Significant weakness in key controls exists
 - Weaknesses in the control process were identified
 - No areas for improvement were identified

Source: KPMG observations during the audit.

Area	Detailed findings	Action plan reference	Overall findings
Access	<p>The human resources department provides monthly lists of leavers to the majority of systems administrators, with the exception of the revenues department. We identified a number of weaknesses:</p> <ul style="list-style-type: none"> ▪ The revenues department performs a six monthly review of housing rent system users, but none have been performed in 2011-12 due to time being spent on system upgrades. We tested a sample of leavers – provided by the payroll department – and identified four staff who no longer work for the Council, but continue to have access to the housing rent system. None of these individuals have logged onto the system since leaving employment. ▪ The procurement system and financial ledger administrators are notified of leavers, but do not retain evidence of this notification or that the member of staff has been removed from the system. 	Four	

Appendix

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

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Council or systems under consideration. The weaknesses may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)

Recommendation(s)

Agreed management actions

1 IT policies

Grade two (material)

There is no scheduled periodic resigning of the IT acceptable use policy during an employee's period of employment, or training, to ensure and enhance awareness and compliance with the policy.

There is a risk of complacency or a lack of awareness of specific aspects of the policy, which may result in loss of data or inappropriate use of Council IT systems and programmes. The impact of risks materialising is likely to be based on reputational damage.

Management should implement a mechanism to ensure that staff remain up to date with all aspects of the policy.

We currently operate a four year re-signing regime for our acceptable use policies. However, we will tighten this up to ensure they are re-signed every two years.

The Council have recently purchased additional licences for our online information awareness training tool to cover all staff. It is proposed that all staff will be required to undertake the training.

Responsible officer: IT services manager

Implementation date: 31 March 2013

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
2 IT policies		Grade three (minor)
<p>There is no defined timetable to update the IT acceptable use policy and it has not been updated since January 2010.</p> <p>There is a risk that reactive policy updates fail to prevent data loss or compromise.</p>	<p>Similar to all Council policies, the IT acceptable use policy should be subject to annual review to determine whether updates are required.</p>	<p>Both the school and corporate acceptable use policies are currently reviewed and revised if appropriate, on an annual basis. Currently, reviews are not recorded on the policy document, which only records dates when changes have actually been made.</p> <p>We will include a version control record on the policy documents to note when they have been reviewed / revised, which will continue to be annually.</p> <p>Responsible officer: IT services manager</p> <p>Implementation date: 31 July 2012</p>
3 Access - passwords		Grade two (material)
<p>The IT policy requires that system passwords are at least eight characters in length and must include special and numeric characters.</p> <p>The IT policy is consistent with good practice, however the main financial systems allow staff to use passwords which do not meet the defined criteria.</p> <p>In addition, there are inconsistencies in the time required between forced password changes, ranging from 45 to 90 days.</p> <p>There is a risk that passwords are not sufficiently robust, and that passwords become out of sync and staff keep a written note of their passwords.</p>	<p>Management should, where systems permit, introduce a consistent approach to forced password changes and a consistent approach to password changes.</p>	<p>IT will review the password control for individual systems with their business owners and recommend that they are brought in line with the overall IT policy on passwords wherever feasible.</p> <p>Responsible officer: IT business services manager</p> <p>Implementation date: 31 December 2012</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
4 Access - leavers		Grade two (material)
<p>The human resources department provides monthly lists of leavers to the majority of systems administrators, with the exception of the revenues department. However, there is a general lack of evidence retained to evidence action. We also identified four former members of staff who still had access to the housing rent system.</p> <p>There is a risk of unauthorised access to IT systems.</p>	<p>The human resources department should notify all system administrators of leavers and these administrators should retain evidence to demonstrate that leavers have been removed from the system.</p>	<p>IT will work with human resources / payroll to identify all relevant system owners / administrators to enable the system owners / administrators to be notified of leavers. Responsible officer: IT business services manager; Implementation date: 31 December 2012</p> <p>Human resources staff will implement a business process to email the IT service desk with leaver information, as soon as a leaver is confirmed. Responsible officer: senior human resources adviser; Implementation date: 31 August 2012</p> <p>IT client teams will create and subsequently maintain a list of business system owners/administrators Responsible officers: IT client team leaders; Implementation date: 31 August 2012</p> <p>IT service desk actions - on receiving a leaver email from human resources, the IT service desk will</p> <ul style="list-style-type: none"> ▪ create a request call on the eSD service desk system ▪ allocate the eSD call to the IT infrastructure and security team ▪ email the system administrators on the list maintained by the IT client teams <p>Responsible officer: service desk and support team leader; Implementation date: 31 December 2012</p> <p>IT Infrastructure and security team action</p> <ul style="list-style-type: none"> ▪ arrange to revoke network and phone access from the end of the leaving date ▪ set the eSD call to resolved <p>Responsible officer: infrastructure and security team leader; Implementation date: 31 December 2012</p> <p>Business based, system administrator actions - on receipt of leaver information from the IT Service Desk, the systems administrator will</p> <ul style="list-style-type: none"> ▪ check whether the leaver has access to the system(s) that they administer ▪ arrange to revoke system access at the end of the leaving date if applicable ▪ maintain a record of leaver actions taken for audit purposes <p>Responsible officer: individual system administrators; Implementation date: 31 December 2012</p>



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REPORT TO: Audit and Governance Committee

MEETING DATE: 19 June 2012

BY: Chief Executive

SUBJECT: Review of the Use of the Guide to Scrutiny and Review by the Audit and Governance Committee

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1 PURPOSE

- 1.1 To review the operation of the scrutiny function in relation to the Audit and Governance Committee's use of the Guide to Scrutiny and Review.

2 RECOMMENDATIONS

- 2.1 Note the report and consider establish a work programme for the Audit and Governance Committee.

3 BACKGROUND

- 3.1 East Lothian Council adopted the Guide to Scrutiny and Review on 24th August 2010. The Guide was developed to assist elected members in conducting their scrutiny role as part of the Audit and Governance Committee and the Policy and Performance Review Committee. The latter Committee received an equivalent report reviewing the operation of the scrutiny function at its meeting on the 20th March 2012.
- 3.2 The remit of the Audit and Governance Committee can be summarised as follows:
- Risk
 - Audit
 - Finance
 - Governance
- 3.3 The Audit and Governance Committee can demonstrate areas of good practice. The Committee has actively reviewed and commented on reports from the external auditors and Audit Scotland, internal audit

reports and investigations and the Annual Accounts. Also the Committee has overseen the development of the Council's Risk Strategy and reviewed the Corporate and Service Risk Registers.

- 3.4 Appendix 1 shows the distribution of reports received by the Audit and Governance Committee over the past 12 months in relation to its remit. This shows that over the past year the Committee has dealt with more audit reports than reports relating to risk, finance and governance.
- 3.5 The Guide to Scrutiny suggests that each committee should use a work programme to balance its work load. Developing a work programme for the Audit and Governance Committee that incorporates the Audit Plan as well as additional items of interest to the Committee that are within the Committee's remit, would help the Committee balance its work load.
- 3.6 The Council's two scrutiny committees have the power to make formal recommendations to Council / Cabinet as they do not have the power to make decisions. Current practice for both the Audit and Governance Committee and the Policy and Performance Review Committee is for reports to be 'noted' or recommendations to be made to officers. The lack of formal recommendations makes it difficult to monitor whether action has been taken to address the findings of the Committees.
- 3.7 The preparation of an annual report, and its circulation to all Members of the Council, is considered by Audit Scotland to be a sign of 'better practice'. The Audit Committee may wish to consider preparing an annual report summarising the issues that it has considered.

4 POLICY IMPLICATIONS

- 4.1 The Council is obliged under the Duty of Best Value to maintain internal scrutiny arrangements regarding performance and service outcomes.

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

- 6.1 Financial – None.
- 6.2 Personnel - None.
- 6.3 Other – None.

7 BACKGROUND PAPERS

- 7.1 Appendix 1: Items considered for scrutiny 2011/12
- 7.2 Guide to Scrutiny and Review (August 2010)
- 7.3 Review of Policy and Performance Review Panels and Audit Committee, East Lothian Council, 22nd June 2010

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DATE	1 st May 2012

Appendix 1: Items considered by the Audit and Governance Committee 2011/12

	Risk	Audit	Finance	Governance
January 2012	Children's Services Risk Register	Internal Audit Follow-up Report Community Care - Charging for Services Provided Internal Audit Report Tyne Esk LEADER Programme Internal Audit Report Framework Agreement Tender Evaluation Overview of KPMG audit approach		
November 2011	Community Housing and Property Management Risk Register Chief Executive's Office Risk Register	ELC 2010/11 Improving Public Sector Purchasing - Follow up Report Internal Audit: Follow up Reports - Payroll Overtime and Software Licensing Internal Audit Report: Free School Meals and Clothing Grants Internal Audit Report: How Good is Our Council Audit and Review of How Good is Our Council		
September 2011		Internal Audit Reports Progress Report - Internal Audit Plan 2010/11 Audit Plan 2011/12 East Lothian Council Report to those charged with governance on the 2010/11 audit Arms Length External Organisations Scotland's Public Finances: Addressing the Challenges	Controls Assurance Statement 2010/11	Review of Community Health Partnerships

	Risk	Audit	Finance	Governance
July 2011			East Lothian Council Statement of Accounts 2010/11	
June 2011		Internal Audit Follow-up report on PPP Contract Monitoring Internal Audit report on Non-domestic Rates	Preparations for adoption of International Financial Reporting Standards Review of Governance and Main Financial Systems	Website Overview
April 2011	Corporate Risk Register	Internal Audit Report - Stocktakes Internal Audit Report – Debtors (Provisional) Assurance and Improvement Plan Update 2011-14		Corporate Improvement Plan 2010/11 - Final Monitoring Report Corporate Governance Self- Evaluation/Annual Governance Statement 2011
March 2011		Overview of Local Government in Scotland The Cost of Public Sector Pensions in Scotland East Lothian Council Annual Audit Plan Maintaining Scotland's Roads - A Follow-Up Report		Interim Report on the Review of the Impact of Multi-Member Wards and Officer/Member Relations

Guide to Scrutiny & Review

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Introduction

Scrutiny is the term used to describe the way in which the performance, decisions and plans of the Council are examined by the Elected Members who are not part of the Cabinet. Scrutiny in its widest sense might also include audit, inspection and regulation. Although there is no set definition for what is meant by scrutiny, this Guide will provide some guidance on how it will be approached at East Lothian Council.

Numerous bodies perform some kind of scrutiny of local government, including Audit Scotland, Her Majesty's Inspectorate of Education (HMIE), and the Social Work Inspection Agency (SWIA). These bodies provide 'external scrutiny'; equally important, if not more so, is the way that the Council scrutinises itself. Internal scrutiny by Elected Members has taken on much greater significance as a result of the 2007 Crerar Review. The Review recommended that rather than rely on the results of external scrutiny exercises 'The primary responsibility for demonstrating compliance and performance should rest with service providers.'

Rigorous scrutiny of the Council's achievement of Best Value by Elected Members is an essential part of the Council's governance arrangements, although it should not be conducted in a partisan manner. Audit, scrutiny, review of performance and policy review need not be done in a confrontational and oppositional way. As far as possible scrutiny should be a non-partisan, non-party political process. However, it is important to be aware, and accept that there remains a place for straightforward political opposition in the political arena of local government.

Four principles that have been developed by the Centre for Public Scrutiny underpin the Council's approach to scrutiny:

1. Scrutiny provides 'critical friend' challenge to executive policy-makers and decision-makers
2. Scrutiny enables the voice and concerns of the public
3. Scrutiny is carried out by 'independent minded governors' who lead and own the scrutiny role
4. Scrutiny drives improvement in public services

('Overview and scrutiny in local government', Centre for Public Scrutiny)

The Council's new scrutiny arrangements have been developed taking into account the criteria for good practice in scrutiny as set out by Audit Scotland in its Best Value Toolkit for Governance and Accountability (see Appendix 1).

1. Scrutiny at East Lothian

East Lothian Council has two committees that might be described as performing the 'scrutiny' function: the Audit and Governance Committee and the Policy and Performance Review Committee. Additionally the Council also has a Petitions Committee that allows local residents or organisations to raise issues relating to Council services or the wellbeing of the community.

The Audit and Governance Committee covers areas of corporate responsibility, for example risk, audit and corporate governance. The Policy and Performance Review Committee covers all matters relating to the performance of the Council's services. Further details of the areas of work covered by the scrutiny committees (and the petitions Committee) can be found in Appendix 2.

The Audit and Governance Committee and the Policy and Performance Review Committee will meet at least six times per year. In addition to these meetings the Policy and Performance Review Committee will be able to set-up short life sub-committees to review particular policy areas.

The work of the scrutiny committees will be set-out in annual work plans. The Audit and Governance Committee's work plan will largely be governed by the Audit Plan and the annual cycle of audit reports. The Policy and Performance Review Committee's work plan will have a focus upon the review of performance and the undertaking of a small number of in-depth policy reviews. Members of the Committees will determine what items are included in the work plan with the help of the '*Selecting topics for scrutiny*' section of this guide.

Responsibilities for decision making and for scrutiny are separated under the Council's Scheme of Delegation and executive decision making arrangements. Decisions are taken by the Cabinet and by Council, while decisions on certain matters relating to education are taken by the Council Committee for Education. Recommendations from any of the scrutiny committees may be referred to the Council, Cabinet or Education Committee for a decision to be made if necessary. The scrutiny structure is outlined on the following page. The roles and responsibilities of elected members and council officers involved in scrutiny are detailed in Appendix 3.

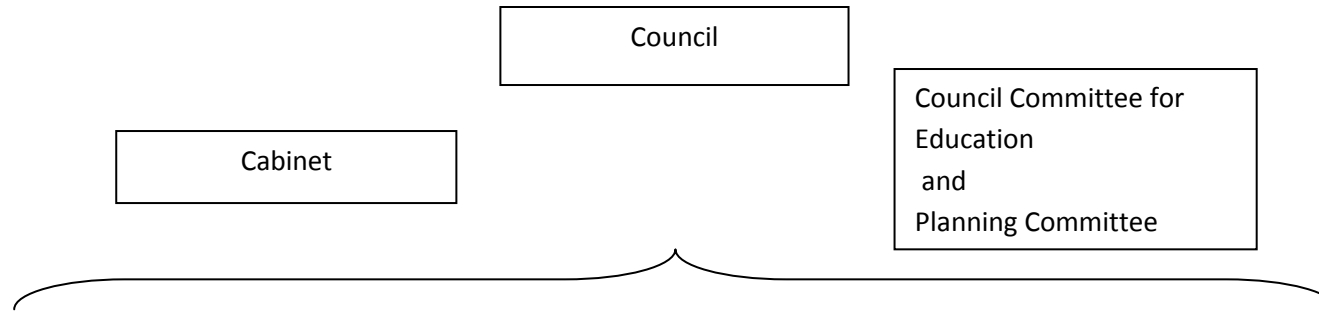
Critical Success Factors:

- Respect and positive relations between elected members
- Mutual trust and respect with officers
- Respect for roles and boundaries

Mark McAteer (Improvement Service),
presentation to Elected Members'
Workshop, 6th Sept. 2010

The Scrutiny structure

DECISION-MAKING

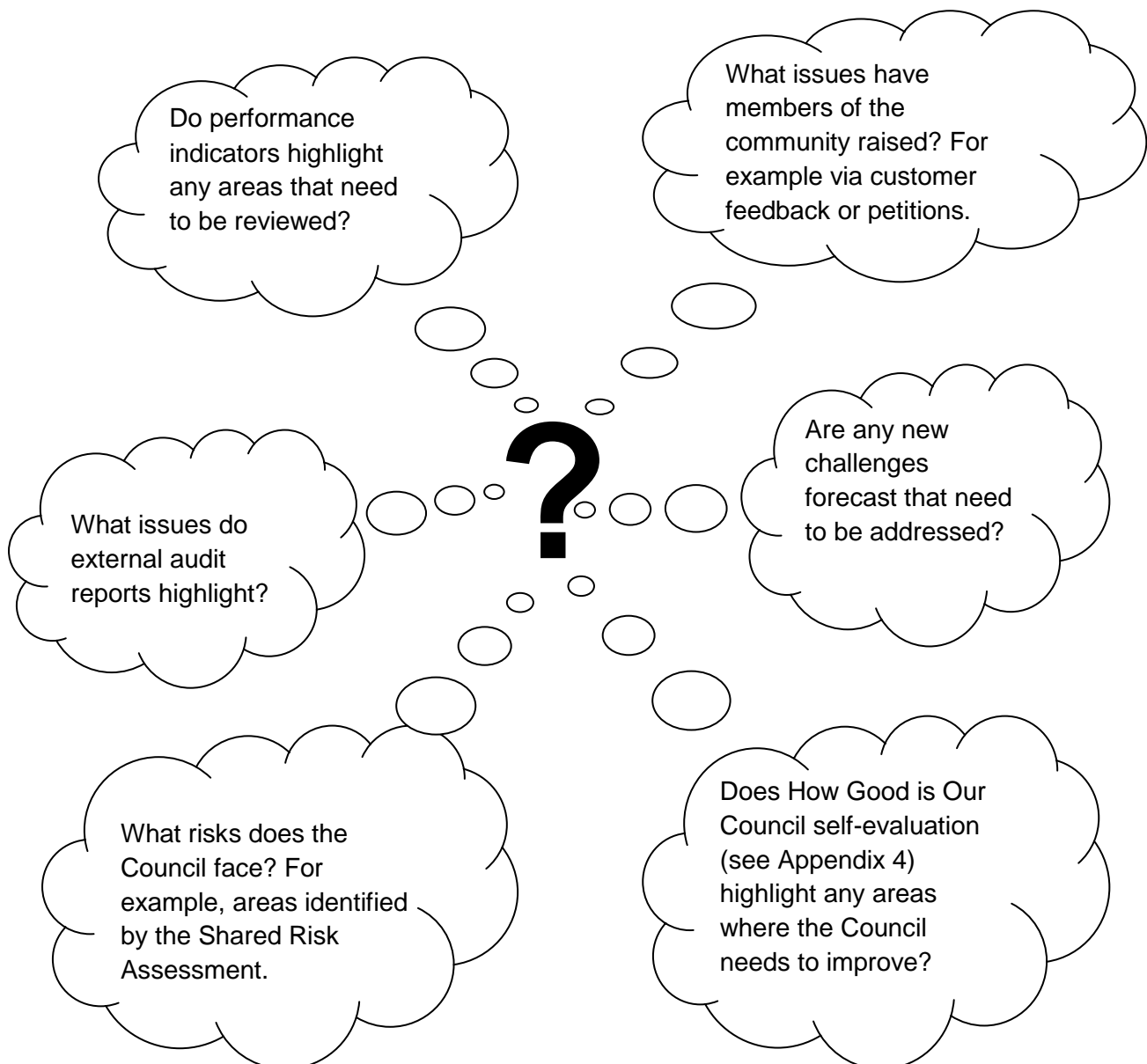


NON DECISION-MAKING

<p><i>Audit and Governance Committee</i></p> <p>8 x Members</p> <p>Decisions of the Committee on functions delegated to them shall be reported to the Council for information only unless the Committee resolved that a particular item of business should be referred to the council for decision.</p> <p>The External Auditor will have the right to request that items of business are presented to the Committee.</p>	<p><i>Policy and Performance Review Committee</i></p> <p>8 x Members</p> <p>The Policy and Performance Review Committee will be entitled to debate the terms of reports insofar as relevant to its authorised remit. No formal votes will be taken and the Committee will attempt to reach a consensus, or failing that, a majority view.</p> <p>The Committee will be entitled to appoint ad hoc (short life) sub-committees. The Committee or its sub-committees will be entitled to undertake reviews of policies and/or performance, to call upon the Council and Council officials for reports, and to require the attendance for the purpose of questioning, of Committee Conveners and/or Depute Conveners and/or Cabinet Spokespersons and/or officials of the Council on any matter relevant to the issue under consideration by them.</p> <p>The Committee will have the power to comment on, and make recommendations on, matters insofar as relevant to its authorised remit to the relevant Committee, the Cabinet or, where appropriate, to the Council.</p>	<p><i>Petitions Committee</i></p> <p>5 x Members</p> <p>The Committee shall consider the merits of each petition received. Where the Committee considers a petition to be well-founded, it shall refer the matter to the appropriate portfolio holder(s) for further consideration and possible implementation.</p>
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2. Selecting Topics for Scrutiny and Review

Selecting topics to include in the work plan is an ongoing process. Some topics will be regular items, for example performance reports, while others will just cover a particular item. The following questions might help Members to identify potential topics for inclusion on the work plan:



Using a structured approach helps to avoid poor topic selection. Each potential topic for scrutiny should be subject to the same initial selection and rejection criteria.

Selection criteria	Rejection criteria
Improvements to services would be likely	The topic is already being addressed
High public concern shown through consultation	Scrutiny is unlikely to result in service improvements
Poor performing service	Matter is sub-judice or prejudicial to the Council's interests
Enhances the Council's priorities	The issue is more appropriately addressed by a body other than the scrutiny committees
High budgetary commitment	The objective cannot be achieved within given timescales
New guidance or legislation has recently been introduced	The subject is too broad to make a review realistic

Members need to be realistic in regard to the number of reviews that the Committee will be able to undertake in any given year. Three full scale reviews and three or four smaller reviews might be possible.

The following subjects are examples of topics that have been the subject of reviews carried out by another local authority's scrutiny committee over the last five years:

- The role of the Council in tourism
- Attainment in 5th and 6th years
- Early intervention
- Asset management arrangements
- Management of Council house voids
- Carbon management
- The implications of demographic changes
- Delayed discharges
- Child protection services

3. The Work Programme

Once a topic has been selected for scrutiny it should become part of the work programme. The work programme will provide an indication of the capacity of the Policy and Performance Review Committee to undertake policy reviews. The work programme will be composed of regular items and specific topics that have met the selection criteria.

On-going regular items

Some items will be reviewed on a regular annual or quarterly basis (e.g. external and internal audit plans, the annual accounts and quarterly performance monitoring reports); these will need to be factored into the programme at the appropriate intervals.

Regular items for scrutiny can be identified from the 'Corporate Planning Cycle' on the following page. The Corporate Planning Cycle displays the performance reports that can be expected each quarter, key dates in the budget setting process, and key dates in the business planning and self-evaluation process. Members will need to ensure that time is set aside in the work programme to allow for proper scrutiny of these regular items alongside specific policy reviews.

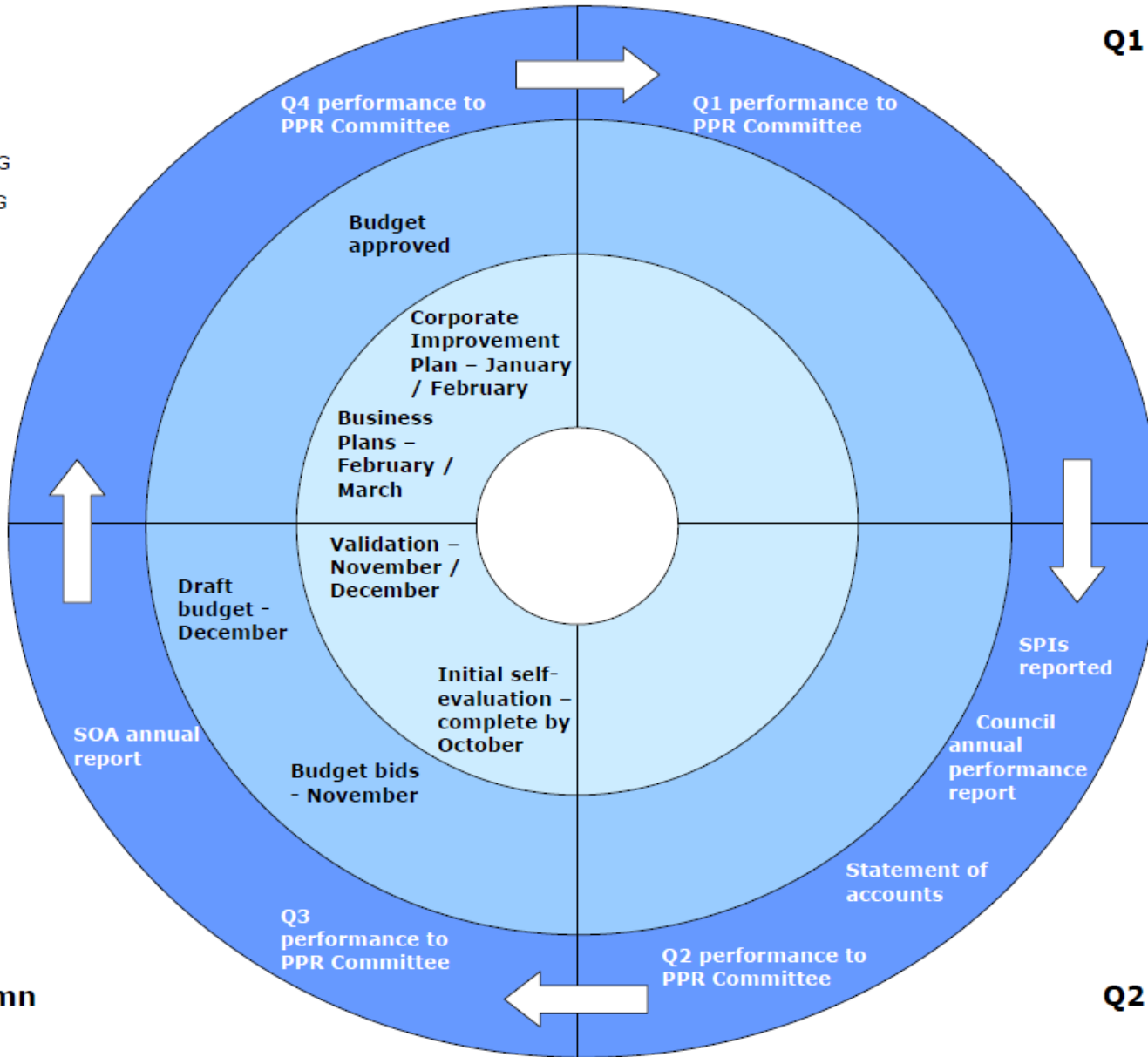
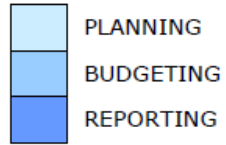
Items that have met the topic selection criteria for policy review

Some items for inclusion in the work programme will have passed through the topic selection criteria outlined previously. Topics that are identified as possible items for scrutiny through the selection criteria should be placed on to a reserve list to be periodically reviewed for priority and workload capacity.

Scrutiny and Corporate Planning – the Corporate Planning Cycle

Q4 - Winter

Q1 - Spring



Example work programmes

The following tables are examples of how the work programmes for the scrutiny committees might look. The columns reflect the areas of responsibility of each of the committees to ensure that their work load is well balanced.

Audit and Governance Committee Example Work Programme

Agenda Items					
Date	Performance	Risk	Audit	Finance	Governance
28 th September 2010	Q1 10/11		Controls Assurance Statement Internal Audit Annual Audit Plan		
23 rd November 2010	Q2 10/11				Corporate Improvement Plan 2010 progress report
25 th January 2011	HGIOC overview			Draft budget	
15 th March 2011	Q3 10/11	Corporate Risk Register	Audit Scotland Annual Audit Plan Audit Scotland Overview of Local Government in Scotland		Annual Governance Statement
26 th April 2011					Corporate Improvement Plan
21 st June 2011	Q4 10/11			Draft Final Accounts	

Policy and Performance Review Committee Example Work Programme

Agenda Items			
Date	Performance	Planning	Policy Review
21 st September 2010	Q1 10/11 Customer Feedback quarterly report		
23 rd November 2010	Q2 10/11 SPIs Customer Feedback quarterly report		
18 th January 2011	HGIOC overview		
8 th March 2011	Q3 10/11 Customer Feedback quarterly report		
26 th April 2011			
7 th June 2011	Q4 10/11 Draft Annual Performance Report Customer Feedback quarterly report	Service Plans	

The column entitled 'Policy Review' is not populated in the example provided above. This column would include any items that had been selected for review using the topic selection criteria outlined previously. The work programme will provide an indication of the capacity of the Committee to undertake a policy review.

4. Conducting a Policy Review

Policy Review is the process of evaluating the effectiveness of a particular area of Council policy or service provision. These reviews are likely to hear evidence from key stakeholders and commission research or reports to understand how well policy is being implemented or how well services are being delivered.

Policy Reviews are generally conducted within a set timescale, often two or three meetings. Conducting a review over the course of more than one meeting allows lines of enquiry to develop and additional information to be provided if required.

Advanced planning is essential to the success of any policy review. Officers will require time to prepare any evidence or reports and stakeholders will need prior notice if Members would like them to attend a meeting. Policy Review exercises need to be well planned and should be included as part of the work programme.

When planning a policy review exercise Members might like to consider the following:

1. Identifying the objectives and key issues

What do we want to achieve and what are the main issues that need to be addressed in order to achieve the objective?

2. Establishing the timeframe of the review

The overall timeframe of the review will need to be established and added to the work programme.

3. Outlining the stakeholders and evidence required

What evidence is required to achieve the outcomes, and who needs to be called as a witness?

4. Considering the lines of enquiry

Once the objectives and the key issues have been decided, lines of enquiry should be determined to help focus the review and enable a consistent approach to a topic across meetings. Are you clear about the issue or problem and why it is the subject of the review and what are the terms of reference of the review?

Appendix 1 includes some specific key questions identified by Audit Scotland as part of their 'Overview of Local Government in Scotland'. The questions reflect areas of concern that are common across Local Government in Scotland. Members are encouraged to consider the relevance of these questions to any scrutiny work they undertake.

Before concluding a Policy Review the Committee should invite the relevant Executive Director or Head of Service, portfolio holder and/ or Council Leader to discuss the draft findings and recommendations.

Stakeholder Involvement

Scrutiny committees are encouraged to involve relevant stakeholders in policy reviews. Stakeholders can provide useful expertise and knowledge, while hearing directly about the experience of service users can provide a helpful reality check.

The needs of different stakeholders should be considered when planning their involvement in a review. Not all stakeholders will be comfortable, or able, to attend a meeting, therefore consideration should be given to whether their evidence can be provided by other means if necessary.



Which stakeholders might we involve?

Group	Examples
Service Users	East Lothian Tenants and Residents Panel (ELTRP) East Lothian Access Panel Parent's Councils
Community Groups	Community Councils Chambers of Commerce Petitioners
Partners	Police Fire & Rescue Service NHS Voluntary Organisations (VAEL) Community Health Partnership Scottish Government
'Experts'	Academics Improvement Service SOLACE COSLA Professional associations

5. Scrutiny Techniques

Members might find some of the following techniques and tips useful when conducting policy reviews or scrutinising performance information.

Questioning styles – good practice

Open questions

Open questions encourage respondents to talk and expand upon the issue. Open questions allow respondents to describe a situation in their own words. The key prefixes for an open question are 'What?', 'How?' and 'Why?' Examples include:

- What do you consider the service does well?
- How did you establish x as a priority for the service?

Open Questions can also be formed through phrases such as:

- Tell me about a time when...
- Explain to me how you...

Using open questions can form a basis for asking further probing questions based on the answer to the initial question. For example:

- You say that you did... can you give me an example of how you carried that out?
- I was interested to hear you say... can you tell me more about that?

Hypothetical questions

Asking hypothetical questions can help to test out ideas for recommendations and can also be useful in obtaining evidence. For example:

- If x were possible how would this change your strategy?

Behavioural questions

Behavioural questions can help to get evidence of how an organisation might carry out a task in future by using examples of past behaviour. For example:

- What process has the organisation used in the past to achieve the outcome?

Questioning styles – try to avoid

Closed questions

Closed questions are those that can be answered in a single word. While closed questions can be useful in clearing up points of fact, they are unlikely to yield much further information.

- Does your organisation do x?

Leading questions

Leading questions make it clear to the respondent what answer is expected and are unlikely to yield genuine answers. For example:

- We know from experience that x works, what is your experience of x?

Asking a question in this format makes it very difficult for the respondent to give an honest answer.

Double-headed questions

Double-headed questions ask more than one question at a time. Double-headed questions can either confuse the respondent, or ensure that the respondent answers only the part of the question that they are comfortable with. Both questions might be valid lines of enquiry, but it would be more productive to ask them separately:

- If your organisation has the responsibility to do x how is this measured, and how does x fit into the national strategy?

Multiple choice questions

Multiple choice questions offer a number of possible answers, but do not ask for any real explanation. For example:

- Do you believe that x, y, or z is the best way forward?

6. Making Sense of Performance Data

A key role of the Policy and Performance Review Committee is to monitor, comment on and make recommendations based on quarterly and annual reports of performance.

East Lothian Council's performance reports contain the following features:

Trend arrows

Trend arrows show whether performance has improved \uparrow , worsened \downarrow , or stayed the same \leftrightarrow in comparison to the previous period (i.e. the previous quarter, month or year depending on how frequently the indicator is reported).

RAG (Red, Amber or Green) status

The RAG status is designed to show whether an indicator is exceeding its target, in which case it would be green ■, slightly below target (amber) ■, or significantly below target (red) ■.

Graphs

Bar chart



Line chart



Graphs are used to show the long-term trend for an indicator. While the trend arrows show whether an indicator has improved or worsened since the last period, graphs can provide further context to help understand performance. Graphs show whether any changes in performance are a short-term blip, or are the result of a long-term trend.

Comments

Each indicator includes explanatory comments that are provided by the officer responsible for collating the measure. The comments section should explain the reasons why the indicator has improved, worsened or stayed the same.

What to look for in a performance report



The indicator has improved since the previous quarter, in which performance dropped below the long-term average.

Period	Actual	Target	RAG	Comment
Q4 09/10	80.00	85.00	↑	The winter weather conditions through January/February and the rainfall/storms and flooding during March and the resultant increase in the deterioration of the road network meant that additional resources had to be deployed to achieve the 80% level.

The comment explains that the reason for the dip in performance was exceptionally bad weather.

Performance remains below the target level (red RAG), although extra resources have been deployed to ensure that performance has improved (upwards arrow).

Using the performance indicators

Performance indicators should be used to identify areas for further investigation and review. For example, the indicator outlined above shows that performance dipped because of severe weather. In this instance Members might like to consider what the impact is upon the Service of deploying the additional resources necessary to improve performance. Members could also seek to understand the likelihood of this situation occurring again and how the Service might prepare for that eventuality.

Questions to ask when considering performance data:

- What information could I do without?
- Is the information easy to understand?
- Can I interpret what the key messages are?
- Would a different method or presenting help me interpret the information?
- Do I challenge officers to explain the information?
- Do I challenge officers to provide missing information?

Individual performance indicators should be considered in conjunction with any other available contextual information. Rarely will an individual indicator adequately describe performance on its own. Other sources of information that could be used in conjunction with an indicator might include, for example, other performance indicators, previous committee reports, customer feedback and auditor's reports.

7. Reporting

Recommendations made by the scrutiny committees will be reported to the Cabinet or Council as appropriate if a formal decision is required to amend policy or practice. Alternatively recommendations will be made to the appropriate Executive Director if a decision falls within their delegated powers.

8. Monitoring

Recommendations from the scrutiny committees will be included and monitored as part of the Corporate Improvement Plan. The Corporate Improvement Plan will be reported in its entirety to the Audit and Governance Committee on a quarterly basis.

Appendix 1: Scrutiny and Best Value

Audit Scotland has outlined what constitutes good practice in scrutiny as part of their Best Value Toolkit on Governance and Accountability. The Toolkit forms one part of a set of documents that clarify the criteria against which Councils will be judged as part of the Best Value 2 Audit. Prior to the Best Value 2 Audit being conducted the Council will need to review the effectiveness of its scrutiny and review functions using the criteria established by Audit Scotland in the Toolkit:

BEST VALUE TOOLKIT: ASSESSMENT MATRIX – GOVERNANCE & ACCOUNTABILITY

	Basic practice	Better practice	Advanced practice
5. How well do challenge, scrutiny and review processes ensure a range of informed views are sought and actively considered to aid decision making and improvement?			
5.1 How effective, objective and transparent is the scrutiny and challenge of decisions and policies?	<p>There is sufficient opportunity for objective challenge and questioning of decisions by members before they are taken or confirmed, built into policy development and decision making processes. There is a process to challenge and rethink decisions in exceptional circumstances.</p> <p>Some member challenge to policy or decisions takes place. It incorporates a dispassionate exploration of issues, alongside any challenge to decisions on grounds of politics or principle.</p> <p>The nature and extent of the scrutiny and challenge that has taken place is transparent.</p>	<p>The organisation regularly reviews how effectively it scrutinises decisions, making continuing improvements to processes and support for members.</p> <p>Independent members actively challenge key decisions before they are taken or confirmed in an, objective and constructive manner. This scrutiny is treated seriously by decision makers, with time taken to explore the issues raised.</p> <p>Scrutiny processes are structured and well managed as part of a systematic approach. Challenge is focussed on significant issues and does not unduly delay decisions.</p>	<p>Effective, objective and transparent scrutiny and challenge of policy development and decision making is embedded in the organisation's culture and ways of working.</p> <p>Members and senior officials that are responsible for decision making actively seek informed and constructive challenge, value and respond positively to this.</p> <p>Members and senior officials routinely challenge each other in an objective, effective and open manner – achieving an appropriate balance between challenge and timeliness of decision making.</p>

BEST VALUE TOOLKIT: ASSESSMENT MATRIX – GOVERNANCE & ACCOUNTABILITY

	Basic practice	Better practice	Advanced practice
5.2 How effective, objective and transparent is scrutiny of the organisation's performance and the effectiveness of its policies and procedures?	<p>There is sufficient opportunity for members to review and objectively challenge the performance of the organisation and the implementation of policies and decisions through:</p> <ul style="list-style-type: none"> • ongoing monitoring of quality, performance, implementation and management processes • post implementation reviews of policies and improvements. <p>Time is set aside on agendas for this purpose and members are provided with appropriate and objective reports.</p> <p>Some challenge takes place, including questioning of responsible senior officials about important aspects of performance and management effectiveness.</p> <p>The nature and extent of the scrutiny and challenge that has taken place is transparent.</p>	<p>The organisation regularly reviews how effectively it scrutinises performance, making continuing improvements to processes and support for members.</p> <p>Scrutiny is led by independent members who take a constructive and objective approach. Senior officials are held to account in a meaningful way, and are open and helpful in their response to questioning.</p> <p>Challenge is based on objective sources of evidence and effort is targeted at significant issues related to the priorities and the overall objectives of the organisation.</p> <p>Scrutiny leads to the identification of areas for improvement. Members responsible for scrutiny follow-through to make sure appropriate action is being taken and whether it has been effective. They report their activity and significant exceptions to all members.</p>	<p>Effective, objective and transparent scrutiny of performance is embedded in the organisation's culture and ways of working.</p> <p>Members and committees that lead and undertake performance scrutiny functions are well supported and respected. They have a clear understanding of the issues and aspects of performance that are important to the success of the organisation, and robustly challenge and hold to account in these areas.</p>

BEST VALUE TOOLKIT: ASSESSMENT MATRIX – GOVERNANCE & ACCOUNTABILITY

	Basic practice	Better practice	Advanced practice
5.3 How effective is the Audit committee?	<p>An audit committee has been established and meets regularly. Its remit and operation meets the minimum applicable standards for the organisation. It has the right to report to and be heard by all members.</p> <p>An appropriate focus is given to the risk management, internal control and financial management & reporting.</p> <p>Internal and external auditors attend meetings and submit reports summarising their plans and the results of their work.</p>	<p>The audit committee regularly reviews its own performance against best practice and takes action to continuously improve its effectiveness. It reports annually to all members and can demonstrate good performance.</p> <p>The committee specialises in scrutiny of risk management, including the effectiveness of financial management and reporting. Wider scrutiny of performance is dealt with elsewhere.</p> <p>At least one member of the committee has recent financial experience.</p>	<p>The audit committee's role is well understood and valued across the organisation. It is seen as apolitical and authoritative.</p> <p>Members of the committee are well informed, and skilled in effective challenge and open discussion. They are able to confirm to other members that the right processes are in place to give confidence that financial stewardship and overall governance arrangements can be relied upon.</p>
5.4 How well does the Internal audit function provide assurance to management on the integrity of the organisation's corporate governance framework and identify areas for improvement?	<p>The organisation has established an internal audit function with sufficient status and resources to review and report on key aspects of the system of internal control.</p> <p>The Internal Audit function complies with relevant minimum standards and the head of internal audit has unfettered rights of access to members and senior officials.</p>	<p>The Internal Audit function maintains a recognised quality accreditation, actively reviews its own effectiveness, and continuously improves.</p> <p>The Head of Internal Audit respected and authoritative, and is consulted on governance and internal control arrangements for new and existing business initiatives during the development phase.</p>	<p>The internal audit function can demonstrate the highest standards of performance. The value and impact of its work is recognised by all members and senior officials.</p>

BEST VALUE TOOLKIT: ASSESSMENT MATRIX – GOVERNANCE & ACCOUNTABILITY

	Basic practice	Better practice	Advanced practice
5.5 How effective is the organisation's annual review of its overall corporate governance arrangements?	<p>The organisation completes an annual review of its corporate governance arrangements that meets the relevant minimum standard. It publishes details of this review in line with requirements placed on it.</p> <p>The review is informed by the work of internal audit, the audit committee and reports from external auditors and the conclusions are consistent with this.</p> <p>The review is effective in identifying significant concerns and action is taken to address these.</p>	<p>An annual governance statement is published, summarising the extent of and conclusions from a review of the effectiveness of the system of internal control.</p> <p>It is underpinned by a robust approach to review and is signed by the most senior member and most senior official on behalf of the organisation.</p> <p>No significant control weakness exist. The review process is itself reviewed regularly.</p>	<p>The overall review of governance is underpinned by ongoing review of control frameworks operated across the organisation and any subsidiaries.</p> <p>Senior officials are committed to an effective review of internal control in their own areas of responsibility. They show an understanding of the nature and value of the control framework and act promptly to address any areas of concern.</p>
5.6 How well does the organisation respond to external review and scrutiny?	<p>Relevant staff engage constructively and professionally with external auditors and other scrutiny bodies, making genuine attempts to answer questions and provide evidence that is requested.</p> <p>Reports by external auditors and other scrutiny bodies are considered by relevant members and senior officials, and action is taken to address any significant issues that are raised.</p> <p>Where external scrutiny identifies any significant areas of concern or weakness, members and senior officials engage with the relevant scrutiny body to better understand how to address the issues raised.</p>	<p>The organisation engages meaningfully with external audit and other relevant scrutiny bodies about their plans, providing views on where external reviews would add most value alongside internal review and improvement activity.</p> <p>The views and support of external auditors and inspectors are sought in relevant circumstances, and members and senior officials display a real understanding of their role and remit.</p> <p>The organisation systematically considers the wider implications of significant issues raised in external reports (for example whether similar concerns exist in other areas of the organisation).</p>	<p>The organisation systematically reviews the findings and conclusions of reports about other organisations and any national or cross-cutting reports, to considering potential implications for it and opportunities to apply best practice.</p> <p>Members and senior officials value the independent challenge and assurance provided by proportionate and risk based scrutiny activity. They respond to this in a manner that strengthens the organisation's own review and improvement activity.</p>

Appendix 2: What do the scrutiny committees do?

Audit and Governance Committee

Audit responsibilities

1. *Risk and Internal Controls*

- (a) Promote Council policy on risk management by reviewing the delivery of the Risk Management Strategy, reviewing the business and strategic risk assessment arrangements and procedures and the Corporate risk Register;
- (b) Promote, review and monitor internal controls, financial and otherwise, within the Council in order to provide reasonable assurance of the effectiveness and efficiency of operations and compliance with relevant statutes, directions, guidelines and policies;
- (c) Develop an anti-fraud culture within the Council to ensure the highest standards of probity and public accountability;
- (d) Approve the annual Internal Audit assurance report and the statement of internal controls for inclusion in the annual accounts.

2. *Review of Audit Functions*

- (a) Determine the scope of the annual audit plan and ensure it is directed in accordance with the approved business risk assessment;
- (b) Examine and review the External Audit Planning Memorandum and review the overall performance with regard to quality, productivity and the fees charged;
- (c) Review the activities of the Internal Audit function and monitor overall performance in terms of quality, productivity and effectiveness;
- (d) Ensure that the Internal Audit function is sufficiently resourced to provide a systematic review of internal controls and a full assessment of significant investigations;
- (e) Examine Internal and External Audit reports, and ensure weaknesses identified are adequately addressed by management and recommendations are actioned;
- (f) Ensure that there are effective relationships between Internal and External Audit and inspection agencies, and that the value of the audit process is actively promoted.

3. *Financial Matters*

- (a) Review the Council's financial performance as contained in the annual statement of accounts;
- (b) Review the audit certificate/wording of any matters reported;
- (c) Review the annual report to Members from the External Auditor;
- (d) Review the implementation of audit recommendations;
- (e) Ensure that issues raised in previous financial years have been addressed.
- (f) Review and monitor treasury management arrangements

Governance responsibilities

4. *All matters relating to the performance of the Departments and Council as a whole, including, but not limited to:*

Community

- *Strategic vision and direction setting by Members*
- *Integration of strategic vision, direction and Community Planning priorities and actions into internal planning mechanisms*
- *Public performance reporting and public accountability*
- *Transparency of decision-making processes*
- *Consultation and communication with communities*

Service Delivery Arrangements

- *Corporate planning approach and performance against corporate actions and targets, including financial position and performance and asset management*
- *Performance management system and corporate performance information monitoring*
- *External scrutiny/assessment recommendations and resulting action planning*
- *Management of joint working*
- *Best Value reviews and option appraisal*
- *Contracting issues*

Structures and Processes

- *Monitoring of decision-making structures and mechanisms*
- *Monitoring of policy development and implementation*
- *Clarity of key roles and responsibilities*

Governance

- *Corporate Governance*
- *Annual Governance Statement*

Policy and Performance Review Committee

A Remit and Powers

1. All matters relating to the performance of all the Council's services including, but not limited to:-

- Vision and direction setting by members
- Integration of vision, direction and Community Planning priorities and actions into internal planning mechanisms (including Service Plans)
- Mechanisms and Initiatives for Improvement (e.g. Benchmarking)
- Public Performance Reporting and public accountability
- Consultation and communication with communities
- Planning and performance against actions and targets including financial position and performance, priority/risk based resource management and asset management
- Mainstreaming of equality issues and sustainable development
- External scrutiny/assessment recommendations and resulting action planning
- Management of joint working
- Best Value reviews and option appraisal
- Contracting issues
- Scrutiny of policies identified through an annual work plan or other aspect of its work

Petitions Committee

A Remit and Powers

1. The remit of the Petitions Committee shall be to consider petitions raised by local residents or organisations, which relate to either:

- (i) Council services or activities, or
- (ii) The general well-being of the East Lothian community

2 The Committee shall consider the merits of each petition received. Where the Committee considers a petition to be well-founded, it shall refer the matter to the appropriate portfolio holder(s) for further consideration and possible implementation. In such cases the outcome of the matter shall be reported back to the next meeting of the Petitions Committee.

Appendix 3: Roles and responsibilities

Conveners of the Audit and Governance Committee and Policy Performance and Review Committee

- Chairing the Committee, co-ordinating its activities and taking a lead role in its work
- Providing leadership in relation to monitoring the Council's strategies, performance and service delivery and contribute to the effective governance of the Council
- Giving direction to senior officers of the Council in respect of the remit and powers of the Committee
- Contributing effectively to the Council's scrutiny, policy and performance review processes by ensuring the questioning of relevant officers on the strategies, policies and performance of the Council and its service
- Encouraging and supporting participation and debate by all other committee members and ensuring that they contribute effectively to the work of the Committee
- Ensuring adequate scrutiny of external reports on Council performance
- Identifying cross-cutting issues and ensuring a corporate approach to scrutiny in these areas
- Ensuring that effective working relationships with all councillors, officers and relevant partner organisations are developed and maintained
- Leading on the selection of witnesses to policy and performance reviews and determining whether evidence is to be given orally or in writing
- Leading on determining a timetable for the Committee's work

Members of the Committees

- Selecting topics for scrutiny and policy review
- Participating constructively in the activities of the Committee
- Determining which stakeholders they would like to attend the meetings
- Examining the basis on which major decisions are taken and ensure that they are consistent with Council policy
- Monitoring the effect of national legislation on the Council
- Holding councillors and officers to account in respect of their implementation of Council policy
- Investigating the quality and performance of services provided by the Council
- Engaging with members of the public and key stakeholders to inform areas of scrutiny work
- Making recommendations for improvement to Council / Cabinet

Committees Section

- Preparing and arranging meeting rooms and facilitate meetings
- Determining dates and deadlines for meetings

- Producing minutes and notes of meetings and meeting agendas

Policy & Performance unit

- Preparing performance reports
- Providing reports and advice on corporate planning
- Reporting upon the Corporate Improvement Plan

Services

- Providing reports to assist with policy reviews as requested by the Policy and Performance Review Committee and the Audit and Governance Committee
- Attending Committees to assist with their enquiries when requested
- Accounting for relevant performance indicators

Stakeholders

- Members of the public, including service users, and representatives of partner organisations can be invited to attend the scrutiny committees to assist members in their work by giving evidence and taking part in the discussion and consideration of topics

Appendix 4: How Good is Our Council?

'How Good is Our Council?' is a means of evaluating five essential elements that should characterise the quality improvement systems of the Council. Self-evaluations are conducted by a cross-section of staff drawn from the service being evaluated. Services are asked to evaluate themselves against a series of questions that relate to the elements outlined below:

Key Questions				
What key outcomes have we achieved?	How well do we meet the needs of stakeholders?	How good is our delivery of key processes?	How good is our management?	How good is our leadership?
<p>1. Key Performance Outcomes</p> <p><i>1.1 Improvement in Performance</i></p> <p><i>1.2 Adherence to statutory principles and fulfilment of statutory duties</i></p>	<p>2. Impact on service users</p> <p><i>2.1 Impact on service users</i></p> <p>3. Impact on staff</p> <p><i>3.1 Impact on staff</i></p> <p>4. Impact on the community</p> <p><i>4.1 Impact on the local community</i></p>	<p>5. Delivery of key processes</p> <p><i>5.1 Delivering services</i></p> <p><i>5.2 Developing, managing and improving partnerships and relationships with service users and other stakeholders</i></p> <p><i>5.3 Inclusion, equality and fairness</i></p> <p><i>5.4 Improving the quality of services to stakeholders</i></p>	<p>6. Policy Development and planning</p> <p><i>6.1 Policy review and development</i></p> <p><i>6.2 Participation of service users and other stakeholders</i></p> <p><i>6.3 Planning</i></p> <p>7. Management and support of staff</p> <p><i>7.1 Sufficiency, recruitment and retention</i></p> <p><i>7.2 Deployment and teamwork</i></p> <p><i>7.3 Development and training</i></p> <p>8. Resources</p> <p><i>8.1 Partnership working</i></p> <p><i>8.2 Financial management</i></p> <p><i>8.3 Resource management</i></p> <p><i>8.4 Information systems</i></p>	<p>9. Leadership</p> <p><i>9.1 Vision, values and aims</i></p> <p><i>9.2 Leadership and direction</i></p> <p><i>9.3 Leading people and developing partnerships</i></p> <p><i>9.4 Leadership of innovation, change and improvement</i></p>

The key questions are used in conjunction with an evaluation scale of six levels. The levels are:

Level 6: Excellent	Outstanding, sector leader
Level 5: Very Good	Major strengths
Level 4: Good	Important strengths with areas for improvement
Level 3: Adequate	Strengths just outweigh weaknesses
Level 2: Weak	Important weaknesses
Level 1: Unsatisfactory	Major weaknesses

The assessment of which level the Service has achieved is mainly based upon qualitative judgements. However, guidelines are provided to ensure some degree of consistency, for example:

“An evaluation of excellent applies to provision which is a model of its type. The experiences of, and outcomes achieved by, service users are of very high quality. An evaluation of excellent represents an outstanding standard of provision which exemplifies very best practice and is worth disseminating beyond the Council. It implies these very high levels of performance are sustainable and will be maintained.”

High performing services will:

- Articulate clearly the desired outcomes for people who use our services
- Set challenging targets and improvement objectives for achieving successful outcomes for everyone who uses our services
- Have, within and across services, effective arrangements for evaluating systematically and rigorously whether successful outcomes are being achieved
- Ask demanding questions about the performance of Services and the Council itself
- Use the information from evaluation to make continuous and sustained improvements to achieve successful outcomes; and
- Clarify leadership and accountability roles for achieving improved outcomes

Departmental management teams provide external challenge to, and validation of, the self-evaluation results for each service. This approach also complements the proposed national shift to ‘Assisted Self-Evaluation’ that has resulted from the Crerar Review. Using Assisted Self-Evaluation staff will lead the process, although inspectors assist and, crucially, challenge performance and practices.

Appendix 5: Key questions for elected members (An Overview of Local Government in Scotland 2009)

<p>Longer-term planning</p>	<ul style="list-style-type: none"> • To what extent are we planning for beyond the current year taking into account financial projections and other intelligence? • How robust are plans to achieve the savings required to meet our priorities? • To what extent do we have a clear plan for achieving the most appropriate size of workforce and skills needed to deliver our goals? • To what extent do we have a clear plan for ensuring that expenditure and investment in our asset base achieves value for money and most appropriately supports the delivery of our goals
<p>Decision-making and prioritisation</p>	<ul style="list-style-type: none"> • How clear are we about the priorities of local people? • How good is our information on performance and the costs of providing different levels and quality of services to assist us in setting priorities and taking decisions? • What action are we taking to prioritise spending? • How aware are we of the relative risks and rewards associated with our decisions, and how well placed are we to manage identified risks?
<p>Outcomes</p>	<ul style="list-style-type: none"> • To what extent are we considering the impact of the recession on our service outcomes and our commitments in our Single Outcome Agreement? • How are we comparing our service outcomes with others, for example by benchmarking? • What evidence do we have that our service outcomes represent best value?
<p>Keeping informed</p>	<ul style="list-style-type: none"> • How well are we kept informed of the impact of the recession on our finances and service performance? • How effectively are we monitoring and planning for changes in demand for services? • Are our training and development needs fully addressed?
<p>Working with others</p>	<ul style="list-style-type: none"> • How well are we working with our partners and/or neighbours to deal with pressures caused by the recession? • Are we exploring all possible options for the delivery of local services? • What quantifiable efficiencies or improvements are resulting from working with others?

REPORT TO: Audit and Governance Committee

MEETING DATE: 19 June 2012

BY: Chief Executive

SUBJECT: An Overview of Local Government in Scotland 2012

3

1 PURPOSE

- 1.1 To review East Lothian Council's position in relation to the findings of the Audit Commission report, 'An Overview of Local Government in Scotland 2012'

2 RECOMMENDATIONS

- 2.1 It is recommended that the Committee note that the improvement points detailed in para 4.2 have been included in the Council Improvement Plan 2012/13 which is being presented to the 26th June 2012 Council meeting.
- 2.2 Further, the Committee should review the contents of this report and identify areas for further scrutiny at future meetings of the Audit and Governance Committee

3 BACKGROUND

- 3.1 Each year the Accounts Commission produces an overview of issues that have arisen from their local authority audits. The overview assists councils in identifying and planning for pressures that they may face in the coming year.
- 3.2 The overview report outlines the main challenges faced by Scottish Local Government and suggests that the over-arching priorities for local authorities in 2012 to respond to the challenges should be:
- *Maintaining a focus on best value, governance and equality to improve services and outcomes for people and communities.*
 - *Identifying priorities taking account of existing commitments, the shift in focus to preventative spending and organisational capacity.*

- *Monitoring the 2012/13 budget and setting budgets for 2013/14 which achieve a balance between short-term aspirations and long-term sustainability.*
 - *Ensuring workforce reductions do not erode capacity, getting asset management right and securing further progress on procurement.*
- 3.3 These priorities are reflected in the draft Council Plan, the Improvement Framework: Improvement to Excellence, the financial strategy and the People Strategy which attempt to provide a clear focus and set of priorities for the Council in the context of the external and internal challenges. The Council's Corporate Risk Register and Service Risk Registers are based on risk assessments that take account of external and internal challenges which contribute to the setting of the Council Plan and Service Plans.
- 3.4 The overview report highlights key findings that are common to Local Authorities in regard to, for example, finance, workforce planning and asset management. The key findings in each area have been outlined below along with a brief description of the position at East Lothian Council. This draws on various sources including the findings from the 2012 How Good is Our Council (HGIOC) self-evaluation. The scoring and ranking figures provide an indication of areas of relative strength and potential weakness that might need to be considered further.

Resources & Demand Pressures / Finances

Accounts Commission findings for Local Authorities

- 3.5 Local government funding will fall by three per cent between 2011/12 and 2012/13 and, cumulatively, by 6.3 per cent by 2014/15. Capital funding is due to fall in the period up to 2013/14; although it will increase in 2014/15. Reduced revenue and capital funding, along with commitments resulting from past financing decisions under PPP / PFI, are likely to lead to councils borrowing more money to finance capital expenditure. Lower proceeds from the sale of assets are likely to compound the problem.
- 3.6 Slippage in capital programmes is a recurring issue, with one-half of councils reporting some slippage in 2011. Many councils are holding greater levels of reserves than the level required by their policies. This is regarded as prudent, although it should be kept under review in light of reducing budgets and competing pressures on resources.
- 3.7 The risk of non-compliance with financial regulations is increasing as councils reduce the number of staff in finance departments. It is important that staff have a good knowledge and understanding of financial systems and regulations and a good working knowledge of financial controls.
- 3.8 Significant Trading Organisations (STOs) have to break even. During 2010/11, there were 73 STOs in Scotland with 60 (82 per cent) meeting the requirement to break even. The main reasons for failure to achieve

targets included the cost of settling equal pay claims, voluntary severance agreements and service restructuring.

- 3.9 Welfare reform and the current economic conditions risk increasing the pressures on demand led services, for example housing and social services. Demographic trends also suggest that Adult social care services are likely to face increasing demand for older people's services. Addressing demand by moving towards increased spending on prevention brings its own problems in attempting to balance long and short term priorities.
- 3.10 Equality is particularly important in times of financial constraint. It should not be seen as a barrier to taking difficult decisions but instead as a basis for open and transparent decisions based on an understanding of the impact of decisions on groups of people in communities.

East Lothian Council position

- 3.11 The Council has increased its level of borrowing, especially to fund the development of new Council houses. The Accounts Commission note in the Report on the 2010/11 Audit that 'General Services' capital expenditure of £41.4m in 2011/12 is financed by only £10.3m of income, of which £1.4m comes from capital receipts. Repayments can only be sustainable if the Council does not rely on temporary sources of funding, such as the reserves.
- 3.12 This is likely to continue for the next three years and over this period both the General Services and Housing Revenue accounts will see an increasing proportion of their income be used to fund debt repayments. However, in the case of the General Services account, it is likely that this increase in debt will need to come to an end in the periods after 2014/15.
- 3.13 East Lothian Council earmarked £6.91m of its reserves to balance the budget in 2012/13 and 2013/14 as part of its Financial Strategy. The budget is due to be balanced by 2014/15. The Council maintains a reserve of £2m to cover civil emergencies and a cost reduction fund reserve (£5m) to fund 'spend to save' initiatives such as staff reviews and service re-design that are projected to achieve long term savings following initial investment or creased costs.
- 3.14 Reports have been provided regarding the impact of Welfare Reform to Cabinet on the 8th November 2010 and to Council on the 22nd February 2011. The reports identified that welfare reform is likely to have an impact upon services including adult social care services, housing and homelessness services, free school meals and others. However, the specific consequences are difficult to quantify. The Council has continued funding for its Welfare Rights Service and the Haddington and Musselburgh CABx in order to ensure that vulnerable people have access to welfare and money advice.
- 3.15 Adult Social Care, via the Change Fund, are attempting to rebalance care provision towards anticipatory preventative care. The priorities of

the Change Fund include the development of Intermediate Care services, developing the range of housing options available for older people and the development of an integrated approach to supporting people with dementia to enable them to live in their own homes for longer.

3.16 Services found, as part of their How Good is Our Council (HGIOC) self-evaluation, that financial management was relatively sound. Procedures for reporting and managing the financial performance received relatively high scores. However, the extent to which financial planning demonstrates Best Value (e.g. options appraisal, assessment of efficiency and effectiveness) received a lower score. It should be noted that the 2011 Corporate Improvement Plan included an action related to developing a standard approach to options appraisal.

Question	How rigorous are the management procedures to identify and deal with budgetary variances?	How well does the Service monitor, review and report upon financial performance?	To what extent does financial planning demonstrate Best Value?
Score 1-6	4.6	4.53	3.85
Rank 1-102	15	23	83

Service redesign and structural changes

Accounts Commission findings for Local Authorities

3.17 Councils face challenges in regard to the changes in the introduction of a national Fire and Rescue Service and national Police force. The Accounts Commission note that the restructuring might create the following problems:

- conflicts might arise between local and national priorities
- it is unclear how the scrutiny function currently vested in councils will work
- it is unclear how local commanders will maintain operational independence
- governance arrangements in the transition period are unclear.

3.18 The integration of health and social care will also provide a challenge for councils. Under the proposed reforms, NHS boards and councils will be required to produce integrated budgets for older people's services. However, planning for these changes is at an early stage.

3.19 Welfare changes (particularly the introduction of Universal Credit) will have significant implications. Councils face reduced funding as the

housing benefit caseload moves from council administration to Universal Credit and the likelihood of staff reductions. Around 60% of the rental income for council properties is paid directly from housing benefits. However, Universal Credit will be paid directly to claimants and it will be the claimant's responsibility to pay rent to the council.

East Lothian Council position

- 3.20 Council approved a draft response to the Scottish Government's proposed Police and Fire and Rescue reforms at its meeting on the 25th October 2011. Council subsequently agreed to submit an expression of interest to take part in a planned Local Scrutiny and Engagement Pathfinder at its meeting of the 24th January 2012. Council received an update on the proposals at its meeting on the 27th March 2012. A further report, which will address the issues raised in 3.17 above which is due to be considered by the 26th June 2012 Council meeting.
- 3.21 The Audit and Governance Committee received a report regarding the 'Review of Community Health Partnerships' at its meeting on the 27th September 2011. The Committee recommended that Adult Social Care should use the self-assessment checklist for NHS Boards, councils and other partners to improve joint working between health and social care. The establishment of a joint Community Health and Care Partnership is discussed in paragraph 3.37 below.
- 3.22 The potential effects of changes to the welfare system are recognised by the Council (see paragraph 3.14). The effect of the introduction of Universal Credit was also discussed at the Policy and Performance Review Committee on the 20th March 2012 in regard to an item on rent arrears. The Committee heard from the Revenues Manager that the introduction of Universal Credit might make rent more difficult to collect.

Leadership & Governance

Accounts Commission findings for Local Authorities

- 3.23 The overview report highlights leadership and governance as being a key issue and suggests that the following should be among the top priorities for Councils in 2012:
- *Providing strong leadership and challenge in a period of increasing resource and demand pressures and substantial service and structural change*
 - *Ensuring appropriate access and influence for the statutory officer for finance and effective financial controls.*
- 3.24 The report refers to the importance of the six principles of good governance as set out in the SOLACE/ CIPFA Delivering Good Governance in Local Government Framework (2007).
- 3.25 There is also reference to the importance of good working relationships and clear roles and responsibilities between elected members and senior

officers. The report makes the point that newly elected members will require training to be provided promptly following the May 2012 elections.

- 3.26 The report highlights that local authorities have a leadership role on equalities but that effectiveness in this respect is weakened by a lack of reliable equality data. Better use of existing data sources and more sophisticated data collection techniques should be used.
- 3.27 The Accounts Commission note that many councils have made significant changes at senior officer level leading to concerns that the role of statutory officer for finance is not properly understood. Where the statutory officer for finance is not a full member of the senior management team or equivalent, elected members are asked to satisfy themselves that the officer has appropriate access and influence at the most senior level in the council.

East Lothian Council position

- 3.28 The Council adopted the SOLACE/ CIPFA good governance framework based on the six principles in 2010 and has just concluded the third self-evaluation exercise based on the framework. The improvement points identified by the self-evaluation are recorded in the Annual Governance Statement that is included in the Council’s Annual Accounts and are reflected in the Council’s Corporate Improvement Plan.
- 3.29 The Council put in place an extensive and comprehensive induction programme for new members supported by a large Induction pack of useful background information and the Improvement Service’s Notebooks. A programme of skills and issue based training and briefings to be held over the summer and autumn will be devised following consultation with all elected members.
- 3.30 Since the Council senior officer restructuring (effective from 1st April 2012) the role of the statutory officer for finance (Section 95 Officer) has passed to the newly formed position of Head of Council Resources, who is a member of the Council Management Team.
- 3.31 Self-evaluation using HGIOC identified that the lack of equality data is a weakness that hinders services being able to demonstrate improved outcomes for diverse communities.

Question	Are adequate monitoring systems in place to ensure that vulnerable people are not being excluded?	How effectively can the Service demonstrate improved outcomes for diverse communities?
Score 1-6	4.08	3.14
Rank 1-102	65	101

- 3.32 The Council is developing a Single Equality Scheme 2012 to 2015. The Scheme will include a number of performance indicators that will help to

address weaknesses in the availability of data relating to equalities. Indicators developed as part of the Scheme will be arranged in accordance with the outcomes of the Council Plan / SOA and will be reported via the Council's performance reporting website.

Working in Partnership

Accounts Commission findings for Local Authorities

- 3.33 Differences in governance and accountability between individual partners are still considered by CPPs to be a barrier to effective partnership working. The overview report emphasises the need for councils to make working with partners more effective through rationalising partnership structures.
- 3.34 The Accounts Commission report into Community Health Partnerships concluded that a more systematic, joined-up approach to planning and resourcing is needed to ensure that health and social care resources are used efficiently and that this should be underpinned by a good understanding of the shared resources available.
- 3.35 Appendix 4 of the report highlights a series of good governance principles for partnership working. The top priorities for Council's to improve partnership working are identified in the report as:
- *Getting the best from partnership working by delivering more integrated services, better value for money and improved outcomes*
 - *Ensuring partnership performance information systems are sound and that accountabilities are clear.*

East Lothian Council position

- 3.36 East Lothian Community Planning Partnership reviewed its structure in 2009. Seven Theme Groups and three Local Area Forums (covering covering the Musselburgh area, Dunbar and East Linton and North Berwick Coastal wards) report progress towards the outcomes of the SOA to the Community Planning Board. Subsequent reviews of partnership working have been undertaken by the Improvement Service and SOLACE and a How Good is Our Partnership self-evaluation exercise in 2011 and resulting improvement points and actions have been included in the Community Planning Partnership Improvement Plan. A major review of the CPP's governance and structure is to be carried out in autumn 2012.
- 3.37 The Adult Social Care Change fund identifies one of its priorities as being 'A focus on better integration between health and social care in the assessment and delivery of care through joint service redesigns'. East Lothian has been one of the pilot areas for the Integrated Resource Framework which is meant to provide the basis for clearer decisions about resource allocation between social and health care funds. Also the Council has begun discussions with Midlothian Council on the possibility

of developing a shared Adult and Community Care service with the establishment of a joint Community Health and Care Partnership as a key part of the long term vision.

- 3.38 HGIOC self-evaluation results suggest that partnership working is regarded as being effective in helping to deliver outcomes, although it has not led to the identification of efficiency savings in the majority of cases.

Question	How effective is interagency planning in delivering outcomes?	To what extent have partnerships identified joint efficiency savings?
Score 1-6	4.58	2.73
Rank 1-102	21	102

Options for Service Delivery

Accounts Commission findings for Local Authorities

- 3.39 The overview report highlights that most councils are considering alternative, more efficient, means for delivering services. Councils need to ensure that any decisions to employ alternative means of service delivery are made on the basis of good quality information.
- 3.40 In relation to options for service delivery the Accounts Commission suggest that councils' top priorities for 2012 should be:
- *Engaging with communities to understand service users' and communities' needs*
 - *Investigating new ways of delivering service, including opportunities for simplifying and standardising common processes.*
- 3.41 The report suggests that the employment of shared service models has been slow, although it notes that East Lothian and Midlothian Councils have made progress in relation to developing shared services around education.
- 3.42 New Arms Length External Organisations (ALEOs) may be set up to reduce costs or improve services. However, councils are expected to review existing ALEOs and structures to ensure they remain the best option, recognising that ALEOs themselves face a challenging financial and operating environment. Where ALEOs do proceed it is important that councils are able to 'follow the public pound' across organisational boundaries.

East Lothian Council position

- 3.43 The Council Management Team has recently approved a Council Consultation and Engagement Strategy that establishes a framework for all consultation and engagement activity to help ensure that it is well planned and coordinated and carried out in a meaningful and effective manner, following good practice and benefitting all those involved. The Strategy and current good practice such as the 2011 Residents' Survey and the East Lothian Tenants and Residents Panel ensure that the Council uses community consultation and engagement to better understand service users' and communities' needs.
- 3.44 The Audit and Governance Committee (27th September 2011) considered the Audit Scotland report on ALEOs and:
- noted the guidance or recommendations made in the report;
 - agreed that the governance and operational issues identified in the report would be considered as part of any options appraisal in preparation of any detailed business case involving the possible use of ALEOs;
 - agreed to use the questions in the 'checking progress' tool when reviewing arrangements for delivering services through ALEOs.
- 3.45 As pointed out above (para 3.16) it should be noted that the 2011 Corporate Improvement Plan included an action related to developing a standard approach to options appraisal. Work is ongoing in developing a standard common process for options appraisal.

Performance Information

Accounts Commission findings for Local Authorities

- 3.46 The Accounts Commission reports that it has found that councils are weaker in reporting performance information relating to service costs and progress towards long-term outcomes. Councils need to develop 'contributory outcome indicators' to help measure progress towards long-term outcomes. The Accounts Commission encourages councils to use the UK audit agencies' indicators to help measure the quality and cost of back office functions.
- 3.47 Councils were found to be committed to self-evaluation, although there were inconsistencies in coverage and in the quality of information across services, outcome areas and corporate systems. The use of benchmarking data in self-evaluation to assess costs, quality and performance remains underdeveloped and there is limited consideration of service users' views and customer satisfaction information.
- 3.48 The overview report concludes that the top priorities for improving performance information should be:

- *Ensuring good-quality performance information is available to support improvement and inform decision-making*
- *Increasing the focus on costs and on measures which monitor partnership outcomes and performance.*

East Lothian Council position

3.49 The Accounts Commission highlight five ‘areas for improvement’; the position of the Council in regard to these areas is outlined below:

Areas for improvement	East Lothian position
Some councils continue to rely too heavily on SPIs	The SPIs are integrated into the Council’s Key Performance Indicators (KPIs). The KPIs are reported in relation to their contribution to the Council’s outcomes. 99 KPIs are reported, 25 of which are also SPIs. See www.eastlothian.gov.uk/performance
Only a small number of councils compare their performance with others	Comparisons are reported for the SPIs. However, few other KPIs are benchmarked. Some services take part in benchmarking ‘clubs’ such as APSE or the Scottish housing Best Value network. The potential for expanding the use of benchmarking and collating comparisons with other councils is being investigated.
Around half of councils do not assess performance against targets	Almost all of the indicators reported via the Council’s performance website have a target. However, further works needs to be done to ensure that these are SMART targets.
Around half of councils do not provide information to show how stakeholders are listened to and responded to	Some relevant indicators, especially those drawn from the Resident’s Survey, are included among the KPIs. However, conducting the Resident’s Survey once every two years may not be sustainable and other ways to integrate stakeholder views into performance reporting need to be considered. Quarterly reports are provided to the PPRC regarding complaints and feedback.
Reporting on cost information is underdeveloped	SOLACE are developing a set of indicators that will improve performance reporting regarding service costs. The indicators are due to be published later in the year. The Council reports several indicators that relate to cost as KPIs, including indicators developed by the UK audit agencies measuring the cost of HR.

- 3.50 The most recent HGIOC self-evaluation suggests that services consider more work needs to be done regarding the relevance of the performance data that they collect.

Question	Does the Service collect and use appropriate performance data?	How well does the Service measure its contribution to outcomes?
Score 1-6	4.07	4
Rank 1-102	66	72

Workforce

Accounts Commission findings for Local Authorities

- 3.51 The overview report highlights that reducing staff numbers can pose risks which need to be managed properly. The loss of experience and skills, for example, may present a risk to effective service delivery and there may be a wider impact on the local economy. Large reductions in senior managers may affect 'corporate capacity' and there is a risk that officers will not have sufficient time to manage the range of initiatives that their council wishes to pursue.

East Lothian Council position

- 3.52 The Policy & Performance Review Committee received a report on the 31st January investigating the impact of workforce changes upon performance. The report concluded that although there had been slight reductions in staff numbers, this had not impacted upon performance.
- 3.53 The 2012 Employee Engagement Survey results compare well with the results from the previous year. Overall 73.3% of responses to the questions were positive (i.e. agreed with the statements). However, a lower proportion of employees (58.5%) agreed with the statement 'I have a manageable workload'. The HGIOC self-evaluation showed a mixed response to questions relating to the workforce. The extent to which services have sufficient staff to deliver its activities received a relatively low score. It should be noted that this issue is considered in workforce planning and service reviews.

Question	How good is staff retention?	How motivated and satisfied are employees?	Does the Service have a sufficient number of employees to deliver its activities?
Score 1-6	4.87	4.13	3.8
Rank 1-102	4	54	85

Assets

Accounts Commission findings for Local Authorities

3.54 The condition of council assets remains a concern. The cost of addressing the maintenance backlog in council-owned property assets is estimated at around £1.4bn, with £376m of this described as urgently required. Greater collaboration between public bodies may lead to improvements; this is especially true in regard to IT.

East Lothian Council position

3.55 The Accounts Commission highlight five opportunities for improvement; the position of the Council in regard to these areas is highlighted below:

Opportunities for improvement	East Lothian position
Joint planning and shared accommodation	Significant progress being made with shared services accommodation across and within East Lothian Council. We are engaging with the NHS on a number of projects to assist with accommodation for joint working. We are also part of the Hub SE Territory Asset Management Group which is mapping opportunities for joint working across authority and sector boundaries.
Sharing people, management and contracts by pooling expertise, sharing contract management, joint procurement etc.	Council restructure is delivering benefits in joint working across the Council. We are working with ScotExcel to put Consultants' frameworks in place.
Sharing data, to allow each organisations assets to be viewed and benchmarked by others	We are part of the Scottish Asset Management Benchmarking group and share data for benchmarking purposes. We have provided asset data to Hub SE Territory Asset Management Group for mapping .
Surplus property co-ordination to help manage the release of surplus property to the market	The Asset Management Group review surplus properties and options for their future use or disposal on a regular basis.
Pooling assets	We have prepared a number of options for collaborative working with the Fire and Rescue Service and the Police but to date no assets have been pooled.

3.56 The Council's 2011 Draft Corporate Asset Management Plan is being updated to reflect the challenges and opportunities presented by the new Council Plan and to recognise the reform agenda as advanced by the Christie Commission. In particular, the new Plan will recognise the essential role which Options Appraisal plays in decision making and commit to assessments of costs and benefits to target investment where it will make the biggest contribution towards addressing challenges set out in the Council Plan.

Procurement

Accounts Commission findings for Local Authorities

3.57 The overview report outlines the importance of taking a strategic approach to procurement. It highlights that some councils do not routinely report the results of the Procurement Capability Assessment (PCA) and improvement plans to full council or appropriate committee, particularly audit or scrutiny committees. It stresses that this is essential in managing procurement performance.

East Lothian Council position

3.58 The most recent PCA for East Lothian took place in 2010. The Council scored 26%, which means the Council is regarded as being 'conformant'. The Accounts Commission note in their Report on the 2010/11 Audit that 'the council is now conformant in four out of the eight areas, with the greatest improvement being shown in the People area covering procurement staffing, skill mix, development and management. The main area of non-conformance, with minimal improvement since last year, is performance measurement where it is not evident that a sound approach to assessing and demonstrating the Council's procurement performance is in place.' A procurement Improvement Plan is in place and actions to improve the Council's PCA are being carried out.

3.59 Two questions were added to HGIOC in 2012 that relate to procurement and the commissioning of services. Services judged that they performed well in linking commissioning decisions with strategic planning, and processes for purchasing, monitoring and reviewing services were deemed to be average.

Question	To what extent are there clear links between strategic and financial planning and commissioning decisions?	To what extent do we have sound and compliant business processes for purchasing, monitoring, and reviewing services?
Score 1-6	4.8	4.18
Rank 1-102	6	52

4 POLICY IMPLICATIONS

- 4.1 Councils are required under the Local Government in Scotland Act 2003 to achieve Best Value in regard to economy, efficiency, effectiveness, equal opportunities and sustainable development. The 'Overview of Local Government in Scotland: Challenges and change in 2012' will assist the Council in recognising the challenges that it faces in achieving Best Value in the future.
- 4.2 The analysis of the results from the HGIOC self-evaluation and comparison with the key issues highlighted in the 'Overview of Local Government in Scotland' report has identified several improvement points which have been included in the Council Improvement Plan 2012/13, specifically:
- Further develop the Council's approach to Options Appraisal to ensure Best Value and the highest standards of financial planning (para 3.16 and 3.45)
 - Improve monitoring of equalities measures and indicators (para 3.31)
 - Identify opportunities for getting best value from partnerships and making efficiency savings through partnership working (para 3.38)
 - Expand and make more effective use of performance information including the use of benchmarking (para 3.50).

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

- 6.1 Financial – none.
- 6.2 Personnel - none.
- 6.3 Other – none.

7 BACKGROUND PAPERS

- 7.1 'An Overview of Local Government in Scotland: Challenges and change in 2012', Accounts Commission

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DATE	7 th June 2012

REPORT TO: Audit and Governance Committee

MEETING DATE: 19 June 2012

BY: Chief Executive

SUBJECT: Corporate Governance Self-evaluation/Annual Governance Statement 2012

4

1 PURPOSE

- 1.1 To advise Audit and Governance Committee of the outcome of the 2012 Corporate Governance Self-evaluation.

2 RECOMMENDATIONS

- 2.1 Committee is asked to consider and comment on the self-evaluation (Appendix 1) and to approve the summary (para 3.4) for inclusion in the Annual Governance Statement that is to be included in the Council's Annual Accounts 2011/12.

3 BACKGROUND

- 3.1 Cabinet (11th May 2010) approved the adoption of a Code of Corporate Good Governance based on the six principles of good governance and the self-evaluation model outlined in the CIPFA/ SOLACE Guidance on Delivering Good Governance in Local Government. A task group comprising the Head of Governance & Performance Management, Head of Finance, Chief Social Work Officer, Head of Law and Licensing and Internal Audit Manager, was given responsibility for developing, monitoring and reviewing the code and governance statement.
- 3.2 Following the chief officer re-structuring a new task group consisting of the Monitoring Officer, Section 95 Officer, Chief Social Work Officer, Head of Policy and Partnerships and Internal Audit Manager was established to carry out the 2011/12 self-evaluation. The group reviewed progress made against the improvement points identified in the 2011 self-evaluation and considered documentary evidence and practice around each of the supporting principles and code requirements as detailed in the local code.

- 3.3 As with the previous self-evaluations the 2011/12 self-evaluation has found that East Lothian Council generally has good governance and control arrangements in place across the six principles. However, a number of areas where improvement is required were identified and these have been detailed in the self-evaluation in Appendix 1.
- 3.4 The following improvement points have been identified as actions that will ensure the Council can better meet its corporate governance responsibilities.
- ***Promote the Council Plan, Vision, Mission and Focus to staff and East Lothian citizens***
 - ***Complete the review of Community Planning Partnership governance arrangements and structures***
 - ***Roll out elected members' CPD to allow all members to participate***
 - ***Complete Review of Scheme of Administration and Scheme of Delegation, including the roles and responsibilities of the Council's Statutory Officers will be detailed in the revised Standing Orders and Scheme of Administration***
 - ***Review reports template following on from the Review of Scheme of Administration***
- 3.5 These improvement points will be reflected in the Corporate Improvement Plan that will be considered by Council, 26th June 2012.

4 POLICY IMPLICATIONS

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

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

- 6.1 Financial – none.
- 6.2 Personnel – none.
- 6.3 Other – none.

7 BACKGROUND PAPERS

- 7.1 Delivering Good Governance in Local Government: Guidance Note for Scottish Authorities. (CIPFA 2008)
- 7.2 Report on Corporate Governance Self-evaluation; Corporate Governance PPRP, 22nd June 2010
- 7.3 Report on Annual Governance Statement; Audit & Governance Committee, 26th April 2011
- 7.4 Appendix 1: Corporate Governance Self-evaluation May 2012

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APPENDIX 1: CORPORATE GOVERNANCE SELF-EVALUATION: May 2012

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

Supporting Principle & Code Requirements	Documentary Evidence <i>(new items in italics)</i>	2011 Update and Improvement Points	Update and 2012 Improvement Points
1.1 Exercising strategic leadership by developing and clearly communicating the authority's purpose, vision and its intended outcome for citizens and service users			
1.1.1 Develop and promote the authority's purpose and vision	<ul style="list-style-type: none"> • 2020 Vision • Draft Council Plan 2012-2017 • Corporate Improvement Plan • Single Outcome Agreement (SOA) • HGIOC Self Evaluations • Communications of corporate objectives across services • Incorporation of objectives and outcomes in new Service Planning guidance • Corporate Induction Pack and training Course • Three –year Financial Strategy 	<p>Report to Council (22nd Feb 2011) agreed to re-affirm 2020 Vision and Community Planning Partnership Statement of Intent and that the Our Contract with the People and Corporate Plan should be refreshed.</p> <p>2011 Improvement Point: The refresh of the Corporate Plan should include a review of the 2020 Vision</p>	<p>The refresh of the Corporate Plan became the Draft Council Plan 2012-2017. This includes commitment to the 2020 Vision and a new Council Mission Statement and Focus</p> <p>2012 Improvement Point: Promote the Council Plan, Vision, Mission and Focus to staff and East Lothian citizens</p>
1.1.2 Review on a regular basis the authority's vision for East Lothian and its implications for the authority's governance arrangements	<ul style="list-style-type: none"> • Corporate Governance Code and self-evaluation framework adopted in May 2010 • Report on Council's vision, priorities and policies (Council, 22nd Feb 2011) • <i>Draft Council Plan 2012-2017</i> • <i>Chief Officers/ Council Management Team re-structured March 2012</i> 	As above	No action required

<p>1.1.3 Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners</p>	<ul style="list-style-type: none"> • Community Plan and SOA • Agreements between ELC and partners • Shared Services agreement with Midlothian Council • <i>EL CPP Improvement Plan 2011/12</i> 	<p>Draft Partnership Financial Strategy prepared and being consulted on</p> <p>CPP Partnership Agreement will be agreed following refresh of SOA</p> <p>CPP is undertaking a 'How Good is Our Partnership' self-evaluation</p> <p>2011 Improvement Point: Implement actions from HGIOF</p>	<p>Draft Partnership Financial Strategy to be finalised</p> <p>CPP Improvement Plan 2011/12 based on HGIOF agreed and being implemented</p> <p>CPP Review has been delayed until summer 2012</p> <p>2012 Improvement Point: Complete Review of CPP governance arrangements and structures</p>
<p>1.1.4 Publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance</p>	<ul style="list-style-type: none"> • Annual Accounts • Annual Performance Reports • SOA Annual Report 	<p>Comprehensive Annual Performance Report 2010 was published on Council's website</p> <p>2011 Improvement Point: Review content of 2011 Performance Report</p>	<p>Annual Performance Report 2011/12 being published in August</p> <p>No action required</p>
<p>1.2 Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning</p>			
<p>1.2.1 Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available</p>	<ul style="list-style-type: none"> • Service standards • HGIOC, Business Plans and Improvement Plans • SOA Annual Report • PPR Co reporting – balanced scorecards • Complaints and compliments feedback • Independent inspection reports • CSWO Annual Report • <i>Service users' surveys</i> • <i>2011 Residents' Survey</i> 	<p>No action required</p>	<p>2011 Residents' Survey results used to inform the Council Plan</p> <p>Consultation and Engagement Strategy has been agreed with the aim of improving feedback to the Council and services of the views of citizens and service users</p> <p>No action required</p>

<p>1.2.2 Put in place effective arrangements to identify and deal with failure in service delivery</p>	<ul style="list-style-type: none"> • PPR Co reporting on key Performance indicators • HGIOC and service improvement plans incorporated into Service Plans • Significant case reviews in Social Work • Social Work Appeals Sub-Co • Social Work Complaints Review Co • Regular reporting of complaints and feedback • Responding to issues raised by elected members 	<p>No action required</p>	<p>New 2-stage Complaints procedure being out in place (by July 2012)</p> <p>No action required</p>
<p>1.3 Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money</p>			
<p>1.3.1 Decide how value for money (VFM) is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively. Measure the environmental impact of policies, plans and decisions</p>	<ul style="list-style-type: none"> • Procurement Strategy • Performance Management framework • PPR Co reporting • Audit & Governance Co reporting • 2011 Residents' Survey • Customer feedback / surveys • <i>Consultation and Engagement Strategy</i> 	<p>New Procurement Strategy published Feb 2011</p> <p>2011 Residents Survey has been commissioned</p> <p>Corporate consultation strategy being prepared (May 2011)</p>	<p>Procurement Improvement Plan and Action Plan has been established</p> <p>Consultation and Engagement Strategy and Action Plan has been agreed</p> <p>Process for carrying out Environmental Impact Assessments is being developed</p> <p>No action required</p>

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

Supporting Principle & Code Requirements	Documentary Evidence <i>(new items in italics)</i>	2011 Update and Improvement Points	Update and 2012 Improvement Points
2.1 Ensuring effective leadership throughout the authority and being clear about executive and non executive functions and of the roles and responsibilities of the scrutiny function			
2.1.1 Set out a clear statement of the respective roles and responsibilities of Members generally and of Senior Officers	<ul style="list-style-type: none"> • Scheme of Delegation • Member/ officer protocol • CPD pilot for elected members • Review of Impact of Multi-Member Wards and Officer Member Relations carried out in 2011 • <i>Induction programme for new elected members</i> • <i>Improvement Service Notebooks for new elected members</i> 	<p>Recommendations have been adopted; new PPR Co and Audit & Governance Co have been established</p> <p>Council has agreed to participate in the new CPD programme</p> <p>Review of Impact of Multi-Member Wards and Officer Member Relations has been carried out and recommendations will be reported to May Council meeting</p>	<p>Induction programme for new elected members including session on the Code of Conduct</p> <p>Improvement Service Notebooks for new elected members included sections on role and responsibilities</p> <p>2012 Improvement Point: <i>Roll out elected members' CPD to allow all members to participate</i></p>
2.2 Ensuring that a constructive working relationship exists between authority members and officers and that the responsibilities of members and officers are carried out to a high standard			
2.2.1 Determine a Scheme of Delegation and reserve powers within constitution, including a formal scheme on those matters specifically reserved for collective decision of the authority, taking account of relevant legislation, and ensure that it is monitored and updated when required	<ul style="list-style-type: none"> • Scheme of Delegation • Policies such as HR policies include delegation of powers to officers 	2011 Improvement Point: Review Scheme of Delegation	<p>Completion of the review of Scheme of Delegation held back until after the 2012 elections</p> <p>2012 Improvement Point: <i>Complete Review of Scheme of Administration and Scheme of Delegation</i></p>

<p>2.2.2 Ensure the Chief Executive is responsible and accountable to the authority for all aspects of operational management within the Scheme of Delegation</p>	<ul style="list-style-type: none"> • Chief Executive's job description • Appraisal of Chief Executive • Scheme of Delegation • Members Library reports record decisions taken under delegated powers 	<p>As above</p>	<p>As above</p>
<p>2.2.3 Develop protocols to ensure that the Leader and Chief Executive negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained</p>	<ul style="list-style-type: none"> • Member/ officer protocol within Council Standing Orders • <i>Regular meetings between Chief Executive and Council Leader</i> • Annual appraisal for Chief Executive with Leader and Depute Leader 	<p>2011 Improvement Point: Implement recommendations from Review of Impact of Multi-Member Wards and Officer Member Relations in relation to protocols, induction and training for members</p>	<p>Induction programme for new elected members included session the Code of Conduct</p> <p>Improvement Service Notebooks for new elected members included sections on role and responsibilities</p> <p>2012 Improvement Point: Roll out elected members' CPD to allow all members to participate</p>
<p>2.2.4 Make a Senior Officer (the Section 95 Officer) responsible to the authority for ensuring appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining effective systems of internal financial control</p>	<ul style="list-style-type: none"> • Section 95 Officer • Annual Accounts and Statement of Internal Financial Control • Internal and external audit reports 	<p>No action required</p>	<p>New Section 95 Officer (Head of Council Resources) appointed April 2012</p> <p>2012 Improvement Point: The roles and responsibilities of the Council's Statutory Officers will be detailed in the revised Scheme of Administration</p>

<p>2.2.5 Make a senior officer (the Monitoring Officer; and for social work services the Chief Social Work Officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with</p>	<ul style="list-style-type: none"> • Monitoring Officer • Chief Social Work Officer • Internal audit reports • CSWO Annual Report 	<p>No action required</p>	<p>New Monitoring Officer (Executive Director, Services to Communities) appointed April 2012</p> <p>2012 Improvement Point: <i>The roles and responsibilities of the Council's Statutory Officers will be detailed in the revised Scheme of Administration</i></p>
<p>2.3 Ensuring relationships between the authority, its partners and the public are clear so that each know what to expect of each other</p>			
<p>2.3.1 Develop protocols to ensure effective communication between Members and Officers in their respective roles</p>	<ul style="list-style-type: none"> • Member/ officer protocol within Council Standing orders 	<p>2011 Improvement Point: Implement recommendations from Review of Impact of Multi-Member Wards and Officer Member Relations in relation to protocols, induction and training for members</p>	<p>Induction programme for new elected members included session the Code of Conduct</p> <p>Improvement Service Notebooks for new elected members included sections on role and responsibilities</p> <p>2012 Improvement Point: <i>Roll out elected members' CPD to allow all members to participate</i></p>
<p>2.3.2 Ensure that an established scheme for remuneration of Members and Officers and an effective structure for managing the process including and effective remuneration panel (if applicable) are in place</p>	<ul style="list-style-type: none"> • The Council follows the recommendations of the Scottish Local Authorities Remuneration Committee • Chief Executives' scheme of remuneration • Registers of Interest for Members and Chief Officials 	<p>No action required</p>	<p>No action required</p>

<p>2.3.3 Ensure that effective mechanisms exist to monitor service delivery</p>	<ul style="list-style-type: none"> • Performance Management / <i>Improvement</i> framework • Reports to PPR Committee • HGIOC • Service Plans and Corporate Improvement Plan • Independent inspections 	<p>No action required</p>	<p>No action required</p>
<p>2.3.4 Ensure that the authority's vision, corporate plans, priorities and targets are developed, through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated</p>	<ul style="list-style-type: none"> • Development of Corporate Plan and SOA • Dissemination of Corporate Plan and SOA • 2011 Residents' Survey • <i>Draft Council Plan 2012-2017</i> • <i>Consultation and Engagement Strategy</i> 	<p>Corporate consultation strategy being prepared (May 2011)</p> <p>Report to Council (22nd Feb 2011) agreed to re-affirm 2020 Vision and Community Planning Partnership Statement of Intent and that the Our Contract with the People and Corporate Plan should be refreshed</p>	<p>Draft Council Plan 2012-2017 was based on the priorities established through the SOA, Christie Commission and views of residents from the 2011 Residents' Survey. The Plan includes commitment to the 2020 Vision and a new Council Mission Statement and Focus</p> <p>2012 Improvement Point: Promote the Council Plan, Vision, Mission and Focus to staff and East Lothian citizens</p>
<p>2.3.5 When working in partnership ensure that Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority</p>	<ul style="list-style-type: none"> • Scheme of Administration, including Scheme of Delegation and Councillors' Code of Conduct • Memorandums and Articles of arms length companies • <i>Induction programme for new elected members</i> • <i>Improvement Service Notebooks for new elected members</i> 	<p>CPP is undertaking a 'How Good is Our Partnership' self-evaluation</p> <p>2011 Improvement Point: Implement actions from HGIOIP</p>	<p>Induction programme for new elected members included a Meet the Partners session</p> <p>Improvement Service Notebooks for new elected members included sections on role and responsibilities</p> <p>2012 Improvement Point: Roll out elected members' CPD to allow all members to participate</p>

<p>2.3.6 When working in partnership, ensure that there is clarity about the legal status of the partnership; ensure that representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisations to partner decisions</p>	<ul style="list-style-type: none"> • As above • Draft Partnership Funding Strategy • CPP Improvement Plan 	<p>As above</p>	<p>Draft Partnership Financial Strategy to be finalised</p> <p>CPP Improvement Plan 2011/12 based on HGIOP agreed and being implemented</p> <p>CPP Review has been delayed until summer 2012</p> <p>2012 Improvement Point: Complete Review of CPP governance arrangements and structures</p>
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PRINCIPLE 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behavior

Supporting Principle & Code Requirements	Documentary Evidence <i>(new items in italics)</i>	2011 Update and Improvement Points	Update and 2012 Improvement Points
<p>3.1 Ensuring authority Members and Officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance</p>			
<p>3.1.1 Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect</p>	<ul style="list-style-type: none"> • Scheme of Administration, including Councillors' Code of Conduct • Various mechanisms used to inform council staff and the public of council decisions and policies • Customer Excellence • East Lothian Way • Joint Consultative Machinery with local JTU • Annual Employee Engagement Survey 	<p>2011 Improvement Point: Implement recommendations from Review of Impact of Multi-Member Wards and Officer Member Relations in relation to protocols, induction and training for members (including revision of Code of Conduct in line with recommendations of Standards Commission)</p>	<p>No action required</p>

<p>3.1.2 Ensure that standards of conduct and personal behaviour expected of all Members and staff, and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols</p>	<ul style="list-style-type: none"> • Scheme of Administration, including Councillors' Code of Conduct • Community Planning Board, Local Area Forums and SOA theme groups remits • Disciplinary Code of Conduct for Employees • The East Lothian Way • Performance Review and Development Scheme for employees • Transformational Leadership Programme for senior officers and managers • Review of Impact of Multi-Member Wards and Officer Member Relations • SSSC Code of Conduct • <i>Induction programme for new elected members</i> • <i>Improvement Service Notebooks for new elected members</i> 	<p>Draft Partnership Financial Strategy prepared and being consulted on</p> <p>CPP Partnership Agreement will be agreed following refresh of SOA</p> <p>CPP is undertaking a 'How Good is Our Partnership' self-evaluation</p> <p>2011 Improvement Point: Implement actions from HGIOP</p> <p>Implement recommendations from Review of Impact of Multi-Member Wards and Officer Member Relations in relation to protocols, induction and training for members</p>	<p>Draft Partnership Financial Strategy to be finalised</p> <p>CPP Improvement Plan 2011/12 based on HGIOP agreed and being implemented</p> <p>CPP Review has been delayed until summer 2012</p> <p>2012 Improvement Point: Complete Review of CPP governance arrangements and structures</p> <p><i>Roll out elected members' CPD to allow all members to participate</i></p>
<p>3.1.3 Put in place arrangements to ensure that Members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice</p>	<ul style="list-style-type: none"> • Members' and Officers Codes of Conduct and Registers of Interests • Standing Orders • Single Equality Scheme • Standing Orders including Scheme of Delegation and Councillors' Code of Conduct with provisions for Declarations of Interest • Equalities Policies • Whistleblowing Policy • Gifts and Hospitality policy • <i>Induction programme for new elected members</i> 	<p>2011 Improvement Point: Implement recommendations from Review of Impact of Multi-Member Wards and Officer Member Relations in relation to protocols, induction and training for members</p>	<p>Induction programme for new elected members included session the Code of Conduct</p> <p>Improvement Service Notebooks for new elected members included sections on role and responsibilities</p> <p>2012 Improvement Point: Roll out elected members' CPD to allow all members to participate</p>

3.2 Ensuring that organisational values are put into practice and are effective			
3.2.1 Develop and maintain shared values including leadership values for both the organisation and staff reflecting public expectations, and communicating these with Members, staff, the community and partners	<ul style="list-style-type: none"> • East Lothian Way • <i>Draft Council Plan 2012-2017</i> • SOA and Community Plan • Customer Excellence • Transformational Leadership Programme • Performance Review & Development Scheme for employees • Corporate Induction Pack and Course for Managers • Code of Conduct and Disciplinary Procedures for all employees • Team Talk communication channel 	No action required	No action required
3.2.2 Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice	<ul style="list-style-type: none"> • Standing Orders including Councillors' Code of Conduct • Gifts and Hospitality policy 	No action required	No action required
3.2.3 Use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority	<ul style="list-style-type: none"> • Standing Orders • East Lothian Way • Roll out of Performance Review and Development for all employees • Annual Employee Engagement Survey • <i>Draft Council Plan 2012-2017</i> 	2011 Improvement Point: Implement recommendations from Review of Impact of Multi-Member Wards and Officer Member Relations in relation to protocols, induction and training for members	No action required

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

Supporting Principle & Code Requirements	Documentary Evidence <i>(new items in italics)</i>	2011 Update and Improvement Points	Update and 2012 Improvement Points
4.1 Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny			
4.1.1 Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority's performance overall and that of any organisation for which it is responsible	<ul style="list-style-type: none"> • Scheme of Administration • Audit & Governance and PPR Committees • Reviews of the use of Scrutiny Guide by Audit & Governance and PPR Committees 	Recommendation of the review have been implemented and new PPR Co and Audit & Governance Co established 2011 Improvement Point: Review operation of new committees in late 2011	Reviews of the use of Scrutiny Guide by Audit & Governance and PPR Committees carried out in March – June 2012 No action required
4.1.2 Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based	<ul style="list-style-type: none"> • Scheme of Administration including Scheme of Delegation • Members Library Service and Bulletin to report delegated decisions • <i>E-gov</i> provides access to all reports and minutes 	CMIS upgrade not viable; alternative approach has been adopted and new system for online publishing of agenda, reports and minutes will be in place by April 2011	New e-gov system has been in place since April 2011 No action required
4.1.3 Put in place arrangements to safeguard Members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice	<ul style="list-style-type: none"> • Standing Orders including Scheme of Delegation and Councillors' Code of Conduct with provisions for Registers and Declarations of Interest • Recruitment and Selection procedures • Discipline and Grievance Procedures • Whistleblowing Policy • Gifts and hospitality policy • 2011 Procurement Strategy 	No action required	No action required

4.1.4 Develop and maintain an effective Audit Committee (or equivalent) which is independent of the executive and scrutiny functions or make other appropriate arrangements for the discharge of the functions of such a committee	<ul style="list-style-type: none"> • Standing Orders and Scheme of Administration • Audit & Governance Committee 	Recommendation of the review have been implemented and new PPR Co and Audit & Governance Co established	No action required
4.1.5 Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints	<ul style="list-style-type: none"> • Complaints policy 'Feedback' • Publicity about complaints procedures • <i>Six-monthly report on complaints and feedback made to PPR Committee</i> 	No action required	No action required
4.2 Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs			
4.2.1 Ensure that those making decisions, whether for the authority or the partnership, are provided with information that is fit for purpose - relevant, timely and gives clear explanations of technical issues and their implications	<ul style="list-style-type: none"> • Format of Council, Cabinet, Audit & Governance Co, PPR Co and Community Planning Board reports • Calendar of meetings and timely preparation of agendas and papers • Three -year Financial Strategy • Advice in preparing annual budget 	No action required	No action required
4.2.2 Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately	<ul style="list-style-type: none"> • Agendas and papers for Council, Cabinet, Audit & Governance Co, PPR Co and Community Planning Board • Monitoring Officer, s95 Officer and Chief Social Work Officer provide advice on legal or financial implications as required 	<p>Template not yet reviewed</p> <p>2011 Improvement Point: Review reports template and guidance on report preparation and writing, taking into account the review of Scheme of Delegation and direction on seeking appropriate legal and financial advice</p>	<p>Completion of the review of Scheme of Delegation held back until after the 2012 elections</p> <p>2012 Improvement Point: Review reports template following on from the Review of Scheme of Administration</p>

4.3 Ensuring that an effective risk management system is in place			
4.3.1 Ensure that risk management is embedded into the culture of the authority, with Members and Managers at all levels recognising that risk management is part of their jobs	<ul style="list-style-type: none"> • Risk Management Strategy • Risk Management Groups being established • Role of Audit & Governance Co • Risk Management Matrix as part of Business Plans • <i>Corporate Risk Register</i> • <i>Service Risk Registers</i> 	Corporate Risk Register due to be completed by March 2011	Corporate Risk Register is being reviewed No action required
4.3.2 Ensure that arrangements are in place for whistleblowing to which staff and all those contracting with the authority have access	<ul style="list-style-type: none"> • Standing Orders including Codes of Conduct • Whistleblowing Policy 	Action not yet undertaken 2011 Improvement Point: Increase awareness of whistleblowing policy	The Whistleblowing Policy is being reviewed and contacts updated. The revised policy will be publicised through Team Talk
4.4 Using the authority's legal powers to the full benefit of the citizens and communities in their areas.			
4.4.1 Actively recognise the limits of lawful activity placed on the authority by, for example, the ultra vires doctrine, but also strive to utilise powers to the full benefit of East Lothian's communities	<ul style="list-style-type: none"> • Senior officers and elected members have a general understanding of statutory powers • Monitoring Officer, s95 Officer and Chief Social Work officer provide appropriate advice • Internal and external Audit reports 	No action required	No action required
4.4.2 Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on local authorities by public law	<ul style="list-style-type: none"> • Scheme of Administration including Scheme of Delegation • Monitoring Officer, s95 Officer and Chief Social Work officer provide appropriate advice • Internal and external Audit reports 	2011 Improvement Point: Review Scheme of Delegation	Completion of the review of Scheme of Delegation held back until after the 2012 elections 2012 Improvement Point: Complete Review of Scheme of Administration and Scheme of Delegation then review reports template

4.4.3 Observe all specific legislative requirements placed upon the authority, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice – into the authority’s procedures and decision making processes	<ul style="list-style-type: none"> • Standing Orders including establishment of quasi judicial committees and sub-committees • Monitoring Officer, s95 Officer and Chief Social Work Officer provide appropriate advice 	No action required	No action required
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PRINCIPLE 5: Developing the capacity and capabilities of members and officers to be effective

Supporting Principle & Code Requirements	Documentary Evidence <i>(new items in italics)</i>	2011 Update and Improvement Points	Update and 2012 Improvement Points
5.1 Make sure that Members and Officers have the skills, knowledge, experience and resources they need to perform their roles well.			
5.1.1 Provide induction programmes tailored to individual needs and opportunities for Members and Officers to update their knowledge on a regular basis	<ul style="list-style-type: none"> • Induction programme for officers, CPD and training opportunities for staff • Piloted CPD for members • Performance Review and Development for all employees • Corporate Learning • E-Learning / LearnNet on ELnet • <i>Induction programme for new elected members</i> • <i>Induction Notebooks on Elnet</i> 	2011 Improvement Point: Implement recommendations from Review of Impact of Multi-Member Wards and Officer Member Relations in relation to protocols, induction and training for members Prepare Induction programme for councillors elected in May 2012	Induction programme for new elected members included session the Code of Conduct Improvement Service Notebooks for new elected members included sections on role and responsibilities <i>2012 Improvement Point: Roll out elected members’ CPD to allow all members to participate</i>

<p>5.1.2 Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority</p>	<ul style="list-style-type: none"> • Job descriptions for statutory officers • Networking and development opportunities for statutory officers through professional associations • Role of statutory officers recognised in Scheme of Administration • <i>People Strategy</i> 	<p>No action required</p>	<p>As above</p>
<p>5.2 Developing the capability of people with governance responsibilities and evaluating their performance as individuals and as a group</p>			
<p>5.2.1 Assess the skills required by Members and Officers and make a commitment to develop those skills to enable roles to be carried out effectively</p>	<ul style="list-style-type: none"> • CPD pilot for elected members • Performance Review and Development all employees • Guide to Scrutiny and Review published and scrutiny training provided for elected members • Elected members' Performance Briefings to encourage scrutiny of performance information 	<p>2011 Improvement Point: Implement recommendations from Review of Impact of Multi-Member Wards and Officer Member Relations in relation to training for members</p>	<p>As above</p>
<p>5.2.2 Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed</p>	<p>As above</p>	<p>As above</p>	<p>As above</p>
<p>5.2.3 Ensure that effective arrangements are in place for reviewing the performance of the executive as a whole and of individual members and agreeing an action plan, which might, for example aim to address any training or development needs</p>	<ul style="list-style-type: none"> • CPD pilot for elected members • Elected Members' Code of Conduct & complaints about performance 	<p>As above</p>	<p>As above</p>

5.3 Encouraging new talent for membership of the authority so that best use can be made of individual's skills and resources in balancing continuity and renewal.			
5.3.1 Ensure that effective arrangements are in place designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority	<ul style="list-style-type: none"> • Local Area Forums • Community Planning Community Engagement Strategy • Tenants and Residents Panel • Support for Voluntary Action east Lothian to participate in the Community Planning structures • Community Councils • Petitions Committee, including new online features • new media strategy • <i>Consultation and Engagement Strategy</i> 	<p><i>2011 Improvement Point:</i> Provide information to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority</p>	<p>Consultation and Engagement Strategy has been agreed</p> <p>Draft Council Plan includes commitment to complete roll out of Local Area Forums to all wards</p> <p>No action required</p>
5.3.2 Ensure that career structures are in place for members and officers to encourage participation and development	<ul style="list-style-type: none"> • CPDs for officers • People Strategy • Transformational Leadership Programme • Performance Review and Development for all employees 	No action required	No action required

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

Supporting Principle & Code Requirements	Documentary Evidence (<i>new items in italics</i>)	2011 Update and Improvement Points	Update and 2012 Improvement Points
6.1 Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships.			

<p>6.1.1 Make clear to all staff and the community to whom the authority's leadership are accountable and for what</p>	<ul style="list-style-type: none"> • <i>Draft Council Plan 2012-2017, SOA, Corporate Improvement Plan, Service and Business Plans</i> • Information on Executive Directors and Department responsibilities on www.eastlothian.gov.uk • <i>Annual Performance Reports</i> • <i>Living newspaper</i> 	<p>No action required</p>	<p>No action required</p>
<p>6.1.2 Consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required</p>	<ul style="list-style-type: none"> • Various forums for engaging with stakeholders including the CPP, Local Area Forums, ELTRP, Community Councils and Parents Councils • <i>Consultation and Engagement Strategy</i> 	<p>No action required</p>	<p>Consultation and Engagement Strategy has been agreed</p> <p>Draft Council Plan includes commitment to complete roll out of Local Area Forums to all wards</p> <p>No action required</p>
<p>6.1.3 Produce an annual report on the activity of the scrutiny function</p>	<ul style="list-style-type: none"> • Annual Performance Reports • Internal and external Audit Plans reviewed • Quarterly performance information published on-line 	<p>Recommendations of the review have been implemented and new PPR Co and Audit & Governance Co established</p> <p>Comprehensive Annual Performance Report published on-line in October</p> <p>2011 Improvement Point: Include a report on the activity of PPR Co and Audit & Governance Co in the Annual Performance Report</p>	<p>Review of the use of Scrutiny Guide by Audit & Governance reported in June 2012 recommending that an annual Audit & Governance Co report be produced</p> <p>2011/12 Annual Performance Report will include report on activity of the scrutiny committees</p> <p>No action required</p>
<p>6.2 Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority or in partnership or by commissioning</p>			

<p>6.2.1 Ensure clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements to ensure that they operate effectively</p>	<ul style="list-style-type: none"> • Communications Strategy • Community Planning Community Engagement Strategy • VOiCE used to monitor community engagement activities • 2011 Residents' Survey • <i>Consultation and Engagement Strategy</i> 	<p>No action required</p>	<p>No action required</p>
<p>6.2.2 Hold meetings in public unless there are good reasons for confidentiality</p>	<ul style="list-style-type: none"> • Council meetings are held in public • Agendas, papers and minutes are published on the Council's website 	<p>CMIS upgrade not viable; alternative approach has been adopted and new system for online publishing of agenda, reports and minutes will be in place by April 2011</p>	<p>New e-gov system has been in place since April 2011</p> <p>No action required</p>
<p>6.2.3 Ensure that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands</p>	<ul style="list-style-type: none"> • Equality and Diversity Network • Community Planning Community Engagement Strategy • Community Councils • Local Area Forums • ELTRP • 2011 Residents' Survey • <i>Consultation and Engagement Strategy</i> 	<p>2011 Improvement Point: Consultation Strategy to include effective use of regular stakeholder consultation and engagement</p>	<p>Consultation and Engagement Strategy has been agreed</p> <p>Draft Council Plan includes commitment to complete roll out of Local Area Forums to all wards</p> <p>No action required</p>
<p>6.2.4 Establish clear policy on the types of issues the authority will meaningfully consult on or engage with the public and service users about, including a feedback mechanism for those consultees to demonstrate what has changed as a result</p>	<ul style="list-style-type: none"> • Community Planning Community Engagement Strategy • ELTRP • Community Councils consulted on planning matters • <i>Consultation and Engagement Strategy</i> 	<p>As above</p>	<p>As above</p>

<p>6.2.5 Publish an annual performance plan giving information on the authority's vision, strategy, plans and finances well as information about incomes, achievements and satisfaction of service users in the previous period</p>	<ul style="list-style-type: none"> • Annual Performance Reports • Annual Accounts 	<p>Comprehensive Annual Performance Report published on-line in October</p>	<p>No action required</p>
<p>6.2.6 Ensure that the authority as a whole is open and accessible to the community, service users and its staff, and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so</p>	<ul style="list-style-type: none"> • Compliance with the Freedom of Information Act and Data Protection Act • Council meetings held in public • Agendas for meetings, minutes and reports published on the Council website • Living newspaper • Star Awards Public Nominations • Petitions Committee 	<p>CMIS upgrade not viable; alternative approach has been adopted and new system for online publishing of agenda, reports and minutes will be in place by April 2011</p>	<p>New e-gov system has been in place since April 2011</p> <p>No action required</p>
<p>6.3 Making best use of human resources by taking an active and planned approach to meet responsibility to staff</p>			
<p>6.3.1 Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making</p>	<ul style="list-style-type: none"> • People Strategy • JCC and JC Groups • Employee and JTU Consultations • Annual Budget Review and Development Discussions for JTU • Employee Engagement Survey • Annual Working Together Forum 	<p>No action required</p>	<p>No action required</p>

REPORT TO: Audit and Governance Committee
MEETING DATE: 19 June 2012
BY: Executive Director (Support Services)
SUBJECT: Internal Audit Report – Council Tax Refunds

5

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Council Tax Refunds.

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A review of the internal controls surrounding the administration of Council Tax Refunds was undertaken as part of the Audit Plan for 2011/12.
- 3.2 The objective of the audit was to ensure that Council Tax refunds were valid and that an adequate audit trail exists for all amounts paid in respect of refunds.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

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DATE	7 June 2012

EAST LOTHIAN COUNCIL – INTERNAL AUDIT COUNCIL TAX REFUNDS

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls surrounding the administration of Council Tax Refunds was carried out as part of the Audit Plan for 2011/12. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- A clear audit trail exists for all refunds processed due to a change in Council Tax liability.
- Adequate segregation of duties exists between the processing and authorisation of Council Tax refunds.
- The checking procedures in place for all refunds processed are considered adequate.
- Procedures are in place to ensure that refunds are not made to taxpayers who have other outstanding debts due to the Council.

1.3 Areas with Scope for Improvement

- The existing arrangements in place for reconciling refunds between the Council Tax system and the Council's General Ledger require review. *Risk – errors and irregularities may occur and remain undetected.*
- The approved authorised signatory list was incomplete and failed to properly record all members of staff authorising refunds. *Risk – inappropriate refunds may be made.*
- There is a lack of checking procedures in place to ensure that all transfers between Council Tax accounts are valid. *Risk – errors and irregularities may occur and remain undetected.*
- There was a failure to review all refunds that may result in a debit balance on the taxpayer's account. *Risk – inappropriate refunds may be made.*
- No reviews are currently undertaken of Council Tax accounts with credit balances. *Risk – errors and anomalies may remain undetected.*

1.4 Summary

Our review of Council Tax Refunds identified a number of areas with scope for improvement. Detailed recommendations and opportunities for improvement are contained in our main Audit Report.

Mala Garden
Internal Audit Manager

June 2012

ACTION PLAN

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	The existing procedures in place should be updated to reflect all key stages in the Council Tax refund process.	Council Tax Team Leader	Agreed. A comprehensive process review will be carried out. Full process will be mapped out using Nimbus.		July 2012
3.3.1	Management should review the arrangements in place for the authorisation of refunds – refunds should only be approved by staff with the appropriate authorisation limit as detailed on the authorised signatory list.	Council Tax Team Leader	Agreed. Will be reviewed as part of the wider process development work.		July 2012
3.3.3	Management should ensure that a clear audit trail exists to support all refunds made.	Council Tax Team Leader	Agreed – as above.		July 2012
3.3.4	Management should ensure that a report is produced prior to refunds being made – the report should identify all refunds which will lead to a debit balance on the Council Tax account. Council Tax staff should review all refunds that will lead to a debit balance to ensure that they are appropriate.	Systems & Control Team Leader Council Tax Team Leader	Script written and report in place.		In place

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	<p>Regular reconciliations should be undertaken between refunds recorded on the Council Tax system and those recorded on the General Ledger.</p> <p>All differences identified should be fully investigated and appropriate action taken.</p>	Finance Manager	Recommendation being considered by the Finance Manager.		N/A
3.5.1	For all transfers between Council Tax accounts the reasons for the transfer should be clearly recorded on the system.	Council Tax Team Leader	Agreed. Reasons for transfer will be noted on account.		June 2012
3.5.2	<p>Regular reports should be produced of all transfers between Council Tax accounts.</p> <p>Management should review the reports and examine a sample of transfers to ensure that they are legitimate.</p>	<p>Systems & Control Team Leader</p> <p>Council Tax Team Leader</p>	<p>Monthly report to be produced and checked by senior Council Tax Officer or Team Leader.</p> <p>As above.</p>		July 2012
3.6.1	The existing arrangements in place for dealing with rejected BACS payments should be reviewed.	Council Tax Team Leader / Systems & Control Team Leader	Agreed. Will be reviewed as part of the wider process development.		July 2012

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.2	All refund requests passed to the Creditors section for processing should be accurate and complete.	Council Tax Team Leader	Agreed. Process will be reviewed.		July 2012
3.6.4	A clear audit trail should exist to evidence relevant checks being carried out – reports that form part of the checking process should be retained.	Council Tax Team Leader	Agreed		July 2012
3.7.1	Management should ensure that credit balances are monitored on a regular basis and appropriate action taken where discrepancies or anomalies are identified.	Council Tax Team Leader	Monthly credit balance report to be reviewed by senior Council Tax Officer or Team Leader.		July 2012
3.8.1	Refunds should only be made from the Council Tax account to which the credit balance relates.	Council Tax Team Leader	Agreed. To review system limits for refunds on individual accounts.		June 2012
3.8.2	Council Tax staff should ensure that appropriate adjustments are made to the Capita system to reflect refunds made following direct debit indemnity claims.	Council Tax Team Leader	Agreed		In place

REPORT TO: Audit and Governance Committee
MEETING DATE: 19 June 2012
BY: Executive Director (Support Services)
SUBJECT: Internal Audit Report – Non-Domestic Rates Liability

6

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Non-Domestic Rates Liability.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for Non-Domestic Rates Liability.

3 BACKGROUND

- 3.1 A review of the internal controls surrounding the administration of Non-Domestic Rates Liability was undertaken as part of the Audit Plan for 2011/12.
- 3.2 The objective of the audit was to ensure that liability for non-domestic rates was correctly calculated for all chargeable properties in East Lothian.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	7 June 2012

EAST LOTHIAN COUNCIL – INTERNAL AUDIT NON-DOMESTIC RATES – LIABILITY

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls surrounding the administration of Non-Domestic Rates Liability was undertaken as part of the Audit Plan for 2011/12. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Capita system has been correctly set up to ensure that liability for Non-Domestic Rates is properly determined – the charge is calculated on a daily basis in accordance with legislation.
- Systems are in place to ensure that parameters for key reliefs and exemptions are correctly updated on the Capita system.
- Adequate procedures are in place to ensure that mandatory reliefs are correctly applied to ratepayers' accounts in accordance with legislation.
- Procedures are in place to ensure that review forms are sent to ratepayers to confirm their continuing entitlement to reliefs and exemptions.

1.3 Areas with Scope for Improvement

- The procedures in place for the award of discretionary rates relief require review. *Risk – inconsistencies may occur in the award of discretionary reliefs.*
- There was a lack of documentary evidence to support the award of unoccupied property relief. *Risk – lack of a clear audit trail.*
- No planned programme of visits is currently undertaken for properties receiving unoccupied property relief. *Risk – reliefs and exemptions awarded may not be valid.*
- The monitoring arrangements for the award of Small Business Bonus Scheme relief require review. *Risk – failure to apply the relief scheme accurately.*
- The rural settlement list currently held is not updated on an annual basis and made available for public inspection. *Risk – failure to comply with legislation.*

1.4 Summary

Our review of Non-Domestic Rates Liability identified a number of areas with scope for improvement. Detailed recommendations and opportunities for improvement are contained in our main audit report.

**Mala Garden
Internal Audit Manager**

June 2012

NON-DOMESTIC RATES – LIABILITY

ACTION PLAN

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	Adequate monitoring arrangements should be put in place to ensure that Small Business Bonus Scheme Relief is properly applied.	Business Rates Team Leader	Agreed – a report of properties in receipt of SBBS relief will be reviewed every 6 months.		November 2012
3.4.2	Documentary evidence should be available to support the award of unoccupied property relief. The notes page on the Capita system should be updated when confirmation has been received that a property is empty.	Business Rates Team Leader	Agreed		July 2012
3.4.4	A risk assessment should be carried out to identify specific categories of empty properties that should be visited. For all visits undertaken a case report should be completed and scanned on to the Anite system as evidence of the visit being carried out. The inspections register should be updated to record the dates of actual visits to empty properties.	Business Rates Team Leader	Agreed		October 2012

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.5	Management should ensure that the rural settlement list is updated on an annual basis and made available for public inspection.	Business Rates Team Leader	Agreed – the list will be made available on the Council’s website.		July 2012
3.4.7	The existing procedures in place for awarding discretionary rates relief should be reviewed.	Revenues Manager	Agreed – current procedures to be reviewed.		November 2012
3.5.1	Regular reports should be produced to monitor variations in claims for reliefs and exemptions – significant variances should be investigated.	Business Rates Team Leader	Agreed – a report will be produced when the financial return is completed.		November 2012

REPORT TO: Audit and Governance Committee
MEETING DATE: 19 June 2012
BY: Executive Director (Support Services)
SUBJECT: Internal Audit Terms of Reference

7

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the Internal Audit Terms of Reference.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee approve the Internal Audit Terms of Reference.

3 BACKGROUND

- 3.1 The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 requires that the purpose, authority and responsibilities of Internal Audit are formally defined.
- 3.2 Internal Audit's existing Terms of Reference were approved by the Policy and Resources Committee in May 2001. The Terms of Reference have now been updated to reflect the requirements of the CIPFA Code of Practice and the recent changes to the Council's organisational structure.
- 3.3 The attached Terms of Reference set out the approach adopted by Internal Audit in undertaking its responsibilities and providing an annual assurance opinion to the Council.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

- 6.1 Financial - None
6.2 Personnel - None
6.3 Other - None

7 BACKGROUND PAPERS

- 7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	7 June 2012

EAST LOTHIAN COUNCIL

Internal Audit Terms of Reference

Introduction

The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (the Code of Practice) requires that the purpose, authority and responsibilities of Internal Audit are formally defined.

This document outlines the Terms of Reference and sets out the approach adopted by Internal Audit in undertaking its responsibilities and providing an annual assurance opinion to the Council.

Purpose

Internal Audit is an independent appraisal function established by the Council. The primary objective of Internal Audit is to review, appraise and report on the adequacy of the Council's control environment as a contribution to the proper, economic, efficient and effective use of resources.

On an annual basis the Internal Audit Manager prepares a Controls Assurance Statement, which is a formal confirmation of Internal Audit's opinion on the Council's control environment. This is reported to the Audit and Governance Committee and informs the Council's Annual Governance Statement.

Independence

The Code of Practice states that the status of Internal Audit should enable it to function effectively and recognises that the independence of Internal Audit is fundamental to its effectiveness.

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and ensures that recommendations made are free from bias or conflicts of interest.

Authority

Internal Audit's authority is derived from policies, procedures, rules and regulations established by the Council. The Internal Audit Manager reports directly to the Executive Director (Support Services) and has unrestricted access to the Council's Chief Executive and Executive Directors. The Internal Audit Manager has access to the Chair of the Audit and Governance Committee and to elected members.

The normal line of reporting for planned audit reports is that final reports are issued to the relevant Executive Director, with copies provided to the Chief Executive, Executive Director (Support Services) and to the Council's external auditors. The outcome of all audit work is reported to the Council's Audit and Governance Committee in the form of an Executive Summary and Action Plan.

In order to deliver effective audit services, Internal Audit has unrestricted access to all Council records (whether manual or computerised), assets, personnel and premises at all times and has the authority to obtain such information and explanations that are considered necessary to fulfil its responsibilities.

This authority is deemed to extend to all joint working arrangements, private funds, records etc. that relate to the Council or are held on any of the Council's premises and upon which employees of the Council work as part of their duties.

To fulfil Internal Audit's responsibilities, resource requirements are considered annually in the preparation of the annual Audit Plan, which includes the planned audit days and the mix of skills, experience and training required. If resources are considered insufficient to meet the requirement to form an annual audit opinion, this will be reported to the Executive Director (Support Services) and to the Audit and Governance Committee.

Responsibilities

Internal Audit is responsible for conducting an independent appraisal of all the Council's activities. The remit of Internal Audit extends to the entire control environment of the Council and is not limited to financial systems or records.

Internal Audit provide an audit opinion on the Council's internal control environment and plan and carry out audits and other assurance work in order to deliver this opinion. In addition, Internal Audit will monitor factors that impact on the ability to deliver this opinion and will report to Management and to the Audit and Governance Committee on issues that materially affect delivery of Internal Audit services.

Internal Audit will monitor its performance, maintain systems of quality review compliant with the Code of Practice and report to Management on the outcome of these systems as required.

Internal auditors will comply with the ethical standards outlined in the Code of Practice and with ethical codes issued by their relevant professional bodies.

Internal Audit may be requested by Management to undertake work that is beyond that required to provide assurance. This may include fraud or corruption investigations or advice to Management. This work should not compromise the ability of Internal Audit to subsequently form an independent opinion on the systems in place.

Managing the risk of fraud and corruption is the responsibility of Management, who are also responsible for developing, implementing and maintaining systems of internal control to guard against fraud or irregularity.

Internal Audit will assist Management by reviewing the internal control environment, however audit procedures alone cannot guarantee that fraud and corruption will be detected. While Internal Audit does not have responsibility for the prevention and detection of fraud and corruption, internal auditors will however be alert in all their work to risks and exposures that could lead to the occurrence of fraud or corruption. Internal Audit may be asked by Management to assist with fraud related work and the Internal Audit Unit has auditors with appropriate fraud investigatory skills.

Internal Audit may be asked by Management to undertake consultancy work. Acceptance of consultancy work will be dependent on available resources, the nature of the work and any possible impact on assurance. The role of Internal Audit in undertaking consultancy work is to provide advice and support to Management, however it is Management who has the ultimate responsibility for decisions taken within the area under review.

REPORT TO: Audit and Governance Committee
MEETING DATE: 19 June 2012
BY: Executive Director (Support Services)
SUBJECT: Internal Audit Annual Report 2011/12

8

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of Internal Audit work carried out during the period from April 2011 to March 2012.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Internal Audit Annual Report 2011/12.

3 BACKGROUND

- 3.1 The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom requires that the Internal Audit Manager should prepare an annual report which details the audit work undertaken.
- 3.2 The work of Internal Audit plays a key role in providing assurance to Management on the adequacy and effectiveness of internal controls.
- 3.3 The audit work undertaken in 2011/12 identified a number of areas with scope for improvement – the main areas are outlined in Appendix A.
- 3.4 Internal Audit also undertook a range of other work including assisting in the improvement of existing systems and the implementation of new systems, providing advice and consultancy on a range of internal control issues, the auditing of annual accounts of Management Committees, investigating the circumstances surrounding returned cheques, analysing financial information in respect of external organisations, attendance at year-end stocktakes and advice and support to Community Councils.

Key Measures of Performance

3.5 Percentage of audit recommendations accepted by Management – 99%

In 2011/12 Internal Audit made 154 recommendations to Management. Management have responded positively to both the findings and recommendations and have agreed to take action to address the areas with scope for improvement.

3.6 Percentage of audit staff with CCAB accounting qualifications – 80%

The Internal Audit Unit operates with a complement of 5 staff members, four qualified auditors and one part-qualified senior audit assistant.

3.7 Completion of the audit plan

The audit plan for 2011/12 was approved by the Audit and Governance Committee in September 2011 and covered the period from October 2011 to September 2012. However, to meet the requirements of the Council's new external auditors the audit plan was re-aligned in March 2012 to reflect the Council's financial year and a revised audit plan for 2012/13 was approved by the Audit and Governance Committee covering the period from April 2012 to March 2013.

The work undertaken in financial year 2011/12 forms the basis of this report and the findings from our audits have informed our Controls Assurance Statement for 2011/12.

4 POLICY IMPLICATIONS

4.1 None

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial – None

6.2 Personnel – None

6.3 Other – None

7 BACKGROUND PAPERS

- 7.1 CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.
- 7.2 Audit and Governance Committee, 28 September 2010 – Audit Plan 2010/11.
- 7.3 Audit and Governance Committee, 27 September 2011 – Audit Plan 2011/12.

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	7 June 2012

Appendix A

Audit work undertaken – April 2011 to March 2012

Audit	Key Findings	Number of Recommendations
Debtors	<p>The main objective of the audit was to ensure that sundry income due to the Council was properly identified, collected and accounted for.</p> <p>Areas with Scope for Improvement</p> <ul style="list-style-type: none"> • At present, the Council has no formal procedures in place to provide detailed guidance on its main financial processes, including income collection and the sundry accounts process. <i>Risk – errors and irregularities may occur.</i> • There is a lack of segregation of duties in respect of raising invoices, collection of income and the write-off of debts. <i>Risk – errors and irregularities may remain undetected.</i> • The systems in place for raising invoices were considered inadequate – in a number of areas examined, invoices had not been raised promptly. <i>Risk – loss of income to the Council.</i> • The existing practice of using the debtors system to raise invoices for income received in advance requires review. <i>Risk – failure to properly account for income received.</i> • Regular reconciliations are not being undertaken between the debtors' ledger and the debtors control account in the general ledger. <i>Risk – errors and irregularities may remain undetected.</i> • There was a failure to properly account for capital and interest payments received in respect of common repairs. <i>Risk – failure to correctly allocate income received.</i> • No systems are in place to ensure that credit balances are monitored on a regular basis – credit balances on the debtors' ledger at 1 March 2011 were approximately £282,000. <i>Risk – errors and irregularities may remain undetected.</i> • There is a lack of regular reviews of cancelled invoices, credit notes issued, suppressed accounts and bad debts written off. <i>Risk – errors and irregularities may remain undetected.</i> 	21

Audit	Key Findings	Number of Recommendations
Bank Reconciliations	<p>The main objective of the audit was to ensure that the arrangements in place for undertaking bank reconciliations were adequate.</p> <p>Areas with Scope for Improvement</p> <ul style="list-style-type: none"> • The Council's Financial Regulations specify that Statements of Current Working Method will be maintained for each of the Council's main financial processes – Statements of Current Working Method have yet to be developed for cash and banking. <i>Risk – lack of clear guidance.</i> • The approach currently adopted for preparing bank reconciliations requires review – bank reconciliations for the general account do not compare the balance between the bank statement and the cashbook as at the same date. <i>Risk – failure to identify if differences relate to genuine month end timing differences rather than to error.</i> • For the general account, there were significant delays in the monthly bank reconciliations being carried out. <i>Risk – failure to promptly identify anomalies or items requiring further investigation.</i> 	7
Non-Domestic Rates (Valuation & Billing)	<p>The main objective of the audit was to ensure that internal controls surrounding the administration of Non-Domestic Rates Valuation and Billing were adequate.</p> <p>Areas with Scope for Improvement</p> <ul style="list-style-type: none"> • There is a lack of clear separation of duties – members of staff involved in the raising of Non-Domestic Rates bills are also responsible for carrying out amendments to the system, the suppression of accounts, the collection of income and the recovery of debt. <i>Risk – errors and irregularities may remain undetected.</i> 	3

Audit	Key Findings	Number of Recommendations
	<ul style="list-style-type: none"> • There is a lack of a clear audit trail for suppressed accounts – the date the recovery hold is placed on the account is not being entered on the Capita system. <i>Risk – lack of an audit trail.</i> • For composite properties i.e. properties which have both commercial and residential uses, no procedures are in place for reconciling the total number of properties between the Non-Domestic Rates system and the Council Tax system. <i>Risk – information held may be inaccurate.</i> 	
Non-Domestic Rates (Liability)	<p>The main objective of the audit was to ensure that internal controls surrounding the administration of Non-Domestic Rates Liability were adequate.</p> <p>Areas with Scope for Improvement</p> <ul style="list-style-type: none"> • The procedures in place for the award of discretionary rates relief require review. <i>Risk – inconsistencies may occur in the award of discretionary reliefs.</i> • There was a lack of documentary evidence to support the award of unoccupied property relief. <i>Risk – lack of a clear audit trail.</i> • No planned programme of visits is currently undertaken for properties receiving unoccupied property relief. <i>Risk – reliefs and exemptions awarded may not be valid.</i> • The monitoring arrangements for the award of Small Business Bonus Scheme relief require review. <i>Risk – failure to apply the relief scheme accurately.</i> • The rural settlement list currently held is not updated on an annual basis and made available for public inspection. <i>Risk – failure to comply with legislation.</i> 	6

Audit	Key Findings	Number of Recommendations
Council Tax Refunds	<p>The main objective of our audit was to ensure that all refunds are valid and that an adequate audit trail exists for all refunds made.</p> <p>Areas with Scope for Improvement</p> <ul style="list-style-type: none"> • The existing arrangements in place for reconciling refunds between the Council Tax system and the Council's General Ledger require review. <i>Risk – errors and irregularities may occur and remain undetected.</i> • The approved authorised signatory list was incomplete and failed to properly record all members of staff authorising refunds. <i>Risk – inappropriate refunds may be made.</i> • There is a lack of checking procedures in place to ensure that all transfers between Council Tax accounts are valid. <i>Risk – errors and irregularities may occur and remain undetected.</i> • There was a failure to review all refunds that may result in a debit balance on the taxpayer's account. <i>Risk – inappropriate refunds may be made.</i> • No reviews are currently undertaken of Council Tax accounts with credit balances. <i>Risk – errors and anomalies may remain undetected.</i> 	13
Benefits	Detailed testing was carried out on a sample of 30 benefit cases as part of a joint audit with Audit Scotland.	Results were passed to Audit Scotland

Audit	Key Findings	Number of Recommendations
<p>Procurement</p>	<p>The main objective of the audit was to ensure that the procurement of goods, services and works was in accordance with the Council's Standing Orders and Corporate Procurement Procedures.</p> <p>Areas with Scope for Improvement</p> <ul style="list-style-type: none"> • In some instances there was a lack of evidence to demonstrate that contractors invited to submit quotes had been selected on a fair and equitable basis. <i>Risk – favouritism and bias may occur.</i> • In one instance we found that a tender received late had been considered as part of the evaluation process and the contractor was subsequently awarded the contract. <i>Risk – the integrity of the tender process may be compromised.</i> • Departures from Corporate Procurement Procedures had not been properly approved by relevant Council Officers as required by the Council's Standing Orders – in 2 cases reports submitted to Cabinet stated that appropriate authorisation had been received from the Chief Executive and the Head of Law and Licensing, although no prior approval had been given. <i>Risk – information provided to Members may be inaccurate.</i> • For contracts in excess of £250,000 we found instances where a performance bond had not been obtained from the contractor. <i>Risk – inability to recover costs for non-completion of contracts.</i> • The contracts register in place was found to be incomplete – in a number of instances departments had entered into a contract with suppliers, but had failed to complete appropriate documentation to enable the Corporate Procurement Team to update the contracts register. <i>Risk – information may be incomplete.</i> • The Council's website contains inaccurate information – the website states that the Council has an approved list of suppliers for construction works below £1.2 million, however no such list exists. <i>Risk – information may be misleading.</i> 	<p>9</p>

Audit	Key Findings	Number of Recommendations
Homelessness Bed & Breakfast	<p>The main objective of the audit was to ensure that internal controls surrounding the administration of Homelessness Bed & Breakfast were adequate.</p> <p>Areas with Scope for Improvement</p> <ul style="list-style-type: none"> • There was a lack of supporting documentation to confirm that tenders had been properly evaluated in accordance with the agreed evaluation criteria. <i>Risk – B & B providers may not meet the key requirements and standards expected by the Council.</i> • In one case, a B & B provider used by the Council was not part of the approved Framework Agreement and did not have a formal contract in place. <i>Risk – failure to comply with the Council's terms and conditions.</i> • Payments for B & B services made to one provider were at rates in excess of the agreed contracted rates. <i>Risk – irregularities may occur.</i> • Information provided to homeless applicants in respect of the timescales for the submission of appeals was inconsistent with legislation. <i>Risk – non-compliance with legislation.</i> • The arrangements in place to ensure that homeless applicants complete and return their Housing Benefit application form require review. <i>Risk – failure to recover all amounts due to the Council.</i> • There was a lack of monitoring arrangements in place to ensure that discounts offered by B & B providers had been correctly deducted from supplier invoices. <i>Risk – excess costs may be incurred by the Council.</i> • The Homelessness Section made a payment of £6,300 to a B & B provider, despite being advised that the Council had no liability for these costs. <i>Risk – inappropriate payments may be made by the Council.</i> • The number of homeless applicants placed in certain B & B establishments by the Council resulted in the B & B providers breaching legislation relating to multiple occupancy. <i>Risk – breaches in legislation may occur.</i> 	<p>24</p>

Audit	Key Findings	Number of Recommendations
<p>Framework Agreement – Tender Evaluation</p>	<p>The main objective of the audit was to review key aspects of the tendering exercise.</p> <p>Areas with Scope for Improvement</p> <ul style="list-style-type: none"> • There was a lack of documentation in place to demonstrate why a Framework Agreement had been selected as the most appropriate procurement route. <i>Risk – lack of an audit trail to confirm that all procurement options had been considered.</i> • There was a lack of evidence to confirm that tender documentation had been properly checked for accuracy and completeness prior to issue – the annual budget figure quoted in the tender documentation was found to be incorrect. <i>Risk – errors and omissions may remain undetected.</i> • The pricing element of the tender was based on a Schedule of Rates rather than a Bill of Quantities – the total price submitted by contractors and used in the tender evaluation bore no relationship to the actual overall costs that would be incurred by the Council over the period of the Framework Agreement. <i>Risk – inappropriate award decisions may be made.</i> • There was a lack of adequate arrangements in place to ensure that all aspects of tender preparation had been properly reviewed and supervised – there was a failure to ensure that appropriate consideration had been given to the planned programme of work to be undertaken, the product specifications required and the measurements that contractors were asked to price for. <i>Risk – inaccuracies and omissions may remain undetected.</i> • The existing procedures in place for the evaluation of tenders require review including the criteria used in the selection and award stages, the weightings split between price (25%) and quality (75%) and the scoring of quality criteria. <i>Risk – failure to achieve best value for the Council.</i> • The arrangements in place for obtaining and evaluating references were considered unsatisfactory. <i>Risk – lack of robust procedures may adversely impact on the evaluation and selection of contractors.</i> 	<p>14</p>

Audit	Key Findings	Number of Recommendations
<p>Tyne Esk LEADER Programme</p>	<p>The main objective of the audit was to ensure that adequate systems and processes were in place for administering the Tyne Esk LEADER Programme.</p> <p>Areas with Scope for Improvement</p> <ul style="list-style-type: none"> • The procedures in place for the processing of LEADER applications and the payment of LEADER grant claims require review. <i>Risk – failure to comply with relevant regulations and guidance.</i> • There was a lack of evidence to confirm that proper consideration had been given to the total amount of LEADER funding available for applications assessed and approved by the Local Action Group (LAG). <i>Risk – over commitment of project funds.</i> • The existing monitoring arrangements failed to incorporate the revised technical guidance issued in July 2011 in respect of both on-the-spot checks and ex-post checks. <i>Risk – failure to comply with relevant regulations and guidance.</i> • There was insufficient information on the project files to enable an assessment to be made of the legitimacy and accuracy of processing. <i>Risk – lack of an audit trail.</i> • Where payments made in respect of grant claims differed from the invoice amounts, there was a lack of adequate information on file to explain the reasons for the differences. <i>Risk – lack of an audit trail.</i> • The arrangements in place for the recording and reporting of overpayments and irregularities require review. <i>Risk – failure to comply with relevant regulations and guidance.</i> 	<p>6</p>

Audit	Key Findings	Number of Recommendations
<p>Adult Social Care – Direct Payments</p>	<p>The main objective of the audit was to ensure that internal controls in place for Direct Payments were adequate.</p> <p>Areas with Scope for Improvement</p> <ul style="list-style-type: none"> • The monitoring arrangements in place for Direct Payments are considered inadequate – there was a failure to ensure that clients completed and returned Financial Statements of Expenditure on a four-weekly basis. <i>Risk – errors and irregularities may remain undetected.</i> • There was a lack of checks being undertaken on financial information provided by clients. <i>Risk – Direct Payments may not be used for their intended purpose.</i> • The Frameworki system is not currently being used to its full potential – although the system has the facility to automatically process Direct Payments, payments are currently being manually calculated and recorded on a spreadsheet. <i>Risk – errors and irregularities may occur.</i> • There is a lack of checking procedures in place to ensure that Direct Payments made to clients are accurate and complete – in a number of cases examined payments were incorrectly calculated following changes to care packages. <i>Risk – errors and irregularities may occur and remain undetected.</i> • The Council does not have a formal policy in place covering the management and administration of Direct Payments. <i>Risk – failure to achieve desired outcomes.</i> • The separation of duties in place for administering the financial aspects of Direct Payments are insufficiently clear with a number of key activities being undertaken by the same member of staff. <i>Risk – errors and irregularities may remain undetected.</i> 	<p>9</p>

Audit	Key Findings	Number of Recommendations
Residential Home – Young People	<p>The main objective of the audit was to review the financial and budgetary controls operating within Pathway Residential Unit for Young People.</p> <p>Areas with Scope for Improvement</p> <ul style="list-style-type: none"> • The procedures in place for the use of purchase cards require review. <i>Risk – lack of effective procedures may lead to misuse of purchase cards.</i> • There was a lack of monitoring by Management to ensure that all purchase card transactions were valid. In certain cases we found that purchase cards had been used for personal purchases. <i>Risk – inappropriate expenditure may occur.</i> • Purchase cards were being used to purchase goods, where the Council already had contracted suppliers in place. <i>Risk – failure to comply with purchase card procedures.</i> • In a number of cases, breaches in purchase card security were found – cardholders were sharing their purchase cards and pin numbers with other members of staff. <i>Risk – irregularities and misuse may occur.</i> • There was a lack of clear audit trail to support purchase card and petty cash transactions – in some instances no receipts had been provided for the purchases made. <i>Risk – errors or irregularities may occur.</i> • An up to date asset register was not maintained – details of additions and disposals of assets were not being recorded. <i>Risk – assets may be misappropriated.</i> • There was a lack of adequate segregation of duties – the member of staff responsible for operating the petty cash imprest account was also a cheque signatory. <i>Risk – errors or irregularities may occur.</i> • We found that some items of equipment, which had been purchased for significant sums, were not being utilised by the Unit. <i>Risk – inefficient use of resources.</i> 	<p>16</p>

Audit	Key Findings	Number of Recommendations
<p>Free School Meals and Clothing Grants</p>	<p>The main objective of the audit was to review the internal controls surrounding the administration of free school meals and clothing grants.</p> <p>Areas with Scope for Improvement</p> <ul style="list-style-type: none"> • The Council's free school meals and clothing grants application form requires review to ensure that it accurately reflects legislation and that the declaration completed by applicants is comprehensive. <i>Risk – non-compliance with legislation.</i> • Information provided on the Council's website in respect of free school meals and clothing grants is out of date. <i>Risk – information provided may be inaccurate.</i> • There was a lack of segregation of duties in respect of the processing and authorising of manual BACS payments for clothing grants. <i>Risk – errors and irregularities may occur and remain undetected.</i> • The arrangements in place for the award of discretionary clothing grants require review. <i>Risk – inappropriate payments may be made.</i> • Regular reconciliations were not being undertaken between the Council's General Ledger and the SEEMIS system used by Education for administering free school meals and clothing grants. <i>Risk – errors and irregularities may occur and remain undetected.</i> 	<p>10</p>
<p>Review of Previous Years' Work</p>	<p>The outcome of previous years' work was reviewed to ensure that recommendations had been actioned as agreed by Management. Follow-up audits were carried out on:</p> <p>PPP Contract Monitoring Software Licensing Payroll Overtime Community Care – Charging for Services Provided</p>	<p>N/A</p>

Audit	Key Findings	Number of Recommendations
How Good Is Our Council (HGIOC)	<p>We reviewed the Council's self-evaluation framework 'How Good is Our Council' (HGIOC), which was introduced to promote performance improvement across all services.</p> <p>Areas with Scope for Improvement</p> <p>Our review identified areas with scope for improvement including the failure by one Service area to undertake the self-evaluation exercise, a lack of consistency in the level at which self-evaluation was undertaken, delays in completing self-evaluation templates, the failure to involve a cross section of staff in gathering evidence and providing judgements, a lack of sufficient evidence in some areas to support the robustness of the evaluation process and the failure to fully complete the self-evaluation template.</p>	16
Miscellaneous Grants	For grants awarded to the Council, a statement of compliance with grant conditions was provided to the Scottish Government.	N/A
National Fraud Initiative (NFI)	<p>Internal Audit participates in the National Fraud Initiative, which is organised by the Audit Commission and coordinated for Scottish Local Authorities by Audit Scotland. The initiative seeks to identify potential frauds or overpayments by matching data held both within the Council and that held by other bodies.</p> <p>The NFI work carried out by Internal Audit in 2011/12 resulted in the recovery of over £16,000 of overpayments.</p>	N/A
Investigations	As part of the audit plan work was also undertaken in respect of fraud and irregularity investigations.	N/A

REPORT TO: Audit and Governance Committee
MEETING DATE: 19 June 2012
BY: Internal Audit Manager
SUBJECT: Controls Assurance Statement – 2011/12

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1 PURPOSE

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

2 RECOMMENDATION

- 2.1 The Audit and Governance Committee is asked to note that the Controls Assurance Statement is a formal confirmation of Internal Audit's opinion on the Council's control environment for the year ended 31 March 2012.

3 BACKGROUND

3.1 Sound Internal Controls

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

- To ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- To safeguard assets;
- To secure the relevance, reliability and integrity of information, so ensuring as far as is possible, the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

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

3.2 The Work of Internal Audit

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

The Internal Audit Unit aims to operate in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. All internal audit reports identifying system weaknesses or non-compliance with expected controls were brought to the attention of the Chief Executive, the Executive Directors, the Council's External Auditor and the Audit and Governance Committee.

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

3.3 Basis of Opinion

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

1. The policies and procedures of the Council, including:
 - Standing Orders and Financial Regulations;
 - Strategy for the Prevention and Detection of Fraud and Corruption;
 - Information Security Policy;
 - IT Acceptable Use Policy;
 - Code of Conduct;
 - Disciplinary Code;
 - Disciplinary Procedure;
 - Whistleblowing Policy.
2. The planning, monitoring, review and reporting arrangements within the Council, including:
 - The Budget Setting Process;
 - Monthly Budget Monitoring Statements;
 - Policy and Performance Review Committee;
 - Performance Management Framework.
3. Reviews undertaken by the Council's External Auditors, KPMG.
4. Reviews undertaken by other regulation, audit and inspection bodies.
5. The work undertaken by Internal Audit during 2011/12 including systems audits, investigations, follow-up reviews and one-off exercises.
6. The Declarations of Assurance signed by Executive Directors on the operation of the internal financial controls for the services for which they were responsible during 2011/12.

3.4 Areas with Scope for Improvement

Audit work carried out during 2011/12 identified control weaknesses in a number of areas. These have been brought to the attention of Management and the weaknesses are currently being addressed. Weaknesses identified include the following:

- Lack of adherence to the Council's Standing Orders and Corporate Procurement Procedures.
- The failure to ensure that a proper contract is in place for all suppliers used by the Council.
- Organisational culture and its effects on internal financial controls including a lack of reconciliations, inadequate segregation of duties and a lack of monitoring and checking arrangements in place.
- The arrangements in place for the collection of income due to the Council from the use of PPP project facilities.
- The procedures in place for holding software licences and a lack of reconciliation between the number of software applications installed and the number of licences held by the Council.

In addition to the above, the following areas are considered worthy of note:

Financial Procedures

At present, the Council has no Financial Procedures in place to provide detailed guidance on how the financial affairs of the Council should be administered. The current Financial Regulations that were approved by Council in February 2011 specify that Statements of Current Working Method will be maintained for each of the Council's main financial processes, however these have yet to be developed.

Bank Reconciliations

Bank reconciliations were not being performed timeously and reconciliations did not compare the balance between the bank statement and the cashbook as at the same date.

Tyne Esk LEADER Programme

The arrangements in place for the administration of the Tyne Esk LEADER Programme were considered inadequate – there was a failure to comply with the LEADER Grants (Scotland) Regulations 2008, relevant EU regulations and guidance instructions.

Tender Evaluation

Our review highlighted significant weaknesses in the preparation of tender documentation, the selection and award criteria used, the weightings allotted to price and quality, the Schedule of Rates, the evaluation and scoring process and the arrangements in place for references.

Work of External Audit

The Interim Management Report prepared by the Council's External Auditors, KPMG for the year ending 31 March 2012 highlighted a number of weaknesses including the approach to financial scrutiny and the lack of properly documented financial reconciliations.

Declarations of Assurance

In addition to the above points, the Declarations of Assurance signed by Senior Officers, and available to Internal Audit at the time of preparing this document, noted concerns in respect of Procurement and Tendering Procedures.

3.5 Opinion

It is my opinion, subject to the weaknesses outlined in section 3.4 above, that reasonable assurance can be placed on the adequacy and effectiveness of East Lothian Council's internal control systems for the year to 31 March 2012.

4 POLICY IMPLICATIONS

4.1 None

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

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