



*cutting through complexity*

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# East Lothian Council

Interim management report  
Audit: Year ended 31 March 2013

17 April 2013

This interim management report and audit status summary is presented in connection with our audit for the year ended 31 March 2013 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 the 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.

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

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

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**The financial and operating environment in which East Lothian Council (“the Council”) operates continues to evolve, with developing priorities and emerging financial and non-financial risks.**

### Governance and Best Value

Following the 2012 local government elections, the Council’s coalition administration has been working with officers to establish strategic priorities and embed them within the council plan and single outcome agreement (“SOA”).

The council plan sets out a vision for a prosperous, safe and sustainable East Lothian, with a dynamic and thriving economy. In implementing this plan, the Council recognises it faces significant challenges over the coming years: achieving an underlying sustainable financial position, the impact of the economic recession, the projected growth in population and growing demand for services. The primary focus in the next five years will be to respond to these challenges. The council plan has four key objectives; ‘growing our economy, communities, people and the capacity of the Council’.

The Council is refreshing the SOA, with an ongoing review of existing outcomes and indicators. The governance structure of the community partnership board has been reviewed, widening membership to include councillors and other local representatives. There are plans to create three strategic theme groups with responsibility for the economy and environment, people and communities.

*How Good Is Your Council?* (“HGIOC”) continues to be used to perform self-assessments against service plans (which are aligned to the council plan). During 2013, internal audit will perform a follow up review on improvements made to the process. To ensure effective preparation, management has incorporated questions from the Best Value 2 toolkits into the HGIOC process. Management also intend to consider further support and challenge opportunities to the HGIOC process in partnership with the LAN over 2013-14 and beyond. The Council is continuing to working towards Investors In People accreditation. These requirements now also form part of the HGIOC self-evaluation process.

### Welfare reforms

Changes to the council tax benefit scheme from 1 April 2013 have been incorporated in the 2013-14 council tax proposals. Detailed reporting on these changes and the evaluated impact of the social welfare fund and discretionary housing payments continue to be reported to, and considered by, members.

### Financial strategy

In setting the financial strategy for 2013-14 to 2015-16, the Council recognised the likely increasing demand for both services and service quality. Scottish Government spending plans have identified that local government funding is expected to cumulatively fall by 6.3% by 2014-15. Capital grant funding is anticipated to fall in the three years 2013-14 to 2015-16.

The Council needs to continue to seek efficiency savings through effective business transformation to not only meet the Scottish Government’s Best Value regime, but also to ensure continuous improvement and achieve underlying financial balance.

The financial strategy identifies that no more than £2.284 million of general service reserves should be used in 2013-14 and 2014-15. It also identifies that a sustainable general services budget should be developed by 2015-16. The previous three year budget for 2012-13 to 2014-15 indicated no reserves utilisation in 2014-15, however the use of reserves have now been re-profiled to allow the Council to embed efficiency savings and complete the business transformation process.

Annual limits have been set for capital expenditure to 2017-18, which are intended to remove the need for new borrowing after 2013-14. Management has noted that a disciplined approach to implementation of the change programme is needed to deliver financial efficiencies; uncertainty remains in respect of the extent and precise nature of planned changes.

**Efficiency savings**

The 2013-14 to 2015-16 budget identifies that a portion of efficiency savings will be achieved through a voluntary early release scheme (“VERS”). Management project that this could impact around 100 members of staff and will deliver annual savings of £2 million from 2013-14 and a further £1 million from 2014-15.

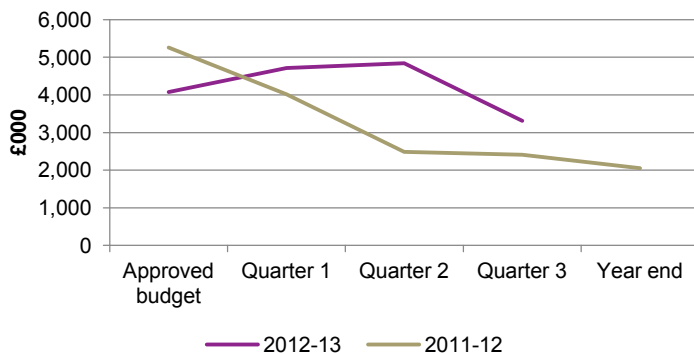
The Council’s earmarked cost reduction fund will be used to fund associated costs. It is expected that the VERS scheme will align with further changes to streamline the workforce and facilitate the necessary organisational changes to deliver priority Council services in the most cost efficient way. The Corporate Management Team (“CMT”) is reviewing how best to support the implementation of the Council’s efficiency savings programmes.

As part of our interim audit we have reviewed the current financial position and anticipated outcome to the year end.

### Financial forecast – use of reserves

Ensuring a sustainable financial position is a key area of focus for the Council. A three-year budget was approved on 14 February 2012 and this budget assumed £4 million utilisation of reserves in 2012-13. Management's internal quarter three forecast projects that only £3.3 million utilisation of reserves will be required. The movement in planned use of reserves from the approved budget is summarised in the chart below. In line with the Council's financial strategy, any reduction in the amount of utilisation of reserves originally required will be used to further support the cost reduction fund.

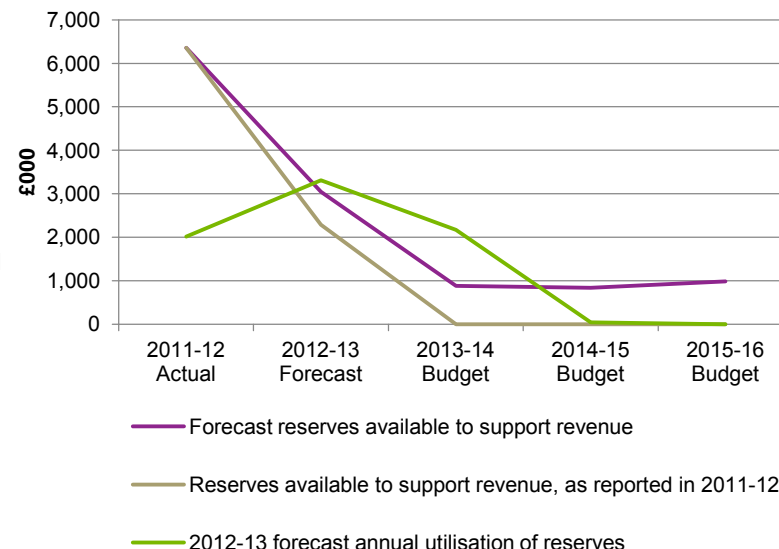
Planned use of reserves as reported each quarter



The chart shows that to date there is less fluctuation in planned use of reserves in 2012-13, compared to 2011-12.

The chart opposite illustrates the use of reserves over a five year period, in accordance with the approved council budget for 2013-14 to 2015-16, against reserves available. Due to changing utilisation of reserve balances in 2011-12 and 2012-13, the profile of resources available has changed; the Council is no longer expected to use all available reserves during this period. From 2015-16 it is projected that a small surplus (£149,000) will be generated, resulting in an increase in reserves.

Annual forecast use of reserves



The forecast improvement in financial position will be achieved from a number of different factors, notably:

- under-spends in services for communities (£0.4 million) and support services (£1 million), mainly due to the expected adjustment to the police and fire requisitions;
- lower than expected long-term loan interest on borrowing for capital as a result of a reduced capital plan;
- under-spend in the primary school business group, due to the non-domestic rates credit expected, reduced long term absence / maternity credits and lower than expected pupil roll numbers; and
- offsets in the overspend in the children's service management budget. The practice teams are also expected to exceed budget due to overspends on external provision.

### Year to date financial position

The quarter three financial position report to cabinet identified a positive variance of £0.8 million against the year to date budget to 31 December 2012. As illustrated in the table below, the significant areas of variance relate to:

- services for communities underspend primarily within transport & waste services (£0.8 million) and community housing (£0.3 million);
- services for people overspend due to children’s (£1.1 million) and adult (£0.5 million) wellbeing overspend, offset by an under spend on primary schools (£0.5 million);
- support services reduction, marginally offset by a small overspend by community partnerships; and
- higher than forecast other income (£0.4 million).

Variance from revenue budget				
	Full year budget	Year to date budget	Actual to 31/12/12	Variance
	£'000	£'000	£'000	£'000
Services for people	138,738	99,996	101,170	1,174
Services for communities	30,739	14,028	12,838	(1,190)
Support services	26,233	19,039	18,804	(235)
Corporate management	(195,710)	(142,368)	(142,873)	(505)
<b>Total</b>	<b>-</b>	<b>(9,305)</b>	<b>(10,061)</b>	<b>(756)</b>

Source: KPMG’s analysis of quarter three finance review to cabinet

Management has made no changes to the financial risk rating assigned to each business group. Eight continue to be assessed as ‘high’ financial risk. These include children’s wellbeing and additional support for learning groups which are forecast to overspend in 2012-13.

### Evolving financial position

In our 2012-13 audit strategy overview we noted that while the Council’s mid-year financial review was showing a £1.8 million underspend compared to budget, the Council was forecasting an overspend in the second half of the year and that greater utilisation of reserves would be required to balance the budget. Management has confirmed that the improved quarter three financial position is due to cost control measures introduced at the end of quarter one, including their general advice to minimise spending and restrictions in recruitment across the Council.

The current police and fire boards will be wound up at the end of the 2012-13 financial year with their responsibilities transferred to new national bodies. It is anticipated that the Council will receive their share of the reserves of both boards through an adjustment to the 2012-13 requisitions of around £426,000. This has contributed to the improved financial position.

### Efficiency savings

Management has reported that the majority of support services and services for communities are expected to be within budget at year end. However, in some areas, management has identified that the progress made towards the required 2012-13 efficiency savings has been slower than planned, resulting in some which will not be realised until 2013-14, such as the delayed janitorial service review. Management expected this service review to generate efficiency savings of £150,000 in both 2011-12 and 2012-13, but work remains ongoing to reach agreement between education and janitorial groups on how to best achieve these savings.

**Housing revenue account**

At the end of December 2012 management reported the main revenue budgets were £82,000 over budget. Rental income was less than forecast, due to slower delivery of new build affordable homes and those purchased under the open market acquisition scheme.

The Council has purchased 40 homes during the period to December 2012; 16 from the mortgage to rent scheme, and the remainder under the open market acquisition scheme. The gross cost is £4.99 million, against a budget of £7.87 million. The modernisation and leasing buy-back budget has a projected under-spend of £500,000 by the year end due to contract renewals and a review of the Scottish Housing Quality Standard requirements.

**Capital plan**

As part of the mid-year financial strategy review the Council agreed to a revised capital expenditure limit of £33 million for 2012-13. The total expenditure as at 31 December 2012 was £22.7 million, representing 73% of the budget.

Management expect additional costs on the Ormiston community centre project, although they anticipate that this will be offset against capital projects which have been completed under their budget allocation. However, they note the impact will be reduced by project slippage on the Gullane day centre, the replacement of Peppercraig depot and the North Berwick museum.

The financial strategy highlights that flexibility will be needed within the limits to take account of additional capital income received and any in year transfers as a result of project slippage. It also sets out capital limits for the next five years as detailed in the table opposite.

Year	Capital expenditure limit (£m)
2012-13	33.0
2013-14	28.0
2014-15	20.0
2015-16	21.0
2016-17	18.0
2017-18	18.0
<b>Total</b>	<b>138.0</b>

Source: Council capital budget

During the planning process we identified key risks for specific consideration during the audit.

We have updated our understanding of the factors impacting on each of these risks to further inform our year end procedures.

We have developed our understanding of your key audit risk areas based on our initial risk assessment procedures, including discussions with management. Key areas identified are detailed below.

Issue	Key risk and implications	Update
Financial position	<p>The 2012-13 budget forecast a £4 million utilisation of reserves. The recent budget monitoring position forecasts a utilisation of £3.3 million of reserves.</p> <p>Further utilisation is budgeted in 2013-14 and a balanced financial position is projected for 2015-16, driven by the benefit of increased efficiency measures.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>updated our understanding of the 2012-13 budget setting process through discussions with key members of staff;</li> <li>considered the key budget pressures, and the action taken by management to address these; and</li> <li>inspected a sample of budget monitoring reports.</li> </ul> <p>We have commented elsewhere within this report about the Council's financial position, budget setting process and arrangements in respect financial reporting and scrutiny.</p> <p>We will compare the final audited financial position to the forecast figures from quarter three to determine the accuracy of budget monitoring during the year.</p>
Capital programme	<p>The revised 2012-13 general services capital limit is £33 million, being a 14% reduction on the 2011-12 actual spend of £38.3 million. The original capital budget of £37.5 million was revised in October 2012 in order to manage costs.</p> <p>Key capital projects include the Haddington IS / St Mary's Roman Catholic Primary School campus, Brunton Hall refurbishment and Fa'side Care Home.</p> <p>As at 31 December 2012, expenditure incurred to date was 73% (£22.7 million) of the revised annual capital budget.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>monitored the achievement of the capital programme for the year to date;</li> <li>updated our understanding of the future capital plans of the Council; and</li> <li>considered the risks associated with the funding of the capital programme.</li> </ul> <p>We will review and evaluate year end progress against the capital budget during our financial statement audit in order to consider the appropriateness of capital additions and the implications on Council borrowing levels.</p>



Issue	Key risk and implications	Update
<p>Valuation of property, plant and equipment</p>	<p>Valuation of property, plant and equipment across the Council's portfolio of assets remains a key audit risk area. A revaluation of a substantial element of "other land and buildings" was commissioned as at 1 April 2011.</p> <p>With a proactive capital programme, management will need to consider whether there is any associated impairment of the current carrying value of existing assets on the balance sheet.</p> <p>We recommended in the 2011-12 annual audit report that a review of the valuation policy is performed, addressing the rolling basis of valuations across classes, the date of valuation of assets and documentation of the assessment of appropriateness of the carrying values of assets at balance sheet dates.</p>	<p>Management has performed a review of valuation policies and procedures. during 2012-13. Management prepared a paper for the March audit committee meeting and this set out that they have:</p> <ul style="list-style-type: none"> <li>■ identified the rolling basis of valuations of classes of assets;</li> <li>■ requested valuations are performed as at 31 March, instead of 1 April; and</li> <li>■ requested annual reports on the appropriateness of market conditions or fair values and their possible impact on carrying values.</li> </ul> <p>As part of this review, three buildings were identified as incorrectly categorised and two buildings did not have a current valuation. Valuations will be carried out in 2012-13 and we will consider the results during our financial statement audit.</p> <p>We reviewed the valuation policies and procedures paper and provided some minor comments to enhance the clarity of the paper.</p> <p>Impairment discussions are undertaken by the finance manager in collaboration with the estates department. We will review the results of impairment considerations and any improvements in the process during our financial statement audit.</p>

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

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

We have noted improvements in the governance and controls framework from the prior year. Changes to policies and procedures have been made against a backdrop of senior staff restructuring, changes to the administration as a result of the May 2012 elections and ongoing efficiency rationalisation. While management has acted on a number of the recommendations made in our 2011-12 audit reports, which demonstrates a commitment to continuous improvement, a number of areas continue to require attention.

Audit area	Key areas considered	Findings
<b>Financial management</b>	<ul style="list-style-type: none"> <li>■ Financial analysis</li> <li>■ Financial reporting</li> </ul>	<ul style="list-style-type: none"> <li>■ The financial strategy sets out the requirements for budget monitoring and reporting, including quarterly reports to the cabinet, and monthly performance reports for all budget holders.</li> <li>■ Quarterly reports are presented to council or cabinet. This is a development on the prior year, and should facilitate enhanced scrutiny of financial performance.</li> <li>■ The financial management process could be further strengthened with respect to:               <ul style="list-style-type: none"> <li>– consistency and detail of variance explanations included within quarterly business group reports – some currently provide additional insight into ‘forward looking’ financial information and risks; and</li> <li>– reporting progress against specific efficiency savings. It is recognised that the CMT is reviewing how best to support the implementation of the Council’s efficiency savings programmes.</li> </ul> </li> </ul> <p style="text-align: right;"><b>Recommendation one</b></p>

Audit area	Key areas considered	Findings
<b>Organisation-wide policies</b>	<ul style="list-style-type: none"> <li>■ Standing orders of council and scheme of delegation</li> <li>■ Code of conduct</li> <li>■ Employee handbook</li> <li>■ Whistle blowing policy</li> <li>■ Counter fraud policy</li> </ul>	<ul style="list-style-type: none"> <li>■ Organisation-wide policies are important as they set the tone of the Council, outline expectations of employees, document key processes to be followed by all staff, and communicate the culture of honesty and ethical behaviour. They are easily accessible and available to all staff on the intranet.</li> <li>■ From our testing we identified that a number of policies have not been updated or at risk of being out of date:               <ul style="list-style-type: none"> <li>– standing orders – management intend to revise the Council standing orders, however this has been delayed. Updates to other organisation-wide policies rely on the standing orders being updated and approved. It is expected these will be approved in June 2013;</li> <li>– whistle blowing policy - the details for relevant contacts are out of date, with seven of the 12 departmental contacts and two of the three council-wide contacts incorrect, some having left the Council;</li> <li>– anti-bribery policy – we noted the Council did not have a policy to cover the new anti-bribery act in our 2011-12 interim management report. This remains outstanding.</li> </ul> </li> <li>■ The council improvement plan 2011-12 identified an action to develop and maintain a methodology for reviewing and updating corporate policies and procedures. In 2011-12 we made a recommendation that management should complete the action in the council improvement plan. The year end review of the council improvement plan identified that “A database of all Council policies, strategies and guidance is being created and will be reviewed annually as part of the corporate governance self-evaluation. The new database will also allow a systematic review of the policies, strategies and guidance.” This still needs to be finalised.</li> </ul> <p style="text-align: right;"><b>Recommendation two</b></p>

Audit area	Key areas considered	Findings
Related parties	<ul style="list-style-type: none"> <li>■ Elected members' register of interest</li> <li>■ Chief officers' register of interest</li> </ul>	<ul style="list-style-type: none"> <li>■ Separate registers of interest exist for chief officers and elected members. Our testing confirmed that both registers were up to date.</li> </ul>
Risk management	<ul style="list-style-type: none"> <li>■ Risk management strategy</li> <li>■ Corporate risk register</li> <li>■ Strategic department risk register</li> <li>■ Operational risk register</li> <li>■ Risk monitoring</li> </ul>	<ul style="list-style-type: none"> <li>■ The risk management strategy and supporting documentation demonstrate a commitment to good practice and were initially implemented in December 2009.</li> <li>■ A corporate risk register is in place and is supported by departmental risk registers. The council risk management group meets regularly to discuss risk management and membership includes one member of each local risk group. This ensures emerging risks at the departmental level are fed into the corporate register.</li> <li>■ The corporate risk register was reviewed and updated following a review by the council risk management group on behalf of, and in consultation with, the council management team. This was approved by cabinet and the audit and governance committee in January 2013. The risk management strategy also underwent a refresh after the risk registers were finalised in October 2012.</li> </ul>
Procurement	<ul style="list-style-type: none"> <li>■ Procurement policies and procedures</li> <li>■ Tendering limits</li> <li>■ Use of PECOS</li> <li>■ New suppliers</li> <li>■ Off contract spend</li> </ul>	<ul style="list-style-type: none"> <li>■ We undertook a detailed review of procurement in 2011-12, and raised a number of recommendations to assist the Council in its continuous improvement agenda.</li> <li>■ New procurement policies and procedures have been drafted but not implemented as they require the new standing orders to be approved. Procurement training has been provided to the procurement team and 20 to 30 other members of staff at the Council.</li> <li>■ Tendering thresholds have been revised in the updated procedures in line with the EU requirements, although will not be implemented until the procurement policy is approved.</li> <li>■ We have tested new suppliers as part of our expenditure controls testing. New suppliers require an authorised new supplier form, and it is expected that procurement are involved in approval. The procurement team are introducing quarterly reports to heads of service detailing new suppliers used without procurement involvement.</li> <li>■ Management has noted limited success in increasing the use of PECOS and decreasing the volume of 'off contract' expenditure. The procurement team has identified that significant 'off contract' expenditure is from the social care business group, where spot purchases of residential home places have taken place.</li> </ul>

Audit area	Key areas considered	Findings
Internal audit	<ul style="list-style-type: none"> <li>■ Annual internal audit plan</li> <li>■ Sample sizes</li> <li>■ Internal audit reports</li> <li>■ Investigations</li> <li>■ Reliance on individual internal audit reviews</li> </ul>	<ul style="list-style-type: none"> <li>■ The annual internal audit plan is aligned to the financial year. Directors are consulted and the risk register considered as part of planning. Input from external audit is requested to facilitate an efficient approach to controls testing.</li> <li>■ We recommended internal audit implement a methodology to determine sample sizes on a robust and consistent basis. In 2012-13 a standard sample size basis is used for financial system audits, and samples are selected to provide coverage of the full financial year.</li> <li>■ Internal audit recommendations reported to management and the audit and governance committee are not graded or subject to risk assessment. Prioritising resources to address significant risks are compromised as is distinguishing between areas which are more fundamental in nature, rather than 'housekeeping' or informational. In our experience, the lack of risk assessment is out of line with the majority of other bodies. This is a brought forward recommendation from 2011-12.</li> <li>■ The IASAB produced a common set of public sector internal audit standards ("PSIAS"), which require to be applied to the public sector from 1 April 2013 and we recommend that internal audit perform a self assessment against them. <ul style="list-style-type: none"> <li style="text-align: right;"><b>Recommendation three</b></li> <li>■ Internal audit are conducting an investigation of the processes and procedures over works notices. The work is ongoing and we will consider the implications for our audit opinion and any further work necessary on receipt of the investigation's conclusions.</li> <li>■ Reports on concluded investigations have not been presented to the audit and governance committee. There is a risk that appropriate scrutiny of the Council's operations is not facilitated. We recommend that reports are presented to the audit and governance committee on a timely basis, when disciplinary matters have been concluded if relevant.</li> <li>■ Regular progress reports against the annual internal audit plan are not presented, showing status compared to the plan, and this would support the audit and governance committee in their remit to evaluate internal audit's work, and identify where reports are outstanding. <ul style="list-style-type: none"> <li style="text-align: right;"><b>Recommendation four</b></li> <li>■ In our audit plan, we reported that we planned to place reliance on internal audit's work on: <ul style="list-style-type: none"> <li>- council tax revenue;</li> <li>- income collection;</li> <li>- payroll;</li> <li>- purchase cards; and</li> <li>- statutory performance indicators.</li> </ul> </li> </ul> </li> </ul> </li> </ul>

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

We will assess the impact of control weaknesses on our audit approach and increase our substantive audit testing where required.

Our audit plan identified the classes of transactions, disclosure and account balances that are significant to the financial statements. Where the audit objective has a controls approach, we have obtained an understanding of accounting and reporting activities over each significant account and identified and tested key financial controls. We have evaluated the design and implementation of these controls and, where appropriate, tested the operating effectiveness.

A number of key financial controls are automated or rely on computer or systems based controls; we carried out work on general IT controls and the overarching IT environment and report our findings within this report.

Audit area	Key controls	Findings																
Cash at bank	<ul style="list-style-type: none"> <li>Bank reconciliations</li> </ul>	<ul style="list-style-type: none"> <li>Management has recognised deficiencies within the process of bank reconciliations and are working to resolve the issues so that reconciliations are performed in a timely manner. The table below summarises progress against each account as at 1 March 2013. <table border="1" data-bbox="1218 639 1887 991"> <thead> <tr> <th>Bank account</th> <th>Date of most recent reconciliation</th> </tr> </thead> <tbody> <tr> <td>General account</td> <td>20 December 2012</td> </tr> <tr> <td>Creditors account</td> <td>31 December 2012</td> </tr> <tr> <td>Revenues account</td> <td>14 January 2013</td> </tr> <tr> <td>Payroll account</td> <td>31 January 2013</td> </tr> <tr> <td>Rent allowances account</td> <td>31 January 2013</td> </tr> <tr> <td>Liquidity/interest account</td> <td>31 January 2013</td> </tr> <tr> <td>Control account</td> <td>31 January 2013</td> </tr> </tbody> </table> </li> <li>Progress has been made to bring the bank reconciliations up to date, however further work is needed to ensure all year end bank reconciliations are completed in a timely manner.</li> <li>The November 2012 reconciliations were signed as prepared by the treasury and banking officer on 19 February 2013. There was no evidence of review by the corporate finance manager due to annual leave. It is good practice to have the bank reconciliation reviewed and authorised in a timely manner. This will be followed up during our financial statement audit.</li> </ul> <p style="text-align: right;"><b>Recommendation five</b></p>	Bank account	Date of most recent reconciliation	General account	20 December 2012	Creditors account	31 December 2012	Revenues account	14 January 2013	Payroll account	31 January 2013	Rent allowances account	31 January 2013	Liquidity/interest account	31 January 2013	Control account	31 January 2013
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Audit area	Key controls	Findings
<b>Reconciliations</b>	<ul style="list-style-type: none"> <li>■ Reconciliation controls should exist in the majority of financial systems and should be performed periodically, from daily to annually.</li> </ul>	<ul style="list-style-type: none"> <li>■ We note that management has made good progress in improving the documentation of reconciliations and the performance of these on a regular basis. The finance team has introduced reconciliation cover sheets which set out the balances being reconciled, and require to be signed and dated by the person performing the reconciliation and the independent reviewer. This reconciliation process was largely implemented for quarter three.</li> <li>■ This demonstrates progress from 2011-12, where we reported that a number of reconciliations were not properly documented. In some instances, two reports were filed together (on paper or electronically) but there was no evidence of the reconciliation being performed, or action taken to identify and resolve reconciling items.</li> <li>■ Appendix two reflects updated details of the identified weaknesses and associated risks.</li> <li>■ We will review year-end reconciliations as part of our final financial statement audit to ensure they have been prepared effectively and new processes have been fully embedded.</li> </ul>
<b>Payroll</b>	<ul style="list-style-type: none"> <li>■ Staff expenses</li> <li>■ Councillors' expenses</li> <li>■ Exception reports</li> <li>■ Starters, leavers and amendments</li> <li>■ Pensions data</li> </ul>	<ul style="list-style-type: none"> <li>■ The key controls over changes to payroll data have been designed appropriately. We expect to place reliance on internal audit's testing of the operating effectiveness of these controls.</li> <li>■ Controls tested over expenses and pensions data have been designed appropriately, implemented and are operating effectively.</li> <li>■ Recommendations raised in 2011-12 have been addressed.</li> </ul>
<b>Income</b>	<ul style="list-style-type: none"> <li>■ Sales invoice authorisation</li> <li>■ Cash receipting</li> </ul>	<ul style="list-style-type: none"> <li>■ We consider that the key controls over cash receipting have been designed appropriately. We will place reliance on internal audit's testing of the operating effectiveness of these controls.</li> <li>■ Some key documentation was missing for sales invoices relating to property maintenance, with authorisation not evidenced for all three selected in our sampling. It appears that authorisation is obtained, however the retention and filing of evidence could be improved.</li> </ul>

Audit area	Key controls	Findings
<b>Expenditure</b>	<ul style="list-style-type: none"> <li>■ New supplier authorisation</li> <li>■ Purchase order, goods received and invoice authorisation</li> <li>■ Payment run data checks</li> </ul>	<ul style="list-style-type: none"> <li>■ From our testing, we consider that controls over purchase orders, goods received, invoice authorisation and payment runs have been designed appropriately, implemented and are operating effectively.</li> <li>■ New suppliers should not be added to the system until a supplier request form is received. Our testing identified that there was no supplier authorisation form completed for 13 of the 25 items in our sample. Some had other evidence to support the lack of authorisation, for example the payments were refunds rather than purchases. However, there was no form of any background check or authorisation for 5 of the 25 sampled items.</li> <li>■ One of these was a foreign supplier for which faster payment was requested. In cases of “faster payment” the form should be completed retrospectively to evidence that the supplier is authorised.</li> </ul> <p style="text-align: right;"><b>Recommendation six</b></p>
<b>Journals</b>	<ul style="list-style-type: none"> <li>■ Authorisation of journals</li> </ul>	<ul style="list-style-type: none"> <li>■ We noted in our 2011-12 annual audit report that there was an increased risk of fraudulent or erroneous journals not being identified on a timely basis due to a lack of controls over the authorisation of journals.</li> <li>■ Management recognised the need to review journals and the finance manager has considered the authorisation process as a result of our recommendation. He is working through the current year journal files using a risk based sample approach to retrospectively authorise a sample of journals. We will perform controls testing over authorisation of journals during our financial statement audit work and will substantively test a sample of journals.</li> </ul> <p style="text-align: right;"><b>Recommendation seven</b></p>



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

**We will assess the impact of control weaknesses on our audit approach and increase our substantive audit testing where required.**

IT controls form an essential part of managing the Council’s use of technology. There is a balance to be achieved between reducing risk and maximising efficiency. The broad objectives of the review were to perform detailed testing in accordance with our audit methodology. We evaluated the design and implementation of IT general controls relevant to key financial systems. We also tested the operating effectiveness of those controls. Our work assessed the IT general controls covering the following four areas:

- access to programs and data;
- program changes;
- program development; and
- computer operations.

We obtained an understanding of the IT background, systems and risks within the IT control environment through a series of fact finding interviews with staff and management. In the performance of the IT general controls review, our work involved discussions with key staff to help us gain an understanding of the key financial system controls, supplemented by detailed testing as appropriate.

Audit area	Key controls	Findings
<b>IT general controls - policy</b>	<ul style="list-style-type: none"> <li>■ Disaster recovery tests</li> <li>■ IT acceptable use policy</li> <li>■ Super users</li> </ul>	<ul style="list-style-type: none"> <li>■ Applications are physically held in a secure environment and backed up regularly. There is a business continuity plan and disaster recovery is tested annually for high priority systems.</li> <li>■ New council staff are required to read the IT acceptable use policy and sign a form to evidence that they have read the policy and agree to abide by it. This has a start date and if applicable, an end date. However, four of the 25 acceptance forms in our sample were out of date. This is due to staff being hired on a temporary basis with a fixed end date and contracts being extended but no new form is completed. Therefore these members of staff technically do not have a valid form to state that they have read, understood and agree to abide by the Council's IT acceptable use policy.</li> </ul> <p style="text-align: right;"><b>Recommendation eight</b></p>
<b>IT general controls – systems management</b>	<ul style="list-style-type: none"> <li>■ Super-users</li> </ul>	<ul style="list-style-type: none"> <li>■ Ideally, IT systems should have no generic super user accounts. However, the Dynamics Great Plains system has a generic super user account which four members of staff with admin permissions have access to. This is the only account which can be used to add or modify users, however this leaves no audit trail regarding which individual made the changes. The Capita system also has a generic account for which the password is shared but the systems and control team leader states this is only for the release of new software.</li> </ul> <p style="text-align: right;"><b>Recommendation nine</b></p>

Audit area	Key controls	Findings
<p>IT general controls – systems access</p>	<ul style="list-style-type: none"> <li>■ New starters</li> <li>■ Passwords</li> <li>■ Leavers</li> </ul>	<ul style="list-style-type: none"> <li>■ We noted recommendations in 2011-12 to improve the consistency and robustness of password policies and retention of evidence to demonstrate leavers had been removed from systems.</li> <li>■ Our testing of systems access controls identified:               <ul style="list-style-type: none"> <li>– One Great Plains new user did not have an appropriate new user form for a temporary additional profile provided under the banking user class to provide support to the banking team. This access had been set up by the corporate development accountant without line manager authorisation.</li> <li>– One new employee in our sample of new network users rejoined the Council on 15/08/2012 and has not since been registered as leaving, however does not appear to have access on the network. This employee is a supply teacher and therefore only requires <i>ad hoc</i> access. Two forms were on the system, with access ending on 20/05/12 and 01/07/12. The infrastructure and security team leader has concerns that employees were sharing their passwords with this member of staff rather than arranging access every time.</li> <li>– Passwords for network access, Great Plains and Capita must contain a minimum of six characters, must be changed at least every 90 days and staff are locked out after three false attempts. This is in contrast with the Council's own policy which states passwords should contain at least eight characters, including some numeric and special characters. This is due to be changed and the infrastructure and security team are aware of this discrepancy.</li> <li>– The human resources department provides details of leavers to system administrators. There is a lack of documentation retained to evidence action taken to remove users from the Orchard and Capita systems.</li> </ul> </li> </ul> <p style="text-align: right;"><b>Recommendation 10</b></p>

Our audit strategy and plan set out a number of performance management audits that we are required to carry out.

Audit area	Overview	Findings
<b>Statutory performance indicators</b>	<p>During the audit cycle, we develop an understanding of the arrangements and systems that the Council uses to generate performance results and consequent reports. Our testing may require sampling of data to test reliability, but the risk of ensuring accuracy and relevance of performance indicators lies with the Council. As external auditor, our responsibilities extend to understanding arrangements and systems that the Council uses to generate performance results and consequent reports. Our work will include consideration of internal audit's role in testing SPIs and reporting the results.</p>	<p>The Council monitor and report on statutory performance indicators.</p> <p>In 2011-12 internal audit reviewed a sample of performance indicators. A similar piece of work will be undertaken on the 2012-13 performance indicators.</p> <p>We will complete work in this area in July - August 2013 and report our findings to management and the audit committee.</p>
<b>National fraud initiative</b>	<p>NFI helps participating bodies to identify possible cases of fraud, and to detect and correct any under or overpayments. NFI also helps auditors to satisfy their duties to assess bodies' arrangements for preventing, deterring and detecting fraud.</p>	<p>The Council has received matched data for 2012-13. The housing benefit team are reviewing all housing benefit matches, and internal audit are building time into their 2013-14 plan to review all other matches. We will select a sample of resolved matches to test during our final audit and ensure they have been appropriately reviewed and any follow up carried out.</p>
<b>Shared risk assessment, Best Value and the Single Outcome Agreement</b>	<p>Local area networks ("LANs") have been established for each council to bring together local scrutiny representatives in a systematic way. The national scrutiny plan is underpinned by an assurance and improvement plan ("AIP") for individual councils.</p>	<p>As your external auditor, we are a key member of the LAN. We have met with members of the local area network, and will continue to participate and cooperate with other scrutiny bodies. The Council LAN is in the process of updating the AIP for the period 2013-16 and we will review the final document for consistency with our understanding of the Council.</p>

## Performance management (continued)

Audit area	Overview	Findings
<p><b>Local response to national studies</b></p>	<p>Audit Scotland and the Accounts Commission periodically undertake national studies on topics relevant to the performance of public sector bodies. To ensure that added value is secured through the role of Audit Scotland, the Accounts Commission and its appointed auditors will continue to ensure that audited bodies respond appropriately to reports from the programme of national performance audits.</p>	<p>We have considered the Council's response to the following national report:</p> <ul style="list-style-type: none"> <li>■ Commissioning Social Care</li> </ul> <p>We have prepared a short return to Audit Scotland for this report. This report was published on 1 March 2012 and was considered by the adult wellbeing senior management team in April 2012. No formal self-assessment was carried out and no action produced, although the recommendations were used as part of the review of the care services commissioning strategy.</p> <p>A recommendation was raised in our 2011-12 interim management report for management to ensure all relevant national reports are considered and self-assessments performed. We understand that management has implemented a review process for future Audit Scotland national studies.</p>

As part of its targeted approach to following-up a small number of performance audit reports each year, Audit Scotland has identified Scotland's public finances: Addressing the challenges for follow-up in 2012-13.

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

**Scotland's public finances: Addressing the challenges**

As part of its targeted approach to following-up a small number of performance audit reports each year, Audit Scotland has identified the *Scotland's public finances: Addressing the challenges* for follow-up by local auditors in 2012-13. The aim of the follow-up work is to assess how public bodies are responding to the challenges of public sector budget constraints and their efforts to achieve financial stability. Set out below are our findings from our follow up work.

**1. Do public bodies have sustainable financial plans which reflect a strategic approach to cost reduction?**

Does the organisation have a balanced financial plan for 2012-13 which sets out:

- Assumptions about sources of income and cost pressures?
- What cost reductions and other efficiency savings will need to be made, and how they are to be delivered?
- Risks to service delivery as a consequence of the need to reduce costs and deliver identified efficiency savings?

We have considered the process for the 2013-14 to 2015-16 budget as this has now been set and approved by Council.

Each budget change and efficiency measure or saving is identified in the budget proposals, with a brief explanation. Uncertainty remains over the extent and precise nature of changes that will be required and are subject to some uncertainty as a result.

The finance strategy 2013-14 to 2015-16 supports the Council budget and sets out assumptions for income and cost pressures. 10 key financial strategy risks are detailed, with mitigating actions. Some of the key risks identified are around efficiency savings not being achieved, wider changes in the economy impacting on costs and a failure to effectively manage the budget.

Does the organisation have a clear budget-setting process which:

- Demonstrates a clear understanding of its costs and how costs vary with activity?
- Takes into account previous years' service delivery performance and where improvements need to be made?
- Takes into account the body's track record on delivering against budgets and analysis of the reasons for previous years' under/over spends?
- Allocates resources according to a clear understanding of its priorities, including which services or activities are expected to contribute most and least to the achievement of the organisation's outcomes?

Known corporate commitments, based on identified costs and pressures are used to create a first draft budget. The council management team consider its core priorities and undertake a pro-rata exercise of savings across all business groups to reduce any deficit. Each business group is expected to produce savings proposals. These are considered by the finance team for reasonableness taking account of previous service delivery performance and delivery against budget. Proposals also include validation of savings proposed in previous years.

<p>Is there a clear evidence base to cost reduction plans? If yes:</p> <ul style="list-style-type: none"> <li>Does the organisation undertake a programme of service reviews designed to identify the scope to reduce costs?</li> <li>Do cost reduction plans provide adequate detail on how savings are to be made and over what timeframe?</li> <li>Do cost reduction plans state who within the organisation is accountable for their delivery?</li> <li>Do cost reduction plans give adequate consideration to the impact of reduced expenditure/ changes to service delivery arrangements on service performance and outcomes?</li> <li>Are clear baselines established against which efficiency savings can be measured?</li> </ul>	<p>Each business group has undergone, or will undergo, a service review and is expected to submit savings proposals. Detailed verification work of proposals is undertaken to ensure accurate baselines have been developed.</p> <p>The budget proposal sets out the expected savings in each of the three years and a brief description on how such savings are to be made, although there is an element of uncertainty. These are supported by detailed business group savings proposals.</p> <p>The manager of the business group is accountable for achievement of the savings along with their team. A transformation board is being set up to help implement and monitor savings programs and review the effect of such programs on service delivery.</p> <p>The three year financial plan outlines the baseline savings in 2013-14 and future years against which efficiency savings can be measured. In 2012-13 efficiency savings were detailed within the three year financial plan and these baselines were used to evaluate business groups achievement of savings in 2012-13.</p>
<p>Does the organisation regularly use benchmarking to compare its costs and performance with other organisations, including public bodies in other sectors and other non-public sector bodies?</p> <p>Can the organisation demonstrate real and measurable benefits from its benchmarking activities in terms of cost and/or quality improvements?</p>	<p>Individual services perform benchmarking and market analysis where appropriate. For example, the 'Place To Be' and 'Spark of Genius' programmes are market tested and reviewed to ensure efficiencies and value for money is achieved. Outcomes of these reviews may result in services being put out for tender to obtain cost and quality improvements.</p>
<p>Does the organisation have a longer term financial strategy which:</p> <ul style="list-style-type: none"> <li>Takes into account planned changes to service delivery arrangements and anticipated changes in demand for services?</li> <li>Sets out how financial resources will be matched to strategic goals?</li> <li>Demonstrates that current cost reductions and efficiency savings are in line with longer term strategic objectives?</li> </ul>	<p>The finance strategy 2013-14 to 2015-16 covers the medium term financial position, and is supported by three year budget proposals. These take into account known corporate commitments and anticipated changes in demand for services. The effect of the VERS scheme has been incorporated.</p> <p>The budget proposal covers three years and each of the directorates are fully costed showing how resources are expected to be used in each directorate.</p> <p>The longer term strategic objective is to ensure a sustainable financial position, and the current efficiency measures and savings are key to achievement of this objective.</p>

**2. Do senior officials, elected members and non-executive directors demonstrate ownership of financial plans and are they subject to sufficient scrutiny before approval?**

Do senior officials, elected members and non-executive directors demonstrate ownership of financial plans:

- Are high level financial targets and the overall financial position of the organisation discussed regularly at board level meetings?
- In setting financial plans, do members adequately consider the impact of budget reductions on service quality and outcomes?

Quarterly financial position reports are presented to council or cabinet which summarise high level financial performance against budget for each business group.

During the budget setting process, the finance team facilitate weekly meetings with members to identify and evaluate budget proposals. Members are informed of the impact their proposed budget reductions would have on service quality and outcomes.

Do senior officials, elected members and non-executive directors provide:

- Sufficient focus on strategy and performance?
- Adequate challenge on longer-term financial plans?
- Regular consideration of financial risks?
- Adequate monitoring of the achievement of efficiency targets?

Council and cabinet meetings provide a forum for political debate on the council's strategy and performance. Challenge of longer-term financial plans is facilitated through the weekly budget setting meetings held with the finance team.

Consideration of financial risk is included within audit and governance committee scrutiny of risk registers and risk management policies.

As part of the budget setting process management and members agree budget savings to close the budget gap. These savings are incorporated into the annual budget which is monitored. The transformation board is intended to further promote ongoing monitoring of the achievement of efficiency savings.

Is there appropriate transparency and accountability of decisions about cost reduction measures and future organisational plans:

- Is there appropriate consultation with the public and other stakeholders over cost reduction plans which identify various options and their impact on service delivery and outcomes?
- Do financial and corporate plans adequately spell out the consequences of reduced budgets on the organisation's ability to deliver services and outcomes?

Due to the council elections in May 2012, no public or stakeholder consultation was undertaken in setting the 2013-14 to 2015-16 budget as members considered their manifesto had been approved by election success. Consultation was undertaken in previous years.

The council management team intend to encourage members to use a model in future years. Rent proposals underwent the statutory public consultation methods.

Do finance/resource committees and other scrutiny committees play a suitably prominent role in the consideration of budget plans and risks to service delivery:

- Are finance/resource and other scrutiny committees sufficiently involved in the consideration of budget plans, including:
  - the impact of budget reductions on service delivery
  - the organisation's track record of delivering against budgets?
  - reasons for previous years' under/over spends against budget?
- Do finance/resource and other scrutiny committees undertake a regular programme of reviews of business areas to examine issues such as the achievement of value for money and service delivery?
- Do finance/resource and other scrutiny committees regularly assess areas such as financial risks and efficiency savings?

Are reports from finance/resource and other scrutiny committees on budget plans and risks to service delivery given proper consideration by officials, with recommendations being promptly acted upon?

- Do finance/resource and other scrutiny committees receive reports on the extent to which cost reductions and efficiency savings have impacted on service delivery?

The council does not have a finance / resource committee and the audit and governance committee is not involved in consideration of budget plans and risks to service delivery. After the finance team has verified business group efficiency savings proposals, two working groups are set up; one with the administration and one with the opposition . These scrutinise and develop their budget proposals which are put forward at the council meeting.

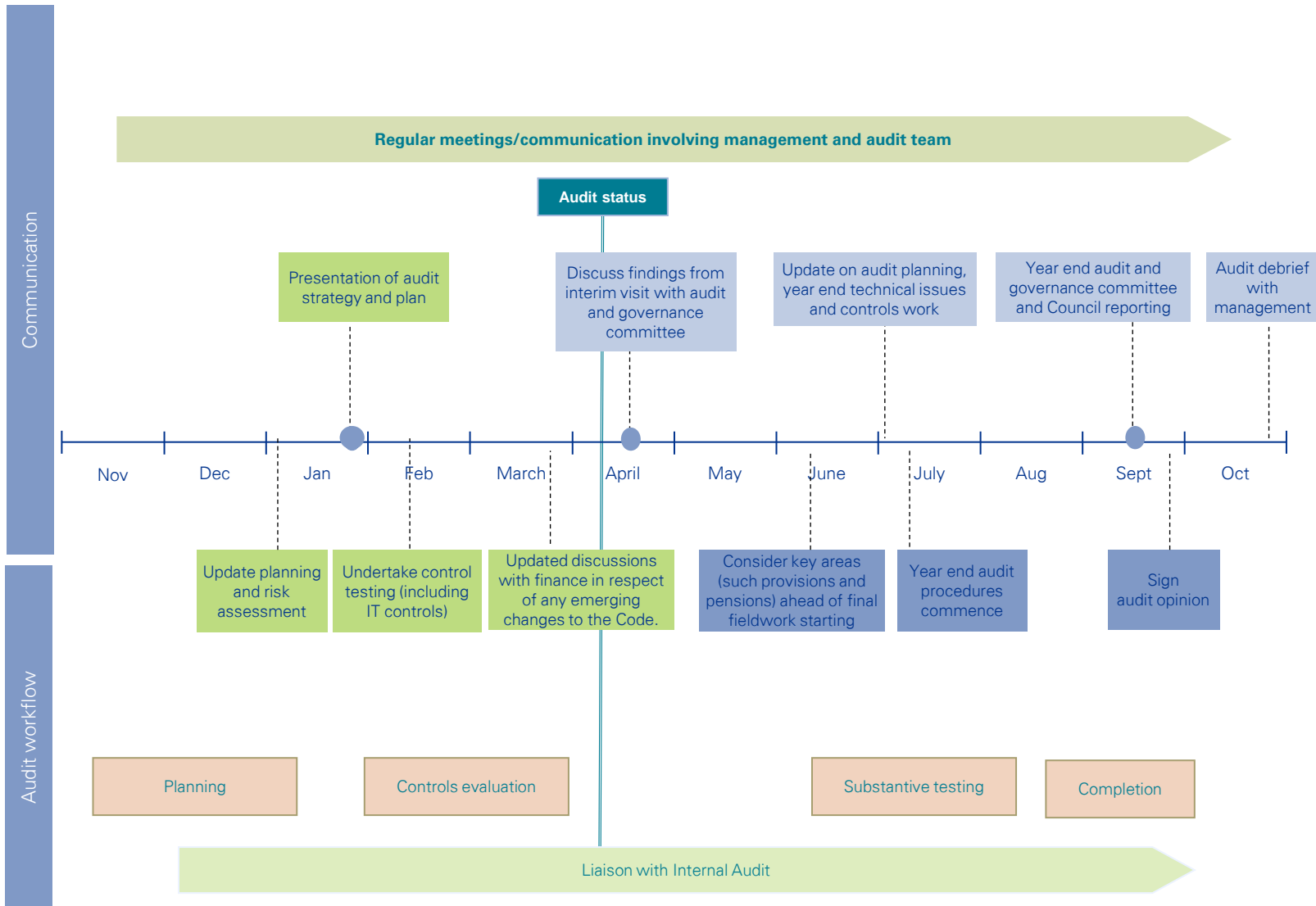
Quarterly financial position reports are presented to council or cabinet which summarise high level financial performance against budget for each business group. Risk registers are reviewed by the audit and governance committee on an annual basis, as evidenced from the meeting minutes. The transformation board is expected to provide support for delivery of efficiency savings and scrutiny of achievements and impact.

Where spending pressures are not containable within business groups there are set processes for reporting such variances against budget. Executive directors have authority to vire budgets between their own business groups. Where this cannot be achieved, council may be asked to reconsider their policies within that group or elsewhere to yield the necessary savings.



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

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



# Appendices

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

We have identified one grade one (‘significant’) observations; we have identified 9 other recommendations.

### KEY

\* Recommendations noted in 2011-12 audit reports.

### 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
<b>1 Financial management – operational reporting</b>		<b>Grade three</b>
Quarterly reports are presented to council or cabinet. This is an improvement change on the prior year, and facilitates scrutiny of financial results.	<p>The financial management process could be further strengthened with respect to:</p> <ul style="list-style-type: none"> <li>consistency and detail of variance explanations included within quarterly business group reports – some currently provide additional insight into ‘forward looking’ financial information and risks; and</li> <li>reporting progress against specific efficiency savings. It is recognised that the CMT is reviewing how best to support the implementation of the Council’s efficiency savings programmes.</li> </ul>	<p>Management accept and will implement appropriate changes within 2013-14 quarterly reporting.</p> <p><b>Responsible officer(s):</b> Business Finance Manager</p> <p><b>Implementation :</b> September 2013</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p><b>2 Organisation-wide policies *</b></p>		
<p>From our testing we identified that a number of policies have not been updated or reviewed or are at risk of being out of date.</p> <p>The council improvement plan 2011-12 identified an action to develop and maintain a methodology for reviewing and updating corporate policies and procedures. In 2011-12 we recommended that management should complete the action in the council improvement plan. The year end review of the council improvement plan identified that “A database of all Council policies, strategies and guidance is being created and will be reviewed annually as part of the corporate governance self-evaluation. The new database will also allow a systematic review of the policies, strategies and guidance.” This still needs to be finalised.</p>	<p>Management should complete the action in the corporate improvement plan to develop and maintain a methodology for systematically reviewing and updating corporate policies.</p> <p>For those policies not requiring revision, the new methodology should require that this decision is documented annually.</p>	<p style="text-align: center;"><b>Grade two</b></p> <p>Management has accepted this recommendation and work has already begun to develop the new methodology.</p> <p><b>Responsible officer(s):</b> Corporate Policy &amp; Improvement Manager</p> <p><b>Implementation date:</b> November 2013</p>
<p><b>3 Internal audit – reporting *</b></p>		
<p>Internal audit recommendations reported to management and the audit and governance committee are not graded or subject to risk assessment. It can be difficult for management to prioritise resources to address significant risks and members to distinguish between those areas which are more fundamental in nature, rather than ‘housekeeping’ or informational. In our experience, the lack of risk assessment is out of line with the majority of other bodies.</p>	<p>Internal audit should implement a grading system for recommendations to support management in prioritising action in response to the most significant risks.</p> <p>The IASAB produced a common set of public sector internal audit standard (“PSIAS”), which require to be applied to the public sector from 1 April 2013 and we recommend that internal audit perform a self assessment against them.</p>	<p style="text-align: center;"><b>Grade two</b></p> <p>We are in the process of reviewing our compliance against the new standards, for reporting to the audit and governance committee in 2013-14. The grading of recommendations will be implemented if the review of compliance confirms this is appropriate.</p> <p><b>Responsible officer(s):</b> Internal Audit Manager</p> <p><b>Implementation date:</b> September 2013</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p><b>4 Internal audit –reporting</b></p> <p>Reports on concluded investigations have not been presented to the audit and governance committee. There is a risk that appropriate scrutiny of the Council’s operations is not facilitated.</p> <p>Regular progress reports against the annual internal audit plan are not presented, showing status compared to the plan, and this would support the audit and governance committee in their remit to evaluate internal audit’s work, and identify where reports are outstanding.</p>	<p>We recommend that reports are presented to the audit and governance committee on a timely basis, when disciplinary matters have been concluded if relevant.</p> <p>Regular progress reports against the annual plan, showing status compared to the plan, should be presented to each audit and governance committee meeting.</p>	<p style="text-align: center;"><b>Grade two</b></p> <p>The annual Controls Assurance Statement (“CAS”) presented to the audit and governance committee, highlights key control weaknesses that have arisen from both planned audits and investigations. In future, the CAS will make a distinction between weaknesses identified from planned audit work and those identified from investigatory work. All relevant information will be reported on a timely basis and will not compromise potential disciplinary or appeal hearings, employment tribunals or court cases.</p> <p><b>Responsible officer(s):</b> Internal Audit Manager</p> <p><b>Implementation date:</b> April 2013</p>
<p><b>5 Financial controls – bank reconciliations *</b></p> <p>Progress has been made to bring the bank reconciliations up to date, however further work is needed to ensure all year end bank reconciliations are completed in a timely manner.</p> <p>The November 2012 reconciliations were signed as prepared by the treasury and banking officer on 19 February 2013. There was no evidence of review by the corporate finance manager due to annual leave. It is good practice to have the bank reconciliation reviewed and authorised in a timely manner. This will be followed up during our financial statement audit.</p>	<p>Management should ensure that there is evidence of preparation and review to demonstrate segregation of duties and that reconciliations are performed and reviewed by staff independent of the records being reconciled. Management should also ensure there is a clear audit trail to demonstrate action taken in respect of reconciling items or to gain assurance that underlying financial records are free from fraud and error.</p> <p>Reconciliations should be brought up to date, so that there are no months outstanding relating to 2012-13.</p>	<p style="text-align: center;"><b>Grade two</b></p> <p>Agreed. Management will seek to implement appropriate changes to address the recommendations made.</p> <p><b>Responsible officer(s):</b> Corporate Finance Manager</p> <p><b>Implementation date:</b> May 2013</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p><b>6 New supplier authorisation *</b></p>		
<p>New suppliers should not be added to the system until a supplier request form is received. However, our testing identified that there was no supplier authorisation form for 13 of the 25 items in our sample.</p> <p>Some had other evidence to support the lack of authorisation, for example the payments were refunds rather than purchases. However, there was no form of any background check or authorisation for 5 of the 25 sampled items.</p>	<p>It is recommended that purchases staff do not add suppliers to the system without a completed authorised form.</p> <p>In these cases where faster payment is requested a form should be completed retrospectively to evidence that the supplier is authorised.</p>	<p style="text-align: center;"><b>Grade one</b></p> <p>Management has decided to introduce a new creditor class in Great Plains called "refunds" that often require faster payment and which will not require a new payee form. For all other "operating creditors" we will fully implement new payee forms before adding any new suppliers.</p> <p><b>Responsible officer(s):</b> Corporate Procurement Manager</p> <p><b>Implementation date:</b> April 2013</p>
<p><b>7 Journal authorisation</b></p>		
<p>We noted in our 2011-12 annual audit report that there was an increased risk of fraudulent or erroneous journals not being identified on a timely basis due to a lack of controls over the authorisation of journals.</p> <p>Management recognised the need to review journals and the finance manager has considered the authorisation process as a result of our recommendation. He is working through the current year journal files using a risk based sample approach to retrospectively authorise a sample of journals. We will perform controls testing over authorisation of journals during our financial statement audit work and will substantively test a sample of journals.</p>	<p>Management should ensure that the retrospective review of journals on a risk based sample approach is completed before year end. This process should be implemented for all future journals raised.</p>	<p style="text-align: center;"><b>Grade two</b></p> <p>The review of journals is progressing as planned and will be completed as part of the year-end closedown.</p> <p><b>Responsible officer(s):</b> Corporate Finance Manager</p> <p><b>Implementation date:</b> June 2013</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<b>8 IT general controls – IT Acceptable Use Policy</b>		
<p>New council staff are required to read the IT Acceptable Use Policy and sign a form to evidence that they have read the policy and agree to abide by it. This has a start date and if applicable, an end date. However, 4 of the 25 acceptance forms in our sample were out of date. This is due to staff being hired on a temporary basis with a fixed end date and then contracts being extended but no new form being completed. Therefore these members of staff technically do not have a valid form to state that they have read, understood and agree to abide by the Council's IT Acceptable Use Policy.</p>	<p>Line managers should ensure that in cases where temporary staff contracts are extended, this form is re-signed to cover the extended term.</p>	<p style="text-align: center;"><b>Grade two</b></p> <p>Agreed. A procedure will be put in place to ensure that the IT Applicable Use Policy forms are re-signed when contracts are extended.</p> <p><b>Responsible officer(s):</b> IT Services Manager</p> <p><b>Implementation date:</b> April 2013</p>
<b>9 IT general controls – Super users</b>		
<p>The Dynamics Great Plains system has a generic super user account which four members of staff with 'admin' permissions have access to. This is the only account which can be used to add or modify users, however this leaves no audit trail regarding which individual made the changes. The Capita system also has a generic account for which the password is shared but the systems and control team leader states this is only for the release of new software.</p> <p>IT systems should have no generic super user accounts as there is a lack of accountability over who made the changes and therefore a risk that unauthorised changes are made.</p>	<p>Staff administering the Capita system should review the details of staff with whom the super user account password is shared and ensure only those that require it have access. Super-user access should be restricted to few individuals where it is appropriate for their role.</p> <p>Dynamics Great Plains system administrators should continue to maintain effective paper records of all modifications made so that changes on the system can be traced back to individual users.</p>	<p style="text-align: center;"><b>Grade two</b></p> <p>Agreed.</p> <p><b>Responsible officer(s):</b> IT Services Manager (Lead)</p> <p><b>Implementation date:</b> May 2013</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p><b>10 IT general controls – systems access *</b></p> <p>We noted recommendations in 2011-12 to improve the consistency and robustness of password policies and retention of evidence to demonstrate leavers had been removed from systems.</p> <p>Our testing of systems access controls identified a number of weaknesses in relation to new starters approval, passwords and leavers.</p>	<p>It is recommended that:</p> <ul style="list-style-type: none"> <li>■ Appropriate authorisation is evidenced for every new account created.</li> <li>■ The discrepancy between the password policy and system requirements is updated as soon as possible</li> <li>■ On receipt of leavers emails, system administrators should:               <ul style="list-style-type: none"> <li>— check whether the leaver has access to the system(s) that they administer;</li> <li>— arrange to revoke system access at the end of the leaving date, if applicable; and</li> <li>— maintain a record of leaver actions taken for audit purposes.</li> </ul> </li> </ul>	<p style="text-align: center;"><b>Grade two</b></p> <p>Procedural changes will be agreed and implemented with relevant service managers where possible but the discrepancy between the Council's password policy and individual system password rules can only be addressed where the systems allow enforcement of complex passwords</p> <p><b>Responsible officer(s):</b> IT Services Manager</p> <p><b>Implementation date:</b> May 2013</p>



The table below summarises reconciliation controls that should operate within key financial and non-financial systems, along with identified weaknesses in the design and operation of these controls. This table is not exhaustive and lists only those controls selected for testing during our interim audit.

Financial system	Reconciliation	Underlying risk	Frequency	Control documented	Control independently reviewed
Income	Cash received reconciliation	Theft or error may not be identified and resolved in a timely manner	Twice daily	✓	✗
Council tax	Property valuation reconciliation	Incorrect bills raised against properties	Weekly	✓	✓
	Total properties to total billings reconciliation	Total bills raised under or over stated	Annually	1	1
	Council tax account reconciliation	Inappropriate recognition of council tax transactions	Quarterly	2	2
Non-domestic rates	Rateable properties reconciliation	Incorrect bills raised against properties	Weekly	✓	✓
	Non-domestic rate account reconciliation	Inappropriate recognition of non-domestic rates transactions	Quarterly	✓	✓
Housing revenue account	Housing revenue account reconciliation	Inappropriate recognition of housing revenue account transactions	Monthly	✓	✓
Property, plant and equipment	Asset Manager total NBV to general ledger NBV reconciliation	Incorrect assets uploaded	Annually	1	1

1. We will review the appropriateness of these annual reconciliations during our financial statement audit.
2. At the time of our interim audit, the finance team were in the process of changing this control frequency from annually to quarterly. We will review the progress made during our financial statement audit, and review the year end reconciliation.



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**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 30 April 2013

**BY:** Chief Executive

**SUBJECT:** Adult Wellbeing Risk Register

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**2**

## **1 PURPOSE**

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

## **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Audit and Governance Committee approves the Adult Wellbeing Risk Register.
- 2.2 In doing so, the Audit and Governance Committee is asked to:
  - note that the relevant risks have been identified following appropriate consultation with all risk contacts;
  - recognise that while this report has been compiled by the Risk Officer, the Risk Register has been compiled by the Adult Wellbeing LRWG and the Head of Adult Wellbeing has lead responsibility. The Executive Director (Services for People) will speak to it at the Committee;
  - note that the significance of each risk is appropriate to the current nature of the risk;
  - agree that the total profile of the Adult Wellbeing risk can be borne by the Council at this time in relation to the Council's appetite for risk; and,
  - recognise that, although the risks presented are those requiring close monitoring and scrutiny throughout 2013, many are in fact longer term risks for Adult Wellbeing and are likely to be a feature of the risk register over a number of years.

## **3 BACKGROUND**

- 3.1 The Council's Risk Management Strategy was established following Audit Scotland's 2008/09 review of the Council when it was recommended that: "The implementation of the risk management framework be expedited and target dates established".
- 3.2 Responsibility for Risk Management sits within the Corporate Policy and Improvement unit. The Emergency Planning and Risk Manager, supported by a Risk Officer, has implemented the current Risk Management Strategy and set up both an

overarching Corporate Risk Management Group (CRMG) together with LRWGs in service areas such as the Adult Wellbeing LRWG.

- 3.3 The LRWGs meet on a regular basis to discuss their Risk Register which is also included as a topic in team meetings. They also feed information to the CRMG; this Group is fundamental to the delivery of risk management throughout the Council and ensures that risk management remains high on the corporate agenda.
- 3.4 All LRWG's were revised following the Senior Management and Service restructure of 2012 resulting in 8 Risk Registers/Groups being reduced to 7.
- 3.5 A copy of the risk matrix used to calculate the level of risk is attached as Appendix 2 for information.

#### **4 POLICY IMPLICATIONS**

- 4.1 In approving the Adult Wellbeing Risk Register the Committee will be affirming the process of embedding risk management principles across the Council in support of the Risk Management Strategy.

#### **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 – It is the consideration of the Adult Wellbeing Local Risk Working Group that recurring costs associated with the measures in place for each risk are proportionate to the level of risk.

The financial requirements to support the Adult Wellbeing Risk Register for 2013/14 should be met within the proposed budget allocations for 2013/14. Any unplanned and unbudgeted costs that arise in relation to any of the risks identified will be subject to review by the Board of Directors.

- 6.2 Personnel - There are no immediate implications.
- 6.3 Other – Effective implementation of this register will require the support and commitment of the Risk Owners identified within the register.

#### **7 BACKGROUND PAPERS**

- 7.1 Appendix 1 – Adult Wellbeing Risk Register
- 7.2 Appendix 2 – Risk Matrix

<b>AUTHOR'S NAME</b>	Scott Kennedy
<b>DESIGNATION</b>	Risk Officer
<b>CONTACT INFO</b>	Ext.7900
<b>DATE</b>	17 April 2013

# Adult Wellbeing Risk Register

Date reviewed: 11 April 2013

Risk ID No. & Status S/C/N (same, changed, new)	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood (Probability)	Impact (Severity)	Risk Rating		Likelihood (Probability)	Impact (Severity)	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
ASC 1	A service user suffers harm or detriment and becomes subject to Adult Protection measures due to a lack of appropriate operational processes and resources.	<p>Sound operational procedures and trained staff with good supervisory support.</p> <p>Monitoring systems.</p> <p>Adult protection arrangements are designed to protect the most vulnerable.</p> <p>Feedback from Care Inspectorate reports is followed up and recommendations implemented as required.</p> <p>Feedback from service users helps to identify problems with service delivery that might expose service users to risk.</p>	4	5	20	<p>Continuous monitoring and review.</p> <p>Review service delivery in line with integration agenda.</p> <p>The allocation of resources will be monitored and assessed and redirected to manage risk in a proactive way.</p>	3	5	15	Senior Manager Operations	March 2014	5	
ASC 2	Demographic pressure increases the cost of service delivery which cannot be dealt with due to budget constraints resulting in an impact on service delivery.	<p>Best value purchasing of external services.</p> <p>Service transformation – targeting services available for the most vulnerable.</p> <p>Keeping CMT and Council apprised of the demographic pressures facing the Council.</p>	4	4	16	<p>Redesign services and introduce resource allocation system (RAS).</p> <p>Review of resource allocation and to ensure resources are allocated to those with greatest need.</p>	3	3	9	Senior Manager Operations Senior Manager Resources	March 2014	4 5	
ASC 3	Lack of a skilled and experienced workforce results in an inability to provide high quality assessment and support.	<p>Offer support to staff recruitment and training.</p> <p>Mandatory training compliance.</p> <p>Inclusion of Training needs analysis within Supervision and PRD.</p>	3	4	12	<p>Increase staff learning opportunities, sustain high levels of supervision.</p> <p>Audit of training provision to ensure compliance with minimum training requirements.</p>	3	3	9	Senior Manager Strategy & Policy	March 2014	5	
ASC 4	<p>New national targets on delayed discharge of “no delays over four weeks” with a further reduction to 2 weeks from 1 April 2014 will create additional pressures.</p> <p>These new targets will have wide ranging implications across the whole care system and put pressure on assessment staff, business systems and financial resources.</p>	<p>Increased surveillance of care homes to identify spare capacity.</p> <p>Pilot new initiatives to assess potential new models in the delivery of care.</p> <p>Close working with NHS to identify commence discharge planning at the earliest opportunity.</p>	4	3	12	<p>Closer working with care at home providers to consolidate runs and release additional capacity.</p> <p>Introduce tiered bed management across the sector.</p> <p>Investment in additional resources to support discharge from hospital.</p>	4	2	8	Senior Manager Operations	December 2013		
ASC 5	The failure of a major Care Home or Domiciliary Care provider e.g. Southern Cross resulting in a loss of capacity and the risk of service users being put at risk as a result	<p>Close monitoring with care providers helps to identify potential service failures.</p> <p>Close working with all providers to</p>	3	4	12	<p>Develop of contingency arrangements to deal with failure of a major care provider.</p> <p>Participation in national working</p>	3	2	6	Senior Manager Strategy & Policy	September 2013		

Risk ID No. & Status S/C/N (same, changed, new)	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
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			L	I	L x I		L	I	L x I				
	of their service withdrawn at short notice.	gain advance information of any potential failure.				groups to maintain national market intelligence.  Working with other Councils to allow information sharing mutual support and contingency planning.  Continuing to work closely with providers to provide support with improvement planning.				Senior Manager Resources  Senior Manager Operations			
ASC 6	Lack of resources results in a failure to comply with new legislative timescales for Community Disposals. This would result in serious reputational damage to the Council.	Work volumes and waiting times are monitored and resources redirected as required.	3	3	9		3	3	9	Criminal Justice Manager	March 2014	5 7 8	
ASC 7	Major elements of public sector reform are either taking place or being proposed including: <ul style="list-style-type: none"> <li>Integration of Health and Social Care and creation of a new H&amp;SC Partnership</li> <li>Welfare Reform and the replacement of Disability Living Allowance with Personal Independence Payment</li> <li>The replacement of Council Tax benefit with a cash limited locally administered scheme.</li> </ul> <p>These reforms create uncertainty, additional workload for senior staff, requirement to restructure services and create new accountability, governance and partnership arrangements.</p> <p>These reforms will have an impact on Adult Wellbeing clients, many of whom live on limited income and face uncertainty about their future levels on income.</p> <p>As service users see their incomes reduced this may impact on the level of income received by Adult Wellbeing through client</p>	Regular discussion with all staff and stakeholders.  Effective consultation with all stakeholders will allow early identification of risks and identify mitigating actions.	3	3	9	Joint working across the whole Council will allow resources to be directed to the key vulnerabilities and allow a cross council approach to be taken to managing this risk  Communication with staff to allow risk areas to be identified and reduce uncertainty.  Communication with service users to advise the potential impact of welfare reform and the support available.  Income levels will be monitored to detect any fall off in client contributions.	2	2	4	Head of Adult Wellbeing together with Adult Wellbeing Management Team.	September 2013	5 6	

Risk ID No. & Status S/C/N (same, changed, new)	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood (Probability)	Impact (Severity)	Risk Rating		Likelihood (Probability)	Impact (Severity)	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
	contributions, imposing additional pressures on the Adult Wellbeing budget.												
ASC 8	A reduced level of service is available as a result of a system failure causing a loss of access to Frameworki Social Work management information system.	Contingency arrangements are in place to provide a back up service if required.  Contingency back arrangements are tested.  In short term staff would deal with emergencies based on information available.  Staff can relocate to other offices to deal with a local outage.	3	2	6		3	2	6	Manager Finance, Performance and Business Systems.	March 2014	5	
ASC 9	Residential homes are forced to close because the standard of the buildings of the care homes and other services do not meet the necessary standards and are no longer fit for purpose.	Adequate ongoing maintenance.  Strategic planning for new homes by the Asset Management Group.  Regular building condition surveys to identify potential deterioration in building quality.	3	2	6	Feedback Care Inspectorate, service users and carers and staff.	2	2	4	Senior Manager Resources	September 2013	5 9	
<b>Original date produced (Version 1)</b>		1st March 2012											
<b>File Name</b>		Adult Wellbeing Risk Register											
<b>Original Author(s)</b>		S Kennedy											
<b>Current Revision Author(s)</b>		S Kennedy											
<b>Version</b>		<b>Date</b>		<b>Author(s)</b>		<b>Notes on Revisions</b>					<b>Risk Score</b>	<b>Overall Rating</b>	
Original		1st March 2012		S Kennedy							1-4	Low	
2		19 <sup>th</sup> November 2012		S Kennedy		Updated following revision of Risk Strategy							
3		30 <sup>th</sup> January 2013		S Kennedy		Revisions made following Adult Wellbeing Management Team meeting.							
4		11th April 2013		S Kennedy		Updates received from Linda Young and John Finn. Updates and one risk removed by Murray Leys.							

**Appendix 2**  
**East Lothian Council**  
**Risk Matrix**

Likelihood Description

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

Impact Description

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

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

Key

Risk	Low	Medium	High	Very High
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**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 30 April 2013  
**BY:** Chief Executive  
**SUBJECT:** Children's Wellbeing Risk Register

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**3**

## **1 PURPOSE**

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

## **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Audit and Governance Committee approves the Children's Wellbeing Risk Register.
- 2.2 In doing so, the Audit and Governance Committee is asked to:
  - note that the relevant risks have been identified following appropriate consultation with all risk contacts;
  - recognise that while this report has been compiled by the Risk Officer, the Risk Register has been compiled by the Children's Wellbeing LRWG and the Head of Children's Wellbeing has lead responsibility. The Executive Director (Services for People) will speak to it at the Committee;
  - note that the significance of each risk is appropriate to the current nature of the risk;
  - agree that the total profile of the Children's Wellbeing risk can be borne by the Council at this time in relation to the Council's appetite for risk; and,
  - recognise that, although the risks presented are those requiring close monitoring and scrutiny throughout 2013, many are in fact longer term risks for Children's Wellbeing and are likely to be a feature of the risk register over a number of years.

## **3 BACKGROUND**

- 3.1 The Council's Risk Management Strategy was established following Audit Scotland's 2008/09 review of the Council when it was recommended that: "The implementation of the risk management framework be expedited and target dates established".
- 3.2 Responsibility for Risk Management sits within the Corporate Policy and Improvement unit. The Emergency Planning and Risk Manager, supported by a Risk Officer, has implemented the current Risk Management Strategy and set up both an

overarching Corporate Risk Management Group (CRMG) together with LRWGs in service areas such as the Children's Wellbeing LRWG.

- 3.3 The LRWGs meet on a regular basis to discuss their Risk Register which is also included as a topic in team meetings. They also feed information to the CRMG; this Group is fundamental to the delivery of risk management throughout the Council and ensures that risk management remains high on the corporate agenda.
- 3.4 All LRWG's were revised following the Senior Management and Service restructure of 2012 resulting in 8 Risk Registers/Groups being reduced to 7.
- 3.5 A copy of the risk matrix used to calculate the level of risk is attached as Appendix 2 for information.

#### **4 POLICY IMPLICATIONS**

- 4.1 In approving the Children's Wellbeing Risk Register the Committee will be affirming the process of embedding risk management principles across the Council in support of the Risk Management Strategy.

#### **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 – It is the consideration of the Children's Wellbeing Local Risk Working Group that recurring costs associated with the measures in place for each risk are proportionate to the level of risk.

The financial requirements to support the Children's Wellbeing Risk Register for 2013/14 should be met within the proposed budget allocations for 2013/14. Any unplanned and unbudgeted costs that arise in relation to any of the risks identified will be subject to review by the Board of Directors.

- 6.2 Personnel - There are no immediate implications.
- 6.3 Other – Effective implementation of this register will require the support and commitment of the Risk Owners identified within the register.

#### **7 BACKGROUND PAPERS**

- 7.1 Appendix 1 – Children's Wellbeing Risk Register
- 7.2 Appendix 2 – Risk Matrix

<b>AUTHOR'S NAME</b>	Scott Kennedy
<b>DESIGNATION</b>	Risk Officer
<b>CONTACT INFO</b>	Ext.7900
<b>DATE</b>	17 April 2013

# Children's Wellbeing Risk Register

Date Reviewed: 08 March 2013

Risk ID No. & Status S/C/N (same, changed, new)	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Number Link	Evidence held of Regular Review
			Likelihood (Probability)	Impact (Severity)	Risk Rating		Likelihood (Probability)	Impact (Severity)	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
CW 1	<b>Failure of the Council to provide employees with an effective Lone Working Policy &amp; Practice and the appropriate training could result in injury or death to those employees resulting in H&amp;S prosecution, civil insurance liability, reputational risk, increased sickness absence, pressures on service delivery and also potential claims against the Council.</b>	<p>There are lone working procedures in place for staff informing Managers and admin staff of their whereabouts and reporting in when finished calls. These include electronic diaries and signing in/out books as well as the automated system via the Contact Centre.</p> <p>Comprehensive training is being carried out to show Social Workers the full capabilities of Frameworki.</p> <p>Alarms were recently installed in those rooms that are used by Social Workers to interview Clients.</p> <p>Single Foster Carers must have a robust family support network and have more intensive support from their Supervising SW and Family Placement Team.</p>	4	5	20	<p>Lone Working policy and procedures to be embedded within Children's Wellbeing managers and admin staff ensuring that front line employees adhere to Lone Working controls.</p> <p>Information on Lone Working Policy in part of Induction process. Employees are advised that if they do not adhere to this policy it is their personal responsibility, and will be asked to sign an agreement to this effect.</p> <p>All employees are to receive training on the use of the alarm system.</p> <p>SMG will take over functions of Lone Working Group in monitoring use and reviewing current procedures.</p>	2	5	10	Head of Children's Wellbeing	April 2013 (Review quarterly)	SOA 15	SMG/OMG Minutes
CW 2	<p><b>If we fail to deliver the 'Getting it Right for Every Child' (GIRFEC) framework described in the 'Integrated Children's Services Plan' a child could be put at risk.</b></p> <p><b>This failure could be due to a lack of resources (financial, services or staffing), poor practice, lack of training, a failure to prioritise, non-compliance with procedures/guidance or failing to intervene early enough.</b></p>	<p>Specialist staff within East Lothian Council and its partners closely monitor policy changes.</p> <p>Briefing sessions, specialist training and support are in place.</p> <p>Provision of a coherent suite of policies and criteria to ensure consistent practices are held on central databases EINet and NIMBUS.</p> <p>Procedures guidelines and policy development updates are published to allow staff to access the information.</p> <p>Competitive salaries and working conditions in place. Recruitment and selection procedures adhered to.</p> <p>The Community Planning Partnership is responsible for developing and monitoring the ICSP.</p>	4	4	16	<p>Developing Kinship Care and Fostering Strategy for ELC.</p> <p>To ensure high professional standards/reputation/innovation is maintained to attract high calibre professionals.</p> <p>To ensure budget is adequate to recruit sufficient SWs to protect vulnerable children.</p> <p>To ensure that the rec process is adhered to.</p> <p>Ensure all agencies are fully committed to the principles of GIRFEC in East Lothian including taking responsibility for Lead Prof and Named Person roles, and full engagement in SAI.</p> <p>Review cycle of ISCP at GIRFEC Theme Group.</p>	3	4	15	Executive Director Services for People	April 2013 (Review quarterly)	8	GIRFEC Theme Group & CPC Minutes/SMG minutes
CW 3	<b>Failure to fulfil our duty of care could result in the death, serious harm or detriment of a child. This would in turn result in prosecution, having to pay compensation a negative impact on the reputation of the Council.</b>	<p>We prioritise maintenance of adequate staffing levels for Child Protection and other work with vulnerable children.</p> <p>The department has received good assessment reports from the Inspection Agencies, which should help in attracting high calibre staff.</p>	4	4	16	<p>Ensure the budget for accommodating vulnerable children meets the needs of the children.</p> <p>To ensure adequate staffing in the Service Development Team on an ongoing basis.</p>	3	4	12	Head of Children's Wellbeing	April 2013 (Review quarterly)	8	GIRFEC Theme Group & CPC Minutes/SMG minutes

Risk ID No. & Status S/C/N (same, changed, new)	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood (Probability)	Impact (Severity)	Risk Rating		Likelihood (Probability)	Impact (Severity)	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
	<p><b>This failure could be due to a lack of resources (financial, services or staffing), poor practice, a failure to prioritise or non-compliance with procedures/guidance.</b></p> <p><b>In the short term there is an additional risk during the period of service review and implementation of change that staff will be diverted from their primary tasks</b></p>	<p>Briefing sessions, specialist training and support are in place. Provision of a coherent suite of policies and criteria to ensure consistent practice. Procedures guidelines and policy development updates are published to allow staff to access the information.</p> <p>Completion of Personal Development Plan, focusing on specific and agreed development needs.</p> <p>There is a Code of Practice for Employers of Social Service Workers which sets down the responsibilities of employers in the regulation of social service workers. Managers ensure that staff are up-to-date with changes in legislation, practice guidelines etc.</p> <p>Comprehensive ongoing training programmes are in place. Two training Officers (qualified Social Workers) and a Team teach Officer are employed to carry out training.</p> <p>Checks carried out under PVG scheme The duty of care is reinforced through support and supervision arrangements as well as professional development Case management carried out so that the duty of care and risk are central to the care planning process. Work is also monitored through internal and external review groups.</p> <p>Framework is used to identify/record risk.</p> <p>Any Significant Case Reviews are discussed at multi-agency meetings, as and when required. Children's Wellbeing has operational procedures in place to maintain 'protection' arrangements in compliance with legislation and inspection regimes. Action Plan in place following on from Child Protection and SWIA/Care Inspectorate inspections. Follow up of service user feedback.</p>				<p>Ensure budget is adequate to recruit sufficient Social Workers, Foster Carers and Kinship Carers to protect vulnerable children.</p> <p>Action Plan following on from Child Protection and Isla inspections in place. As part of GIRFEC, staged assessment and Intervention the project board will oversee a 3 year action plan with the overall aim of improving assessment and planning in Children's Wellbeing from very good to excellent.</p> <p>The development of a multi-agency Signs of Safety Model Development of an overall learning culture, use of Action Learning Sets and promotion and development of skills such as "Giving and Receiving Feedback" and "Coaching". We will monitor the implementation of the new ELBEG Procedures</p> <p>Co-ordinate CAMHS support for all children who need it and in particular those with the most complex needs as a result of trauma, abuse and parental difficulties.</p> <p>Re-launch of East Lothian Quality Improvement Group.</p> <p>Framework is being developed to improve the ways cases are recorded and risks identified.</p> <p>As part of the service review we are considering the development of supervisory groups. Risk during the period of service review and implementation of change will be mitigated by good communication, resource prioritisation, raised awareness and auditing</p>							

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			L	I	L x I		L	I	L x I					
CW 4	<b>A lack of a sufficient qualified staff resource or the unexpected loss of a key employee or employees may reduce the quality and scope of the service resulting in children's lives and safety being put at risk.</b>	<p>Competitive salaries and working conditions in place. Recruitment and selection procedures adhered too.</p> <p>A number of checks and balances are in place in relation to the Recruitment and Selection process e.g. staff recruitment and selection training, interview panels, job and employee outlines, screening of application forms, interview selection process, quality assurance checks, timescales for processing recruitment paperwork/adverts etc.</p> <p>Children's Services has an excellent record among professional workers which should help in attracting high calibre staff.</p> <p>Prioritise maintenance of adequate staffing levels of Child Protection and other work with vulnerable children.</p> <p>Development of an overall learning culture, use of Action Learning Sets and promotion and development of skills such as "Giving and Receiving Feedback" and "Coaching".</p> <p>Two Training Officers (qualified Social Workers) and a Team Teach Officer are employed to carry out comprehensive training programmes.</p>				<p>Ensure high professional standards, reputation, and innovation is maintained to attract high calibre professionals.</p> <p>Ensure that the recruitment process is adhered too.</p> <p>Ensure Foster Carers allowances and fees are competitive with neighbouring Councils and Independent Fostering Agencies.</p> <p>Continue to regularly publicise a need for Foster Carers.</p> <p>Annual review of feedback from Employee Engagement Survey and development/implementation of action plan.</p> <p>Service review</p>								
			3	4	12				Head of Children's Wellbeing	April 2013	8	Minute from SMG/OMG		
CW 5	<b>Not carrying out disclosure/PVG checks or errors being made whilst carrying the checks out could put children's lives, safety and increase the risk of abuse.</b>	<p>There is an HR policy in place on procedures laid down by Disclosure Scotland and the Protecting Vulnerable Groups scheme and training sessions are in place for all managers and staff to make them aware of the policy and processes to be followed to comply with the PVG scheme.</p> <p>Employees' contracts state that where an employee is convicted of a criminal offence which is likely to adversely affect their work or their working relationship with the Council, they must advise their Director or Head of Service.</p> <p>Details of the posts which are subject to the disclosure process are published on the Council intranet.</p>				<p>People who work with children and protected adults will each have a 'scheme record' that will be subject to continuous updating, to help ensure that these groups are not exposed to individuals who might do them harm.</p> <p>Carers are receiving training and advice about helping children using the internet safely.</p> <p>Review PVG processes/timescales twice yearly</p>								
			3	4	12				Head of Children's Wellbeing	April 2013 (6 monthly review)	8	Inspections , Reviews with HR, SMG minutes		

Risk ID No. & Status S/C/N (same, changed, new)	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review	
			Likelihood (Probability)	Impact (Severity)	Risk Rating		Likelihood (Probability)	Impact (Severity)	Residual Risk Rating					
			L	I	L x I		L	I	L x I					
		<p>Foster Carers and Supervising SWs develop a risk assessment for the child which is reviewed and updated.</p> <p>Each LAC child has a plan and the allocated SW regularly updates this.</p> <p>Each Foster Care Family has an approved 'Safer Care policy' which is regularly updated.</p>												
<b>CW 6</b>	<b>Children's lives and safety put at risk due to a failure by staff to record or access salient information or a lack of understanding of the functions of Frameworki.</b>	<p>Ongoing staff training and updates made to Frameworki.</p> <p>Back-up database available within a few hours.</p> <p>Additional employees identified on a short term basis to further develop Frameworki.</p> <p>Foster Carers undertake their own recording and this is communicated to relevant professionals. Training on Frameworki and support is given, especially for new staff.</p> <p>East Lothian recording guidelines require that all Child Protection files are reviewed by the line manager every three months and other files are reviewed every six months.</p>	2	4	8	<p>Senior managers to review a sample of these cases annually.</p> <p>They will report any improvements required for general team awareness</p>	2	4	8	Head of Children's Wellbeing	Annual Review	8	Induction process and OMG minutes	
<b>Original date produced (V1)</b>		16th December 2011										<b>Risk Score</b>	<b>Overall Rating</b>	
<b>File Name</b>		Children's Wellbeing Risk Register										<b>20-25</b>	<b>Very High</b>	
<b>Original Author(s)</b>		S Kennedy										<b>10-19</b>	<b>High</b>	
<b>Current Revision Author(s)</b>		S Kennedy										<b>5-9</b>	<b>Medium</b>	
<b>Version</b>		<b>Date</b>	<b>Author(s)</b>		<b>Notes on Revisions</b>								<b>1-4</b>	<b>Low</b>
Original		16th December 2011	S Kennedy		Children's Services Risk Register Operational Risks including merged Corporate Risks and minor amendments to CS3 to take account of the setting up of a Lone Working Group.									
2		11th May 2012	S Kennedy		Children's Services changed to Children's Wellbeing as well as job titles updated.									
3		19 <sup>th</sup> November 2012	S Kennedy		Refreshed following update to Risk Strategy									
4		08 March 2013	S Kennedy		Updated by Children's Wellbeing Management Team.									

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 30 April 2013

**BY:** Chief Executive

**SUBJECT:** Education Risk Register

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**4**

## **1 PURPOSE**

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

## **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Audit and Governance Committee approves the Education Risk Register.
- 2.2 In doing so, the Audit and Governance Committee is asked to:
  - note that the relevant risks have been identified following appropriate consultation with all risk contacts;
  - recognise that while this report has been compiled by the Risk Officer, the Risk Register has been compiled by the Education LRWG and the Head of Education has lead responsibility. The Executive Director (Services for People) will speak to it at the Committee;
  - note that the significance of each risk is appropriate to the current nature of the risk;
  - agree that the total profile of the Education risk can be borne by the Council at this time in relation to the Council's appetite for risk; and,
  - recognise that, although the risks presented are those requiring close monitoring and scrutiny throughout 2013, many are in fact longer term risks for Education and are likely to be a feature of the risk register over a number of years.

## **3 BACKGROUND**

- 3.1 The Council's Risk Management Strategy was established following Audit Scotland's 2008/09 review of the Council when it was recommended that: "The implementation of the risk management framework be expedited and target dates established".
- 3.2 Responsibility for Risk Management sits within the Corporate Policy and Improvement unit. The Emergency Planning and Risk Manager, supported by a Risk Officer, has implemented the current Risk Management Strategy and set up both an

overarching Corporate Risk Management Group (CRMG) together with LRWGs in service areas such as the Education LRWG.

- 3.3 The LRWGs meet on a regular basis to discuss their Risk Register which is also included as a topic in team meetings. They also feed information to the CRMG; this Group is fundamental to the delivery of risk management throughout the Council and ensures that risk management remains high on the corporate agenda.
- 3.4 All LRWG's were revised following the Senior Management and Service restructure of 2012 resulting in 8 Risk Registers/Groups being reduced to 7.
- 3.5 A copy of the risk matrix used to calculate the level of risk is attached as Appendix 2 for information.

#### **4 POLICY IMPLICATIONS**

- 4.1 In approving the Education Risk Register the Committee will be affirming the process of embedding risk management principles across the Council in support of the Risk Management Strategy.

#### **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 – It is the consideration of the Education Local Risk Working Group that recurring costs associated with the measures in place for each risk are proportionate to the level of risk.

The financial requirements to support the Education Risk Register for 2013/14 should be met within the proposed budget allocations for 2013/14. Any unplanned and unbudgeted costs that arise in relation to any of the risks identified will be subject to review by the Board of Directors.

- 6.2 Personnel - There are no immediate implications.
- 6.3 Other – Effective implementation of this register will require the support and commitment of the Risk Owners identified within the register.

#### **7 BACKGROUND PAPERS**

- 7.1 Appendix 1 – Education Risk Register
- 7.2 Appendix 2 – Risk Matrix

<b>AUTHOR'S NAME</b>	Scott Kennedy
<b>DESIGNATION</b>	Risk Officer
<b>CONTACT INFO</b>	Ext.7900
<b>DATE</b>	17 April 2013



# Education Risk Register

Date reviewed: 11 April 2013

Risk ID No. & Status S/C/N (same, changed, new)	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion/ Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood (Probability)	Impact (Severity)	Risk Rating		Likelihood (Probability)	Impact (Severity)	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
ED 1	<p>There is ongoing uncertainty as to the Departments future position both within Services for People and with the Council. This means that effective long term planning is difficult due to the likelihood of change.</p> <p>The continued temporary sharing of Director with Midlothian means the Management Team resource is reduced.</p> <p>There will also be unknown impact when the Director leaves his post July 2013. Depending on arrangements made there may be lack on education experience in the management of the education department.</p>	<p>Management are aware of the potential for future changes.</p>	3	3	9	<p>If and when changes take place consultation with all stakeholders during the process ensuring that all views and needs are taken into account</p> <p>Changes will be well planned and managed effectively and timeously with good communication with staff</p>	1	2	2	<p>Executive Director (Services for People)</p> <p>Head of Education</p>	<p>This will be kept under review.</p> <p>Timescales outwith ELC control.</p>	2 3 4	
ED 2	<p>The failure of a PPP contractor may result in short or long term unavailability of the buildings and services leading to ELC possibly stepping in to take back the financial risks.</p>	<p>The risk is addressed by the current contract in place which states that:</p> <ul style="list-style-type: none"> <li>• If FES cease to trade Innovate must find a replacement;</li> <li>• If Innovate cease to trade then Barclays Special Projects must find a replacement or sell the project back to ELC at a previously agreed price.</li> </ul> <p>Regular meetings take place with the PPP contractor and any potential issues will be picked up early while in the short term the failure of the contractor will not render any schools unavailable for use.</p> <p>Maintain a continuous awareness of the economic climate and the contractor viability and if there is any reason for concern then take the appropriate action.</p>	2	4	8		2	4	8	PPP Manager	<p>Monthly reviews held with PPP contractor.</p>	2 3 4	
ED 3	<p>Posts are not being replaced, in particular non-teaching staff e.g. administration, support staff, playground staff etc both in schools and in JMH. This could lead to a reduced service with non-essential tasks potentially not being carried out</p> <p>Immediate risks e.g. health &amp; safety and pupils not getting support will be covered but this may be at the expense of other tasks or by remaining staff working increased hours, normally unpaid.</p>	<p>Each post is considered and a case put forward to the Board of Directors.</p> <p>Use of staff resources is carefully managed to ensure essential tasks are covered although this may be at the expense of desirable tasks.</p>	4	2	8	<p>Schools and JMH are looking at ways to achieve the same results with less resource. This may include for example better use of computer systems, up-skilling staff in place to increase the range of tasks they can cover or more flexible hours for staff.</p>	4	1	4	<p>Executive Director (Services for People)</p> <p>Education Management Team</p>	<p>Ongoing</p> <p>Review June 2013</p>		

Risk ID No. & Status S/C/N (same, changed, new)	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion/ Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood (Probability)	Impact (Severity)	Risk Rating		Likelihood (Probability)	Impact (Severity)	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
ED 4	Failure to effectively manage Health & Safety and adhere to Health & Safety Duties may lead to: <ul style="list-style-type: none"> <li>Injury to persons or damage to property</li> <li>Enforcement Action taken by Health &amp; Safety Executive and the associated costs.</li> <li>Insurance claims and other Financial implications</li> <li>Reputational Damage</li> </ul>	The following are in place as control measures: <ul style="list-style-type: none"> <li>Departmental Policy On H&amp;S</li> <li>H&amp;S Committee Structure</li> <li>Support for Head Teachers to manage H&amp;S</li> <li>Risk Assessment Programme</li> <li>Incident reporting, recording and investigation</li> <li>H&amp;S Arrangements for Educational Excursions, Work Experience and Road Safety</li> <li>Inspection and Auditing by Dept. H&amp;S Implementation Officer</li> <li>Internal H&amp;S inspections by schools</li> <li>Robust system in place for managing and authorising Off-site Excursions. A new computer based system has further improved this.</li> </ul>	2	4	8	Education Safety Action Plan to be rolled out which includes increased emphasis on incident investigation. A new computer system to improve the management of Educational excursions.	1	4	4	Education Management Team  Dept. H&S Implementation Officer	Rolled out by June 2013  Reviewed at JHSC and JCG9	2 3 4	
ED 5	A failure to meet our statutory requirements and other targets due to budget constraints or conversely overspending our budget in order to meet said statutory requirements and targets.	The annual budget allocation is prioritised and monitored while the Scheme of Devolved School Management determines the allocation at School level.	2	4	8	Review and revise our funding mechanisms for Devolved School  Management to increase efficiency through greater local allocation of spend to meet local priorities.  Ongoing Review of Services and of processes to ensure more efficient use of resources and improve service delivery.	1	4	4	Head of Education  Educational Management Team	Review June 2013 in line with Service Improvement Framework.	2 3 4	
ED 6	If our School Premises are not properly safeguarded then unauthorised persons could gain entry and cause damage (fire, vandalism etc.) to property or to persons which could lead to buildings or parts of buildings being unavailable for use and/or in need of repair. These incidents may also lead to adverse publicity particularly if staff or pupils are injured as a result.	Security and safety risk assessments are carried out regularly at all Education premises.  Each school has its own individual security arrangements such as fencing, building access etc.  Business Continuity Plans and a School Estate Asset Management Plan in place.  Insurance Renewal Programme in place.	2	4	8	Security policy for school estate to be drafted and agreed, this requires input from both Education and Property.	1	4	4	Education Management Team  Property  Dept. H&S Implementation Officer	Policy to be agreed June 2014  Review June 2013 in line with Service Improvement Framework.	2 3 4	

Risk ID No. & Status S/C/N (same, changed, new)	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion/ Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
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			L	I	L x I		L	I	L x I				
ED 7	<p>There is a risk that a teacher is appointed who does not meet required standards of competence or that we will fail to attract a sufficient calibre of candidates.</p> <p>We are also allocated between 50 and 100 probationers annually by the General Teaching Council for Scotland and have no influence over the calibre of these teachers.</p> <p>Poor quality teaching staff will impact on the academic and social achievement of the pupil population.</p> <p>There is a nationwide shortage of supply teacher which is impacting on East Lothian. In practice this means that classes are being covered by Management</p>	<p>Recruitment and Selection process and Terms and Conditions of Employment in place.</p> <p>Policy and Guidance on effective learning, teaching and achievement.</p> <p>Monitoring and evaluation process of teachers' performance and staff development, including the PRD and CPD processes.</p> <p>Monitoring of probationers as well as the probationer mentoring and development programme.</p> <p>Work with Quality Improvement Officers to address the performance of poor quality teachers.</p> <p>A working group has been set up to look at how we can improve the situation. This has produced a committee paper</p>	3	2	6	<p>Ensure that Professional Development programmes are focused upon our identified actions for raising attainment, partnership working, inclusion and equality.</p> <p>Review of professional development processes in light of information and reports coming from the General Teaching Council Scotland (GTCS).</p>	2	2	4	Education Management Team	Review June 2013 in line with Service Improvement Framework.	2 3 4	
ED 8	<p>The Department handles a large amount of sensitive data relating to both individuals and groups. There is a risk of this information being provided to individuals not entitled to have it and also of 'loss' of information e.g. memory sticks.</p>	<p>All employees have received training in Data Protection. Procedures are in place for all operations involving Data Handling. Secure e-mail addresses have been set up for communicating with schools.</p>	2	3	6	<p>Data Protection to be discussed at team meetings and staff reminded of the importance and procedures.</p>	1	3	3	Education Management Team	Next team meeting By June 2013		

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			L	I	L x I		L	I	L x I				
ED 9	Failure to raise the standards of educational attainment for all will lead to a reduction in opportunities for young people such as entrance to Further and Higher Education with the consequence of parental dissatisfaction and damage the reputation of individual schools and the education department as a whole.	<p>The Education Department has a Service Improvement Plan which helps raise the standards along with target setting for attainment and annual reporting on National Performance Measures.</p> <p>Quality Improvement Officers monitor and evaluate schools while HMIE have a schools inspection regime.</p> <p>Education is currently developing the Curriculum for Excellence including various Initiatives.</p> <p>Departmental policies are reviewed in order to improving them and if need be implementing new policies.</p> <p>The Education department regularly communicates with individual schools on best practice, new guidelines and departmental policies.</p> <p>School strategies are in place for increasing expectations of pupils and families (including tackling the barriers to improving achievement and ensure pupil attendance at school).</p> <p>To develop local action plans and prioritise areas for funding, support and intervention through intelligent use of performance data.</p> <p>Establish the added value provided by all schools using a broad range of data.</p> <p>Provide appropriate support and intervention to secondary school subject departments whose performance does not meet expectations.</p> <p>Identify and target intervention at those schools whose assessment and moderation processes require improvement.</p> <p>Support and challenge schools and early years providers who have not raised the performance of children and young people who are at most risk of failing to achieve their potential, through the use of a broad range of data.</p> <p>Identify issues, create solutions and implement actions for Looked After</p>				<p>Develop a 5 year ICT strategy across schools and identify the required level of support and intervention within the authority and schools.</p> <p>Ongoing work with partners to develop an on-line learning environment for all students.</p> <p>Continue to develop a learning environment for S1/S2 children that builds on their educational experience from P6/P7.</p> <p>Continue to develop and improve the transition of young people from mainstream education to work, training, further and higher education through working with secondary schools.</p> <p>Develop an authority wide model for the Senior Phase that incorporates all elements of the curriculum, from SQA qualifications to Get Ready for Work.</p>				Educational Management Team Quality Improvement Officers	Review June 2013 in line with Service Improvement Framework.	2 3 4	
			2	3	6		2	2	4				

Risk ID No. & Status S/C/N (same, changed, new)	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion/ Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
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			L	I	L x I		L	I	L x I				
		Children based on analysis of performance data.											

Risk ID No. & Status S/C/N (same, changed, new)	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion/ Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
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			L	I	L x I		L	I	L x I				
ED 10	Failure to address social exclusion and inequality in the EL education system could lead to non-provision of the additional support required for some young people, either on an individual or group basis, to access education. This could in turn result in poor achievement of those affected and our failure to meet legislative requirements.	<p>All ELC Schools are currently operating in accordance with the Equality Act 2010.</p> <p>Additional Support for Learning Procedures is provided along with provisions for alternatives to school based education.</p> <p>A one-door interagency policy for assessment, planning and intervention for vulnerable and looked-after children is in place.</p> <p>Strategies (e.g. Equality &amp; Fairness, Accessibility strategies, Buddying/Mentoring) are in place to address the performance of pupils with the lowest attainment levels and the outcomes of these strategies are monitored.</p> <p>Our resource allocation is targeted at deprived areas and young people with the greatest need.</p> <p>The Psychological Services Policy addresses this area.</p> <p>Local provisions are made within communities and specialist support, systems and procedures are in place to promote inclusion in schools.</p>	2	3	6	<p>The Accessibility Strategy 2008-2011 is currently under review and a new plan developed going forward.</p> <p>To continue to target support and resources on those areas of greatest need and to establish a benchmark across East Lothian with which to measure added value by utilising the Early Development Instrument.</p> <p>To develop a common strategy and practice framework for our support to young people with complex needs across early years, primary, secondary and transition into adult services.</p> <p>To develop an "all through" strategy for children with severe and complex needs including management, staffing, curriculum, life skills, accommodation, lead officer responsibilities etc.</p> <p>To review our 3-18 support systems for children and young people with social, emotional and behavioural needs and identify locally based solutions which will maximise their educational outcomes and positive destinations.</p>	2	2	4	Education Management Team	Review June 2013 in line with Service Improvement Framework.	2 3 4	
<b>Original date produced (Version 1)</b>		1st March 2012											
<b>File Name</b>		Education Risk Register											
<b>Original Author(s)</b>		S Kennedy											
<b>Current Revision Author(s)</b>		S Kennedy											
<b>Version</b>		<b>Date</b>		<b>Author(s)</b>		<b>Notes on Revisions</b>						<b>Risk Score</b>	<b>Overall Rating</b>
Original		1 <sup>st</sup> March 2012		S Kennedy								20-25	Very High
2		19/11/12		S Kennedy		Updated following update to Risk Strategy						10-19	High
3		08/01/13		S Kennedy		Updated with Education Risk Group's updates.						5-9	Medium
4		11/04/13		S Kennedy		Updated with Education Risk Group and Management Team's updates.						1-4	Low

**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 30 April 2013  
**BY:** Executive Director (Support Services)  
**SUBJECT:** Internal Audit Report – Income Collection

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**5**

## **1 PURPOSE**

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

## **2 RECOMMENDATION**

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

## **3 BACKGROUND**

- 3.1 A review of Income Collection was undertaken as part of the audit plan for 2012/13.
- 3.2 The main objective of the audit was to ensure that the internal controls in place for Income Collection were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 EQUALITIES IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	19 April 2013



## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT INCOME COLLECTION**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

A review of the internal controls surrounding the administration of Income Collection was undertaken as part of the Audit Plan for 2012/13. A summary of our main findings is outlined below.

#### **1.2 Areas where Expected Controls were Met**

- The Council has in place an Income Management System for the collection, recording and management of income received.
- For income received directly to the Council's bank account (e.g. standing orders, CHAPS and BACS) appropriate arrangements are in place to ensure that income is included in the Income Management System.
- On a daily basis, automated routines are run to post income from the Income Management System to individual customer accounts – income received for Council Tax and Non-Domestic Rates is posted to the Capita system, while income received for Housing Rents is posted to the Orchard system.
- Sundry Debtors income received through the Income Management System is properly posted to individual debtor accounts in the sales ledger within Great Plains.
- Adequate systems are in place to ensure that all income received through the Income Management System is correctly posted to the Council's Great Plains general ledger.
- Daily reconciliations are carried out between income collected through the Income Management System and the totals posted to the Capita system, Orchard system and Great Plains general ledger.
- Adequate arrangements are in place for the processing of income received by direct debit.
- Supporting documentation is held for all rejected direct debits – a list of rejected direct debits is provided by the bank and the reasons for rejection are clearly outlined.

#### **1.3 Areas with Scope for Improvement**

- The existing arrangements for reconciling rejected direct debits between the Orchard system and the bank list require review. *Risk – errors or irregularities may occur and remain undetected.*

#### **1.4 Summary**

Our review of Income Collection found that internal controls and procedures established by Management are working satisfactorily.

**Mala Garden**  
Internal Audit Manager

**April 2013**

**INCOME COLLECTION****ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.4.4	Regular reconciliations of rejected direct debits should be carried out for housing rents, to ensure that the totals posted on the Orchard system agree to the bank list.	Systems and Control Team Leader	Agreed – appropriate steps will be taken to ensure that rejected direct debit reconciliations are carried out and evidence is retained.		June 2013

**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 30 April 2013  
**BY:** Executive Director (Support Services)  
**SUBJECT:** Internal Audit Report – Payroll

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**6**

**1 PURPOSE**

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

**2 RECOMMENDATION**

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

**3 BACKGROUND**

- 3.1 A review of Payroll was undertaken as part of the audit plan for 2012/13.  
3.2 The main objective of the audit was to ensure that the internal controls in place for Payroll were operating effectively.  
3.3 The main findings from our audit work are outlined in the attached report.

**4 POLICY IMPLICATIONS**

- 4.1 None

**5 EQUALITIES IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	19 April 2013

## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT PAYROLL**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

A review of the internal controls surrounding the administration of Payroll was undertaken as part of the Audit Plan for 2012/13. A summary of our main findings is outlined below.

#### **1.2 Areas where Expected Controls were Met**

- Adequate documentary evidence was held for all new starts, leavers and change of contracts.
- The process history on EDRMS (Electronic Document and Records Management System) clearly records all tasks undertaken by both Human Resources and Payroll staff.
- All new starts and changes to contracts had been properly authorised by Human Resources.
- All leavers were terminated on the CHRIS payroll system and their last pay had been correctly calculated.
- Adequate checking procedures are in place, prior to pay runs being authorised by Payroll.

#### **1.3 Areas with Scope for Improvement**

- In some cases, employees commenced work with the Council prior to pre-employment checks being undertaken – relevant documentation had not been submitted by departments to Human Resources timeously. *Risk – failure to comply with legislation and Council procedures.*
- In one case, there was a failure to ensure that an amendment to new start salary details had been properly actioned on EDRMS. *Risk – over or under payments may occur.*
- In some instances, change of contract forms had not been authorised by departments prior to the effective date of change. *Risk – over or under payments may occur.*
- In a number of cases, the information recorded on the Leavers Form was found to be incomplete. *Risk – over or under payments may occur.*
- There was a lack of an audit trail to confirm that exception reports had been reviewed and properly actioned on the CHRIS payroll system. *Risk – lack of an audit trail.*

#### **1.4 Summary**

Our review of Payroll 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**

**April 2013**

## PAYROLL

### ACTION PLAN

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.1.2	Management should ensure that relevant documentation is provided to Human Resources prior to employees commencing work with the Council, to enable appropriate pre-employment checks to be undertaken.	HR Manager Operational Services	Agreed – reminders to be issued to Managers.		May 2013
3.1.3	Where changes are made to new start details on EDRMS after the completion of the data form, Management should ensure that these are properly communicated to Payroll and reflected on the CHRIS system.	HR Manager Operational Services	Agreed		April 2013
3.2.1	All Change of Contract Forms should be authorised by the Manager or an appropriate officer prior to the effective date of change.	HR Manager Operational Services	Agreed – reminders to be issued to Managers.		May 2013

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.2.1 (cont)	For all change of contracts a clear audit trail should exist on EDRMS.	HR Manager Operational Services	Agreed – we should use the EDRMS processes where practicable. However there will be occasions where large scale and/or complex service reviews are being carried out and where the information is being compiled by HR (e.g. the secondary schools review) – the best way to communicate this to Payroll is by spreadsheet.		April 2013
3.3.2	Management should ensure that the Leavers Form for all employees is fully completed prior to being submitted to Human Resources.	HR Manager Operational Services	Agreed – reminders to be issued to Managers.		May 2013
3.4.1	A person independent of processing should sign and date the Pay Run Control (RCN) report as evidence of checks being carried out.	Payroll Manager	Agreed – the RCN report will be signed and retained.		May 2013
3.5.1	Adequate evidence should be held on file of all exception reports reviewed.	Payroll Manager	Agreed – a scanned copy of the CAL report which includes payroll comments will be retained.		May 2013





**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 30 April 2013  
**BY:** Executive Director (Support Services)  
**SUBJECT:** Internal Audit Follow-up Reports

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7

## **1 PURPOSE**

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

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note the findings of Internal Audit's follow-up work on Non-Domestic Rates – Valuation and Billing, Procurement, Free School Meals and Clothing Grants, Bank Reconciliations and Frameworks.

## **3 BACKGROUND**

- 3.1 As part of the audit plan for 2012/13 Internal Audit has followed up the recommendations made in previously issued audit reports to ensure that they have been implemented as agreed by Management. Our findings are detailed below.

### **Non-Domestic Rates – Valuation and Billing**

- 3.2 Internal Audit's report on Non-Domestic Rates – Valuation and Billing was issued in June 2011. Our follow-up review has identified that of the 3 recommendations made, 2 have been fully implemented and 1 is currently outstanding. The recommendation that is currently outstanding is detailed in Appendix 1, together with Management's response.

### **Procurement**

- 3.3 Internal Audit's report on Procurement was issued in September 2011. Our follow-up review has identified that of the 9 recommendations made, 7 have been fully implemented and 2 are currently outstanding. The

recommendations that are currently outstanding are detailed in Appendix 1, together with Management responses.

### **Free School Meals and Clothing Grants**

- 3.4 Internal Audit's report on Free School Meals and Clothing Grants was issued in November 2011. Our follow-up review has identified that all 10 recommendations made have been fully implemented.

### **Bank Reconciliations**

- 3.5 Internal Audit's report on Bank Reconciliations was issued in March 2012. Our follow-up review has identified that of the 7 recommendations made, 5 have been fully implemented and 2 have been partly implemented. The recommendations that have been partly implemented are detailed in Appendix 1, together with Management responses.

### **Frameworki**

- 3.6 Internal Audit's report on Frameworki was recently issued in January 2013, however we have followed up 3 of the recommendations where prompt action was required and we note that all 3 recommendations have been implemented. The remaining recommendations will be followed up as part of our 2013/14 audit plan.

## **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

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	19 April 2013

## Appendix 1

### **NON-DOMESTIC RATES – VALUATION AND BILLING**

Our follow-up review has identified that of the 3 recommendations made, 2 have been fully implemented and 1 is currently outstanding. The recommendation that is currently outstanding is detailed below, together with Management's response.

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>RESPONSIBLE OFFICER</b>	<b>MANAGEMENT RESPONSE</b>	<b>REVISED DATE OF COMPLETION</b>
3.1.1	Management should ensure that a member of staff independent of processing checks a sample of amendments, suppressions, payments received by telephone and NDR accounts where recovery action is being taken.	Revenues Manager	Agreed	May 2013

### **PROCUREMENT**

Our follow-up review has identified that of the 9 recommendations made, 7 have been fully implemented and 2 are currently outstanding. The recommendations that are currently outstanding are detailed below, together with Management responses.

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>RESPONSIBLE OFFICER</b>	<b>MANAGEMENT RESPONSE</b>	<b>REVISED DATE OF COMPLETION</b>
3.3.2	Management should ensure that all departures from the Council's Corporate Procurement Procedures are properly approved by the relevant Council Officers as required by the Council's Standing Orders.	Head of Housing and Environment	Agreed	April 2013

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
3.4.2	Management should review the Corporate Procurement Procedures with respect to the £1.2 million level set for inviting 3 written quotes for works.	Corporate Procurement Manager	A review has been completed and the new level has been set at £100,000 however this is pending approval by Council/Cabinet along with the Standing Orders.	To be confirmed

### **BANK RECONCILIATIONS**

Our follow-up review has identified that of the 7 recommendations made, 5 have been fully implemented and 2 have been partly implemented. The recommendations that have been partly implemented are detailed below, together with Management responses.

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
3.3.2	<p>Entries recorded on the daily Unmarked Statement Transaction Report should be reviewed and matched timeously.</p> <p>Management should review the current practice of recording income received in the cashbook. Other options for data entry should be explored, which may assist in reducing the number of transactions that require to be manually matched.</p>	Corporate Finance Manager	<p>Partly implemented</p> <p><u>Management response</u> – a review of bank reconciliation processes has been carried out and changes introduced, which have helped to reduce the number of transactions which require to be manually matched. Work is continuing on exploring longer term solutions which require more significant change.</p>	Ongoing

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
3.3.3	<p>Management should ensure that monthly bank reconciliations are performed timeously.</p> <p>The bank reconciliation should compare the bank balance and the cashbook balance at the date of the reconciliation – all differences identified should be checked to ensure that they relate to genuine timing differences rather than to error.</p> <p>Only outstanding lodgements or unpresented payments as at the reconciliation date should form part of the reconciliation.</p>	Corporate Finance Manager	<p>Partly implemented</p> <p><u>Management response</u> – progress has been made on completing bank reconciliations more timeously. As the time taken to complete reconciliations reduces, many of the issues regarding timing differences should resolve.</p>	Ongoing

**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 30 April 2013  
**BY:** Executive Director (Support Services)  
**SUBJECT:** Audit Plan 2013/14

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**8**

## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of Internal Audit's operational plan for 2013/14.

## **2 RECOMMENDATION**

- 2.1 The Audit and Governance Committee is asked to approve the Audit Plan for 2013/14.

## **3 BACKGROUND**

- 3.1 The annual audit plan has been prepared in accordance with Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013.

- 3.2 In preparing the annual audit plan a range of factors have been taken into account, including:

- the Council Plan 2012-17 and the key actions that the Council will pursue in order to meet its objectives;
- areas highlighted by the Council's External Auditors and Senior Officers;
- corporate and departmental risk registers;
- the Council's core financial systems;
- changes in service delivery;
- the findings from previous years audit work;
- the need to incorporate flexibility for reactive/investigatory work.

- 3.3 Internal Audit's primary role is to independently review internal control systems within the Council. Internal Audit will evaluate the adequacy and effectiveness of controls in responding to risks within the Council's governance, operations and information systems, regarding the:

- Achievement of the Council's strategic objectives.
  - Reliability and integrity of financial and operational information.
  - Effectiveness and efficiency of operations and programmes.
  - Safeguarding of assets.
  - Compliance with laws, regulations, policies, procedures and contracts.
- 3.4 The Internal Audit Manager is required to give an opinion on the Council's control environment in the annual Controls Assurance Statement and the audit work carried out will contribute to this opinion.
- 3.5 The provision of the Internal Audit service is on an in-house basis by the Council's Internal Audit Unit, which is comprised of the Internal Audit Manager, three Senior Auditors and one Senior Audit Assistant.
- 3.6 The resources available have been applied to individual audits and a detailed operational plan has been produced for 2013/14 (see Appendix A).
- 3.7 Internal Audit will adopt a risk based approach to audit assignments as the principal means of providing assurance on the adequacy, reliability and effectiveness of internal controls. Testing of controls will be carried out on a sample basis. A standard sample size basis is used for financial systems audits and the samples are selected to provide coverage for the full financial year.
- 3.8 For each individual audit, a detailed audit report will be prepared for the relevant Executive Director. Copies of the audit report will be provided to the Chief Executive, External Audit and to the Chair of the Audit and Governance Committee.
- 3.9 All audit reports will highlight areas where expected controls have been met and areas where there is scope for improvement. A detailed action plan will be attached to each report listing all recommendations made and recording management responses to the recommendations. For each audit, the Executive Summary and Action Plan will be presented to the Audit and Governance Committee.
- 3.10 Follow-up audits will be carried out to review the implementation of the recommendations made.

## **AUDIT COVERAGE**

### **Financial and Non-Financial Audits**

- 3.11 Internal Audit will review the Council's systems to provide assurance on the adequacy and effectiveness of internal controls. The audit plan includes a range of financial and non-financial audits.

### **Statutory Audits**

- 3.12 Internal Audit undertakes audit work in respect of specific grant awards made to the Council by the Scottish Government, to ensure compliance with grant conditions.



**Best Value Audit**

- 3.13 Internal Audit will review the systems in place for the preparation and reporting of Statutory Performance Indicators.

**Investigations**

- 3.14 Time has been allocated to carry out work on the National Fraud Initiative (which is coordinated for Scottish Local Authorities by Audit Scotland) and to undertake fraud and irregularity investigations.

**PERFORMANCE INDICATORS**

- 3.15 Internal Audit reports on the completion of the annual audit plan, the percentage of audit recommendations accepted by Management and the percentage of audit staff with CCAB accounting qualifications.

**OTHER FACTORS**

- 3.16 The Committee should note that reactive work may impact heavily on the Internal Audit Unit's ability to complete the audit plan. Contingency days are built in for 2013/14 in the investigations section, but by its nature reactive work is difficult to predict.
- 3.17 The plan and its completion have added importance, given its contribution to the annual Controls Assurance Statement to be prepared at the end of 2013/14.

**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

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	19 April 2013

## INTERNAL AUDIT PLAN

2013/14

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**AUDIT PLAN 2013/14**

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>WEEKS</b>
<b>FINANCIAL AND NON-FINANCIAL AUDITS</b>		
Creditors	The Council spends significant sums on goods and services. We will review the ordering, receipting and payment procedures in place.	6
Housing Revenue Account	We will examine the controls in place for reconciliations undertaken in respect of the Housing Revenue Account.	6
Journal Processing	We will review the arrangements in place for the authorisation and processing of journal entries.	5
Community Care Finance Unit (CCFU)	We will examine the operating arrangements in place for the delivery of services currently undertaken by the CCFU.	6
Law and Licensing	We will examine the internal controls in place surrounding the receipt of licence fees.	5
Insurance and Claims	The Council's insurance arrangements will be reviewed, including the processing of and accounting for claims.	6
Payments to Scottish Water	The Council is required by law to bill and collect Scottish Water charges along with Council Tax. We will examine the controls in place in respect of payments made by the Council to Scottish Water.	5

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>WEEKS</b>
Benefits	Internal Audit will undertake detailed testing on a sample of Housing Benefit and Council Tax Benefit cases.	5
Welfare Reform	We will review the arrangements in place within the Council for the administration of the Scottish Welfare Fund.	6
Housing Allocations	We will review the arrangements in place for Housing Allocations to ensure compliance with the Council's Policy.	6
Housing Repairs and Maintenance	The audit will review the arrangements in place for repairs and maintenance carried out by the Council's Property Maintenance section.	6
Modernisation Programme	We will review the Modernisation/Extensions (Existing Stock) Programme which forms part of the Council's Housing Capital Investment Plan.	6
Trading Operations	The Council has a number of trading operations and we will review the arrangements in place to ensure compliance with statutory requirements.	6
Procurement – Scheme of Delegation	We will examine the scheme of delegation to ensure that all procurement activity is undertaken by relevant officers with delegated authority.	5

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>WEEKS</b>
Residential Units for Young People	We will examine the IT arrangements operating within the Council's Residential Units for Young People to ensure compliance with Council policies and procedures.	6
Mobile Payment Devices	We will review the internal controls in place for the use of mobile chip and PIN payment devices recently introduced by the Council's Revenues section.	6
East Lothian Investments Ltd	We will examine the internal controls and procedures operating within East Lothian Investments Ltd.	6
Schools Audit	We will examine the financial procedures in place at one school to ensure that internal controls are operating effectively.	5
Gifts and Hospitality Policy	We will review the arrangements in place within departments for compliance with the Council's Policy on acceptance by employees of offers of gifts and hospitality.	4
Contracts Audit	We will review contracts awarded by the Council to ensure compliance with Standing Orders and Corporate Procurement Procedures.	6
Special Projects	Internal Audit will review specific areas that are identified by Senior Officers.	6

AUDITABLE AREAS	SCOPE OF THE AUDIT	WEEKS
<b>STATUTORY AUDITS</b>		
Miscellaneous Grants	For grants awarded to the Council by the Scottish Government, Internal Audit is required to provide a statement of compliance with grant conditions on an annual basis.	4
Tyne Esk LEADER Programme	A review will be undertaken of the systems and processes in place for administering the Tyne Esk LEADER Programme.	4
<b>BEST VALUE AUDIT</b>		
Review of Statutory Performance Indicators	Internal Audit will review the systems in place for the preparation and reporting of Statutory Performance Indicators.	6
<b>INVESTIGATIONS</b>		
National Fraud Initiative	Internal Audit participates in the National Fraud Initiative, which is coordinated for Scottish Local Authorities by Audit Scotland. This initiative seeks to identify potential frauds and overpayments by matching data held within the Council to that held by other bodies.	10
Fraud and Irregularity	We will investigate all instances of suspected fraud or irregularity that are brought to our attention.	20
<b>OTHER AUDIT WORK</b>		
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by management have been properly managed.	6

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>WEEKS</b>
Attendance at Stocktakes	Internal Audit will attend the year-end stocktakes at Property Maintenance, Road Services and Waste Services. We will review the final stock sheets.	1
Community Councils and Management Committees	Community Councils – Internal Audit provide advice and support to Community Councils. Management Committees – Internal Audit will audit the annual accounts of Management Committees.	4
Advice and Consultancy	<p>Consultation on New Systems – for all new systems implemented, Internal Audit will provide advice on internal control matters.</p> <p>Tender Evaluations – attendance at tender openings and evaluations when requested by departments.</p> <p>Returned Cheques – investigating and recording the reasons for returned cheques.</p> <p>Financial Reports – providing departments with financial information about companies and offering advice where applicable.</p> <p>Consultancy – providing advice and consultancy on a range of internal control issues.</p>	6
<b>TRAINING</b>		
Training	An adequate allocation of budget resources and time will be given to maintaining and improving the knowledge base and quality of the staff resource. This includes time for staff to undertake continuous professional development (CPD) and to acquire skills and knowledge required to undertake specialist audit assignments.	8



**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 30 April 2013  
**BY:** Internal Audit Manager  
**SUBJECT:** Controls Assurance Statement – 2012/13

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9

## **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 2013.

## **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.

In 2012/13 the Internal Audit Unit sought to operate in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. However, from 1 April 2013, Public Sector Internal Audit Standards (PSIAS) have been in force and have superseded the CIPFA Code of Practice.

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;
  - The work of the Council Management Team.
3. The work undertaken by Internal Audit during 2012/13 including planned audits, investigations, follow-up reviews and one-off exercises.

4. Areas identified by Executive Directors and Heads of Service on the operation of internal financial controls for the services for which they were responsible in 2012/13.

### **3.4 Areas with Scope for Improvement**

Audit work carried out during 2012/13 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 lack of effective recording, monitoring and recovery of rent deposits paid by the Council.
- The delivery of some care at home services by non-framework providers.
- A lack of a clear audit trail, including the failure to retain key documentation, as highlighted in our schools audit and the audit of purchase cards.
- A lack of appropriate arrangements in place for ensuring compliance with the Payment Card Industry Data Security Standard.
- Access rights for the use of the Frameworki system.
- Organisational culture and its effects on internal financial control including the lack of appropriate procedures and guidance, inadequate segregation of duties and a lack of monitoring and checking arrangements in place.

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 in most areas.

#### Common Repairs Projects

In 2012/13, a review was undertaken by Internal Audit of common repairs projects following a request by Senior Officers. This review is currently ongoing, however internal control weaknesses have been identified in a number of areas including:

- Compliance with the Housing (Scotland) Act 2006.
- Adherence to Council procedures.
- The management and administration of the work notice process.
- The approach adopted to the awarding of grants.
- The recovery of all amounts due to the Council.

### Areas identified by Senior Officers

Areas identified where potential weakness or difficulty have been encountered and where improvement/remedial action is being progressed include:

- The current operating arrangements within the Community Care Finance Unit (CCFU).
- Unresolved system problems with the bank module in Great Plains and its impact on the bank reconciliation process.
- Private sector housing grants and work notices.

### **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 2013.

## **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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<b>DATE</b>	19 April 2013

**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 30 April 2013  
**BY:** Executive Director (Support Services)  
**SUBJECT:** Annual Work Programme

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## **1 PURPOSE**

- 1.1 This report provides the Committee with the updated annual work programme.

## **2 RECOMMENDATIONS**

- 2.1 Committee is requested to note the annual work programme (Appendix 1) and provide guidance on additional reports the Committee would like to be included in the work programme.

## **3 BACKGROUND**

- 3.1 The Audit and Governance Committee, 18<sup>th</sup> September 2012 agreed an annual work programme.

- 3.2 The annual work programme (see Appendix 1) includes five categories/columns reflecting the main areas of the Committee's remit:

- Internal Audit Reports
- External Audit Reports
- Audit Scotland reports
- Governance
- Risk.

- 3.3 The work programme will be updated for each meeting of the Committee to take account of notification of forthcoming reports from Internal Audit, External Auditors and Audit Scotland and reports called for by the Committee.

#### **4 POLICY IMPLICATIONS**

- 4.1 The identification of items of business for the Committee's Work programme will assist in developing a programme of work that will meet the Committee's remit.

#### **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 Review of the Use of the Guide to Scrutiny and Review by the Audit and Governance Committee: Audit and Governance Committee, 19<sup>th</sup> June 2012  
7.2 Annual Work Programme: Audit and Governance Committee, 18<sup>th</sup> September 2012.

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<b>DATE</b>	18 April 2013

## Appendix 1: Audit and Governance Committee Annual Work Plan

Date	Internal Audit Reports	External Audit Reports	Accounts Commission/ Audit Scotland reports	Governance	Risk
30/4/13	Income Collection Payroll Electronic Document and Records Management System Follow up Report Audit Plan for 2013/14 Controls Assurance Statement – 2012/13	Interim Management Report – Year ended 31 March 2013			Adult Wellbeing Risk Register  Children's Wellbeing Risk Register  Education Risk Register
11/6/13	To be confirmed on adoption of 2013/14 Audit Plan		Accounts Commission: Health Inequalities Accounts Commission: Approaches to Reduce Reoffending Accounts Commission: Major Investments in Councils Assurance and Improvement Plan Update	Annual Governance Statement Council Improvement Plan 2013/14 Efficient Workforce Management	Risk Strategy Update
23/07/13	To be confirmed on adoption of 2013/14 Audit Plan				

Updated 02/04/2013