



cutting through complexity

1

East Lothian Council

DRAFT

Annual audit report to the Members of East Lothian Council
and the Controller of Audit

Audit: year ended 31 March 2013

DRAFT: 5 September 2013

The contacts at KPMG in connection with this report are:

Stephen Reid

Director, KPMG LLP

Tel: 0131 527 6795

Fax: 0131 527 6666

stephen.reid@kpmg.co.uk

Andy Shaw

Senior Manager, KPMG LLP

Tel: 0131 527 6673

Fax: 0131 527 6666

andrew.shaw@kpmg.co.uk

Sarah Burden

Assistant Manager, KPMG LLP

Tel: 0131 527 6611

Fax: 0131 527 6666

sarah.burden@kpmg.co.uk

	Page
Executive summary – headlines	2
Strategic overview and use of resources	5
Financial statements and accounting	15
Performance management	21
Governance and narrative reporting	25
Appendices	31

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 ("ELC") and is made available to Audit Scotland and the Accounts Commission (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.

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

This annual audit report summarises our findings in relation to the audit for the year ended 31 March 2013. Our audit work is undertaken in accordance with Audit Scotland's Code of Audit Practice ("the Code").

This report also sets out those matters specified by ISA (UK and Ireland) 260: *Communication with those charged with governance* in relation to the financial statements for the year ended 31 March 2013.

We wish to record our appreciation of the continued co-operation and assistance extended to us by Council staff during the course of our work.

Area	Summary observations	Analysis
Strategic overview and use of resources		
Key issues and challenges	Management undertake regular analysis of the key areas of public reform, which should support achievement of strategic priorities in a changing environment; there are a number of service challenges emerging, with demand and resource pressures growing against a backdrop of reform in public services.	Pages 6-7
Financial position	The Council recorded a statutory deficit of £2.5 million in 2012-13 (2011-12: £7.5 million), less than originally budgeted. This gave rise to a decrease in the general fund reserves of £1.4 million and housing revenue account and capital fund reserves of £1.1 million. Total capital expenditure was £52.2 million, lower than the revised approved capital plan of £60.3 million. The investment represents a 27% decrease from 2011-12, resulting from management's half year review and the approval of the reduced capital expenditure limit. Audit Scotland's analysis of the 32 local authorities continues to show that the Council has the highest level of net external debt as a proportion of revenue spend of all Scottish local authorities, representing a financing challenge to future revenue budgets.	Pages 8 – 11
Financial planning	The 2013-14 budget forecasts a breakeven position, incorporating a further £2.2 million utilisation of reserves. The Council is planning to utilise most usable un-earmarked general reserves by 31 March 2015. In 2015-16 the Council is budgeting a break-even position.	Pages 12-14
Financial statements and accounting		
Accounting policies	There have been no significant changes to accounting policies in 2012-13. The impact of adopted IAS 19 (revised), effective next year, has been disclosed in the financial statements and the impact is not material, being a £3 million increase in finance costs compared to the current IAS 19. No other newly effective accounting standards are expected to have a material impact on next year's financial statements.	Page 16
Key judgement areas	Our audit approach reflected our assessment of financial statement level risks and consideration of key judgement areas. Our conclusion on these areas is set out on pages 19 - 20, in respect of: <ul style="list-style-type: none"> ■ valuation of property plant and equipment; ■ provisions; and ■ pensions. <p>Although not assessed as a financial statement level risk, we also set out our consideration of the Council's bad debt provision.</p>	Pages 19-20

DRAFT

Financial statements and accounting (continued)		
Audit conclusions	We [have issued] an unqualified audit opinion on the 2012-13 financial statements. One unadjusted audit difference has been identified in relation to the provision of costs for the voluntary early release scheme, which we consider should have been recognised in 2012-13. There are no adjusted audit differences.	Page 17
Year end process	The draft financial statements, explanatory foreword, annual governance statement and remuneration report were received by the agreed date and were supported by good quality working papers. Management has developed the process from the previous year, with improved quality and timeliness in the provision of information for audit. There are opportunities for further improvement in the financial statement process to achieve sector leading practice.	Page 18
Performance management arrangements		
Performance management	The Council has developed an improvement framework which supports management's ongoing assessment of the extent to which the Council is achieving Best Value and underpin the Council's drive for continuous improvement. Best Value and performance management arrangements have continued to be enhanced.	Pages 22 – 24
National reports	<p>We have considered the Council's arrangements in responding to Audit Scotland and Accounts Commission national studies, preparing short returns to Audit Scotland as appropriate. Management has implemented a review process for future national studies, following a recommendation we made in 2011-12.</p> <p>We completed our work on the follow up of Audit Scotland's <i>Scotland's public finances: Addressing the challenges</i> report. Overall, we identified that there is a maturing financial strategy which should support achievement of financial sustainability.</p>	Page 23
Governance and narrative reporting		
Governance arrangements	Over-arching and supporting corporate governance arrangements provide a sound framework for organisational decision-making. During 2012-13, the management structure and committee membership changed and risk management documentation has been revised.	Pages 26 – 30
Systems of internal control	We have noted improvements in the governance and controls framework from the prior year. Changes to policies and procedures have been made during a time 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, areas remain which require attention.	Page 28

Purpose of this report

Our annual audit report is designed to summarise our opinion and conclusions on significant issues arising from our audit of the Council’s financial statements for 2012-13. It is addressed to both those charged with governance at the Council and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the audit and governance committee at the outset of our audit.

Responsibilities

It is the responsibility of the Council and the head of council resources to prepare the financial statements in accordance with the proper practices set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 (“the Code”). An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This annual audit report to members and our presentation to the audit and governance committee, together with previous reports to the audit and governance committee throughout the year, discharges the requirements of ISA 260.

Context of the audit

A local area network (“LAN”) of local audit and inspection representatives undertake a shared risk assessment for each local authority in Scotland, to identify targeted, risk-based scrutiny. This results in each council receiving an annual Assurance and Improvement Plan.

The Council’s Assurance and Improvement Plan (“AIP”) assessed two areas as being areas of ‘scrutiny required’, 15 as areas of ‘further information required’ and the remaining 21 as ‘no scrutiny required’. The two areas of ‘scrutiny required’ are education and children’s services and ‘we have improved the life chances for children, young people and families at risk’.

Both were assessed as ‘no scrutiny required’ in the previous AIP. 13 areas changed from ‘no scrutiny required’ in the previous AIP to ‘further information required’. No improvements in assessments were noted from the previous AIP. A requirement for a Best Value audit was identified in 2010, however following improvements identified by the LAN a Best Value audit has not yet been required. If the LAN concludes that insufficient progress is being made in the two above areas, a Best Value Audit may be scheduled in 2014-15.

The AIP concluded that *“Overall, East Lothian Council continues to perform well in most areas. However, it is entering a period of significant change in financial and organisational terms as a Council. The Chief Executive, appointed in August 2011, has established a clear vision and direction for the Council. She has ensured that there continues to be areas of strong performance and a number of improvement activities have progressed well, for example around using How Good is Our Council to support and extend self-evaluation and in Corporate Services. She is now seeking to extend this work into new areas in the Council.”*

There are seven areas of focus for our audit work, being asset management, planning and resource alignment, governance and accountability, risk management, use of resources – competitiveness, financial management and procurement.

Strategic overview and use of resources

Our perspective on the Council's approach to key issues affecting the local government sector, and its use of resources

There are a number of service challenges emerging, with demand and resource pressures continuing to build, against a backdrop of reform in public services.

Management undertake regular analysis of the key areas of public reform, which should support achievement of strategic priorities in a changing environment.

Sector overview

Audit Scotland's report *Responding to challenges and change: An overview of local government in Scotland 2013* highlighted service challenges, with demand and resource pressures building against a backdrop of public service reform.

Management prepared a detailed analysis of the contents of the report, considering the Council's position against each report recommendation. As an example of best practice, this has allowed management to identify improvements for inclusion within the Council improvement plan.

Quarterly reports to Cabinet or Council outline the financial position, forecast position and a financial risk assessment of the overall Council and individual departments. The Council continues to utilise reserves to balance budgets, although at a slower rate than budgeted in 2012-13. Continued monitoring against the financial strategy and planned use of reserves is needed to support achievement of financial sustainability.

Management undertake regular analysis of the key areas of public reform, which should support achievement of strategic priorities in a changing environment.

Community planning

Community Planning Partnerships ("CPPs") offer part of the solution to the pressures on resources and will play a crucial role in public service reform. The Scottish Government expects CPPs to take the lead in improving outcomes with reduced budgets.

A review of governance arrangements of the East Lothian Partnership demonstrates action in response to the Audit Scotland report '*Improving Community Planning in Scotland*', helping to prepare the partnership for the future required actions. A revised structure of three strategic partnerships; sustainable economy, resilient people and safe and vibrant communities, was approved by members in April 2013. Their remits are in line with the strategic objectives of the Council plan.

DRAFT

This should enable alignment of priorities, delivery of outcomes and contribute towards governance best practice.

Partnership working

Management view partnership working as important in delivering further value through shared resources. With the departure of the executive director of services for people, the Council ceased to share the director of education position with Midlothian Council. Management expect collaborative working with Midlothian Council to continue. The six month pilot of a shared health and safety team will be reviewed by management in autumn 2013; the costs of the health and safety manager were evenly shared between the two councils, capitalising on managerial and technical skills at each council and drawing on the benefit of shared training.

Management are in the initial stages of considering collaborative working arrangements for risk management, internal audit and emergency planning, with a similar model to health and safety expected. Integration and collaboration of services will enable good practice to be shared as well as supporting the achievement of efficiencies.

Integrated health and social care bill

The Scottish Government has introduced legislation to create Health and Social Care Partnerships ("HSCPs"). The purpose of HSCPs is to bring together a range of existing NHS and local authority services within a formal partnership, to focus their combined resources on supporting more people in their own homes and communities than is currently the case, thereby shifting the balance of care and improving service outcomes.

Management report that a shadow board has been formed, with the first meeting scheduled for October 2013 and a non-executive chairman has been appointed. A jointly accountable officer took up post on 1 August 2013, working in adult wellbeing services with responsibility for NHS services in East Lothian. This position is jointly accountable to the chief

executive of the Council and Lothian NHS Board. The success of the shadow board and meeting the requirements of the bill will require integrated and collaborative working. A number of workstreams have been developed to progress arrangements.

Welfare reform

As a result of the Welfare Reform Act 2012, there are a number of significant changes in how councils deliver benefit services. The most significant change is the introduction of 'universal credits', which is an integrated working age benefit which will replace existing benefits, including housing benefit. Universal credits will be administered by the Department of Work and Pensions ("DWP").

Regular updates from management on the impact of welfare reform are considered by members and a welfare reform task group has been formed. The task group considered the service implications of the welfare reforms and in response has drafted a welfare reform action plan. Management has expressed their view that the Council is well placed to manage the changes. The social welfare fund was implemented on 1 April 2013, some teething problems were identified and management consider them to now be resolved. Although management do not expect applicants and benefits unit staff to see changes from the Council Tax Reduction Scheme, the funding shortfall from legislative changes may lead to further amendments during 2013-14. Further updates to members providing both resource and service impact analysis will drive actions to mitigate emerging risks.

Police and fire reform

The Police and Fire & Rescue Reform (Scotland) Act 2012 created a national police force and fire and rescue service from 1 April 2013. It replaced local authorities' role as police authorities and fire and rescue authorities through the creation of the Scottish Police Authority ("SPA") and the Scottish Fire & Rescue Service ("SFRS"). The Act includes a framework for the delivery of local scrutiny and engagement arrangements.

DRAFT

During 2012-13, three options for permanent scrutiny and engagement arrangements were identified and considered by the shadow board. A division of responsibilities between the council and the East Lothian Partnership were recommended and approved by members in April 2013. Management note a consistency in service level following the formation of the single bodies. Close monitoring of the new arrangements will be needed to ensure they are embedded and derive high quality service and value.

Workforce planning

A voluntary early release scheme was approved by Cabinet on 12 March 2013. 96 members of staff will leave the Council through this scheme at a cost of £3.1 million. Other workforce planning, including vacancy management has been in place since 2010.

The use of the voluntary early release scheme was to achieve savings in the approved three year budget for 2013-14 to 2015-16. The scheme closed to applications on 5 April 2013, thereafter management considered the applications in respect of affordability and business impact prior to finalising leavers. Staff will leave during 2013-14 with related costs recognised in the 2013-14 budget. We consider that the Council had a constructive obligation as at 31 March 2013 and a provision should have been recognised at that date.

Management recognise the pressure on remaining staff and have identified actions to address services with lower self assessment scores. This includes a review of the people strategy and forming a workforce development plan, which should support workforce transformation, in order to deliver services and achieve savings.

Several equal pay claims in the United Kingdom have concluded in court with rulings against councils, requiring them to pay settlements. Management has assessed the low number of claims against the Council related to the equal pay claims and reflected this within the financial statements. We consider that appropriate action is being taken to recognise obligations.

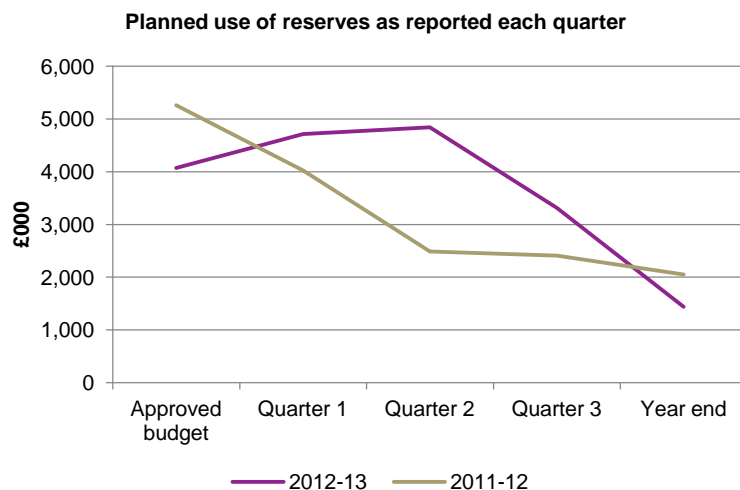
The Council recorded a statutory deficit of £2.5 million in 2012-13 (2011-12: £7.5 million). This resulted in a decrease in the general fund reserves of £1.4 million and in the housing revenue account and capital fund reserves of £1.1 million.

Financial position

The Council recorded a statutory deficit of £2.5 million in 2012-13 (2011-12: £7.5 million). This resulted in a decrease in the general fund reserves of £1.4 million and in the housing revenue account and capital fund reserves of £1.1 million.

Use of reserves – general fund

A three-year budget was approved on 14 February 2012, which assumed a £4.1 million utilisation of reserves in 2012-13. Management's forecast, prepared in quarter three, projected a reduced utilisation of £3.3 million would be required. The final outturn utilisation was £1.4 million (2011-12: £2.1 million), representing 11% of opening useable reserves (2011-12: 24%). In line with the Council's financial strategy, the lower than budgeted utilisation has been earmarked in the cost reduction fund. The movement in the planned use of reserves over the year is summarised below.



Source: East Lothian Council

DRAFT

The factors behind the lower than budgeted utilisation are set out in the table below. The analysis includes the benefit of one-off events; the return of police, fire and rescue reserves due to the formation of new national bodies and unbudgeted income in relation to a government non-domestic rates incentive scheme.

	£m
Budgeted use of reserves	4.1
Return of police, fire and rescue reserves	(0.5)
Unbudgeted income	(0.3)
Department and service budget variances	(1.2)
Lower interest on borrowing	(0.8)
Other movements	0.1
Actual use of reserves	1.4

Source: East Lothian Council

The key variances to budget related to the department and services are:

- services for people overspend (£0.3 million) due primarily to £1.1 million children's wellbeing overspend, offset by £0.6 million under spend in respect of primary schools, arising from slower than expected increase in roll numbers;
- services for communities under spend (£1.3 million) due to under spends within the community housing group of £0.5 million and the surpluses produced by the property services trading activity of £0.6 million; and
- support services under spend (£0.2 million), reflecting the majority of services being under their budget, notwithstanding over spends within community partnerships of £0.4 million.

DRAFT

A robust budget setting process is applied and the financial strategy is maturing.

There are risks to financial sustainability if efficiency savings cannot be achieved.

Lower interest on borrowing arises from new borrowing being lower than expected, primarily driven by the reduction in in capital expenditure limits following management's half year review, completed in October 2012, as well as effective treasury management.

Management presented the salient features of the financial statements to the audit and governance committee in July 2013. This facilitated an early discussion by members of the financial position reflected within the unaudited financial statements. We consider this to be an example of good practice in the governance of council resources.

Financial management

We considered the Council's response to the Audit Scotland's report *Scotland's public finances: Addressing the challenges* and presented our findings in our interim management report. Our review identified that management are implementing a maturing financial strategy which covers 2013-14 to 2015-16, supported by a detailed three-year budget. Strategic risks and mitigating actions are explained, which should enable management to respond to risks as they materialise.

Management apply a robust budget setting process, recognising identified corporate commitments and costs pressures. Each business group has undergone, or will undergo, a service review and is required to submit savings proposals.

Budget change and efficiency measures or savings are identified in the budget proposals, with a brief explanation. Uncertainty remains over the extent and precise nature of changes that will be required. There are risks to financial sustainability if efficiency savings cannot be achieved. The utilisation of reserves to cover deficits is only viable in the short-term.

A transformation board supported by a transformation programme manager has been set up, to facilitate implementation, monitor savings programs and review the impact of the programs on service delivery. This should help to mitigate the identified risks.

Quarterly financial position reports are presented to council or cabinet which show high level financial performance against budget for each business group. This is a development on the prior year and supports further scrutiny of financial performance. In our interim management report we reported opportunities to further strengthen the financial management process, in respect of consistency and detail of variance explanations included within quarterly reports and reporting progress against specific efficiency savings.

Housing revenue account ("HRA")

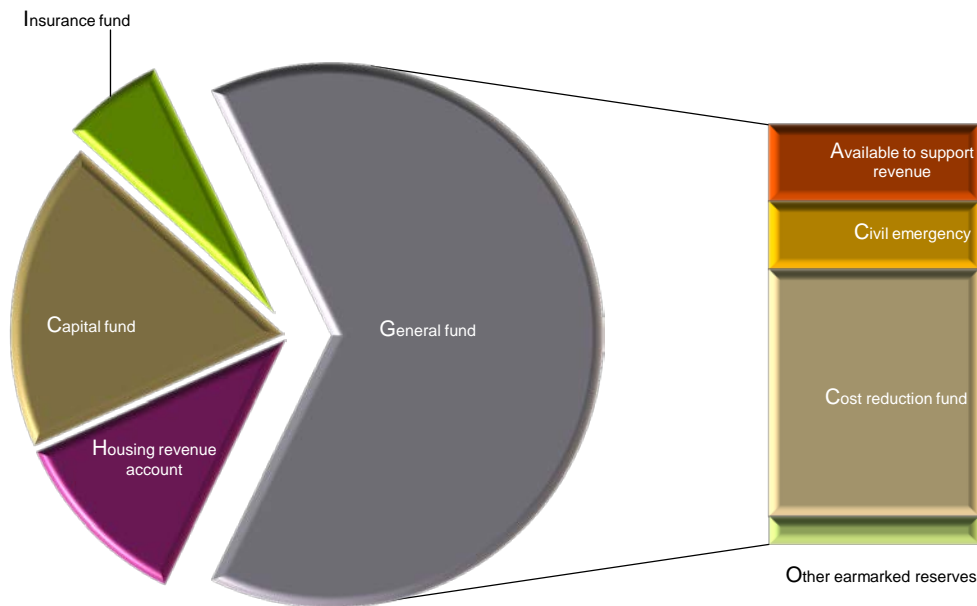
The outturn on the HRA is a deficit of £4.9 million. After making adjustments between the accounting basis and funding basis under statute (credit of £3.5 million) and recognising a transfer from the capital fund (£1.8 million), netted against a transfer (£1 million) to the general fund, the decrease in the year was £0.7 million. The carry forward balance at 31 March 2013 is £2.1 million. The use of reserve including the housing capital fund in 2012-13 is £1.2 million, against a budget of £1.3 million.

Rental income was below budget, reflecting slower delivery of affordable homes. Repair costs were £0.6 million more than budgeted, incorporating costs relating to the council's decision to cease with certain housing development sites and additional costs to bring some of the open market acquisition and mortgage to rent properties to the appropriate standard. These costs are net against compensating variations in the budget such as staffing costs and debt charges.

Composition of reserves

As at 31 March 2013, the Council had usable reserves of £19 million. These consisted of the general fund (£12.2 million), the housing revenue account (£2.1 million), the capital fund (£3.5 million) and the insurance fund (£1.1 million). The capital fund is used to fund capital expenditure within the housing revenue account.

The funds are illustrated in the diagram below.



Source: East Lothian Council

Total capital expenditure in 2011-12 was £52.2 million, below the revised approved capital plan of £60.3 million. This level of capital investment represented a 27% decrease over 2011-12 levels and reflects the lower limits approved in October 2013.

Capital programme

Total capital expenditure in 2011-12 was £52.2 million, below the original revised capital plan of £60.3 million. This level of capital investment represented a 27% (£19.3 million) decrease from 2011-12. The table below provides analysis across general services and the housing revenue account, comparing actual capital expenditure to budget and the prior year.

Year	Total (£m)	HRA (£m)	General services (£m)
2012-13 original budget	69.4	32.1	37.3
2012-13 revised budget	60.3	29.1	31.2
2012-13 actual spend	52.2	23.7	28.5
(Under)/overspend	(8.4)	(5.7)	(2.7)
<i>Financed by</i>			
Grant	14.1		
Asset sales	1.2		
Borrowing	34.3		
Direct revenue contributions	2.6		
Total	52.2		

Source: East Lothian Council

Following management's half year review of the capital programme in October 2012, the capital expenditure limits were reduced. This was to respond to the pressures of affordability of debt charges on the revenue account and realise benefits of longer term capital limits on asset management.

DRAFT

In respect of the housing revenue account the largest element of the capital under spend (£2.4 million) was in respect of the Council's approved open market acquisition strategy and mortgage to rent scheme.

Actual capital expenditure on general services was £28.5 million and the largest projects are shown below, including significant HRA projects. An under spend of £2.7 million was achieved, against the revised budget. This related to a number of small under spends, the more significant of which were projects experiencing delays, including the North Berwick museum, replacement of Peppercraig depot and the Gullane day centre.

Analysis of ongoing projects is being undertaken by the corporate asset group, to identify those where final costs are projected to be in excess of the approved budgets. Management are working to understand the reasons and extent of overspends, as well as the steps needed to bring the capital programme back into balance.

Summary of key capital projects: 2012-13

Project	Expenditure £m
New affordable homes (HRA)	13.1
Modernisation (HRA)	10.6
Haddington joint school	6.7
Roads	5.7
Brunton Hall refurbishment	2.3

Source: East Lothian Council analysis

The lower capital limits approved in October 2013 gave rise to lower than budgeted borrowing requirement and consequently a reduced interest cost.

The Council's level of debt places significant pressure on future revenue funding as debt and associated interest is paid. Robust monitoring will continue to be required.

Borrowing

The Council's capital expenditure is largely funded through borrowing, which inherently increases the level of indebtedness which the Council must repay, with interest, from future revenue budgets. East Lothian has one of the fastest growing populations in Scotland and this gives rise to higher demand for investment in new and refurbished service facilities, such as schools.

Additional in year borrowing decreased in 2012-13 by £19.3 million (27%) from 2011-12, compared to the 21% decrease in capital expenditure. This is due to the impact of increased capital grants and project income. This is illustrated in the table below, showing the split between HRA and general services capital expenditure and borrowing in 2012-13.

Source of funding	HRA £m		General Services £m	
	Budget	Actual	Budget	Actual
Borrowing	24.1	18.5	22.4	15.7
Grants	3.9	3.9	6.5	6.5
Project income	-	-	4.2	5.3
Asset sales	1.2	1.3	0.9	0.9
Developer contrib.	-	-	0.2	0.1
Total	29.1	23.7	31.2	28.5

Source: East Lothian Council

The proportion of capital expenditure funded from borrowing is higher for HRA projects (78%) than general services projects (55%). Management expect borrowing for HRA projects to be fully repaid from associated rental income generated.

Interest payable and similar charges have increased from 2011-12, although at a slower than budgeted rate. The lower capital limits approved in October 2013 gave rise to lower than budgeted borrowing requirement and consequently a reduced interest cost. Management note that

DRAFT

effective treasury management also supported the lower interest cost, with an average interest rate of 3.46%.

In benchmarking undertaken by Audit Scotland from analysis of the 2012-13 unaudited financial statements of Scotland's 32 local authorities, the Council continues to have the highest level of net external debt when taken as a proportion of revenue expenditure (171%; 2011-12:166%) and second highest per head of population (£3,700 per head; 2011-12: £3,500). However it is recognised that this benchmarking does not differentiate between demographic differences or the split between general services and housing related borrowing.

The Council has the fifth highest level of debt as a proportion of fixed assets, with a ratio of 0.5 (2011-12: 0.75). Borrowing continues to rise to fund the Council's capital programme, although the active reduction in capital expenditure limits to support no new borrowing from 2013-14 should support a longer term decrease in borrowing levels.

Interest payable and similar charges as a proportion of net revenue spend is 6.6% (2011-12: 7%), being the twelfth highest percentage of the 32 other local authorities. This is an improvement on 2011-12 and indicates improved treasury management and we also note that 3.46% is a competitive average interest rate.

The Council is forecasting a slower increase in debt repayments over the next three years. These will be paid from the general services and housing revenue account budgets and have been included in the next three years' budgets.

The Council's level of debt places pressure on future available revenue funding as debt and associated interest is repaid. Management's half year review in October 2012 facilitated action to amend the capital expenditure limits and related capital programme. The impact on the debt charges and borrowing levels is evident in the 2012-13 financial position. Robust monitoring will continue to be required to ensure the capital programme remains on track and enable a sustainable financial position to be achieved over the medium to long-term.

DRAFT

The 2013-14 budget forecasts a breakeven position, incorporating a further £2.2 million utilisation of reserves.

Management estimate that they have secured 20% of the expenditure reduction which will be needed by the end of 2015-16, the majority of which will come from £9.9 million savings from the cessation of the police and fire requisitions.

Background

Over the next three years the amount of funding available for Council services is forecast to drop from £195.7 million to £191.4 million. During this period there is an ambitious five year Council plan to deliver, new cost pressures to be managed and a range of 'unknowns'. Management estimate that they have secured 20% of the expenditure reduction which will be needed by the end of 2015-16, the majority of which will come from £9.9 million savings from the cessation of the police and fire requisitions. They recognise that in the medium term the deficit will need to be met through cost containment.

Revenue budget

A three year revenue budget was approved by council in February 2013. This used the 2012-13 budget as a base and reflected changes for known items of income and expenditure in future years. The 2013-14 budget forecasts a breakeven position, incorporating a further £2.2 million utilisation of reserves. This budget has been set on the assumption that council tax will remain frozen in 2013-14.

The main changes over the period to 2015-16, by service, are summarised below. These are based on the previous structure, which has now changed following the executive director restructuring exercise. The changes detailed below are incorporated in the approved budgets and comprise of both known changes and agreed efficiency savings / measures.

The changes have been projected across each of the three years, to obtain the budget figures to 2015-16, which will be the first year when reserves are forecast not be used to meet recurring expenditure. The cessation of the police and fire requisitions represents the largest movements within corporate commitments in 2013-14 (£9.9 million decrease), combined with savings from the voluntary early release scheme (£2 million decrease) and offset by increased debt charges (£1.5 million increase). Debt charges are expected to increase over the three year period, but at lower levels consequent to the reduced capital expenditure limits.

Department	Budget 2012-13 £000	Changes 2013-14 £000	Changes 2014-15 £000	Changes 2015-16 £000	Cumulative 2016 £000
Services for people	138,738	235	(197)	(365)	138,411
Services for community	30,741	(693)	(66)	117	30,099
Support services	26,233	323	(727)	126	25,955
Net expenditure	195,712	(135)	(990)	(122)	194,465
Corporate income	(218,098)	8,405	(1,027)	(377)	(211,097)
Transfer to/(from) reserves	(4,073)	1,907	2,121	194	149
Corporate commitments	26,459	(10,177)	(104)	305	16,483
(Surplus) / deficit	-	-	-	-	-

Source: East Lothian Council budget

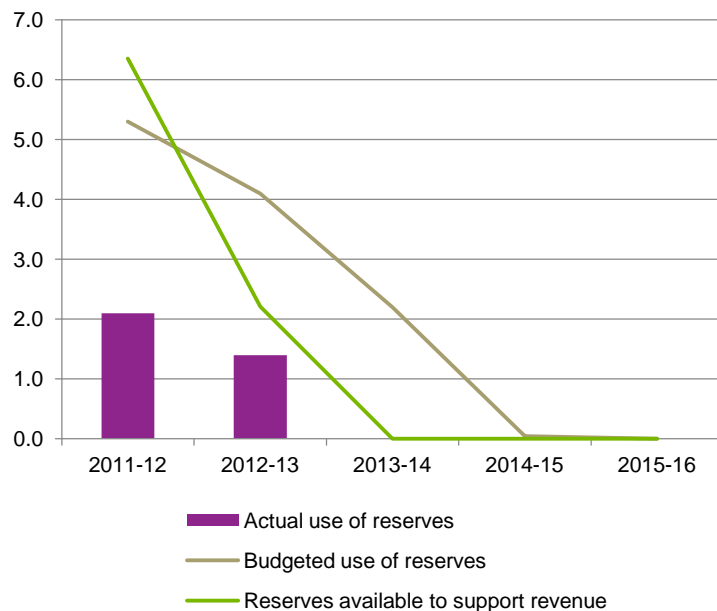
The Council is planning to utilise most usable un-earmarked general reserves by 31 March 2015. In 2015-16 the Council is budgeting a break-even position.

A transformation programme has been established to implement change projects which reduce costs and support delivery of the Council plan. A clear strategy and allocation of the cost reduction fund will be needed to support this programme.

Use of reserves

The Council is planning to utilise most usable un-earmarked general reserves by 31 March 2015. In 2015-16 the Council is budgeting for a break-even position. While reserves are not planned to be required in 2015-16, there is risk for the Council in requiring it to achieve budget in each of the next two financial years to achieve a recurring financial balance from 2015-16.

The chart below 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.



Source: East Lothian Council budget

DRAFT

While as at 31 March 2013, management confirmed that the Council remains on track with its financial strategy, significant financial risks continue to emerge, including the new cost pressures and the likelihood of an extended period of financial austerity.

Transformation programme

Management has recognised the requirement to make changes to how the Council is organised and operate within available resources. A transformation programme has been established to implement change projects which reduce costs and support delivery of the Council plan. Management expect a transformation programme manager to be appointed with responsibility to instigate and oversee projects, reporting plans and progress to the management team.

Many of the change projects are in progress, including the voluntary early release scheme, the procurement improvement panel, efficient workforce management planning, strategic asset management and shared / integrated services with Midlothian Council. These are reflected in the budget changes to 2015-16. The success of the transformation programme and change projects will influence the achievability of the financial strategy.

Cost reduction fund

The Council's cost reduction fund was £3.8 million as at 1 April 2012, being available to cover the cost of further service reviews and other potential efficiency savings. The financial strategy 2013-14 to 2015-16 makes provision for any unutilised reserves that were budgeted to be utilised and the property renewals reserve at 31 March 2013 to be transferred to the cost reduction fund. The £2.7 million unutilised reserves in 2012-13 have been transferred to this fund. A clear strategy and allocation of this fund will be needed to best utilise these reserves to support the transformation programme.

Capital expenditure limits have been set to limit additional borrowing after 2013-14. The capital programme will require ongoing monitoring and review to ensure it continues to meet the financial strategy.

Capital expenditure

Under statutory regulation the Council sets an annual limit on the maximum amount it can afford to allocate to capital expenditure. The financial strategy's capital limits, as set out below, seek to limit additional borrowing after 2013-14.

Year	Capital expenditure limits (£m)	Capital projects budget (£m)
2012-13 (actual)	33.0	28.5
2013-14	28.0	28.4
2014-15	20.0	20.5
2015-16	21.0	23.7
Totals	102.0	101.1

Source: East Lothian Council

The cumulative budget over the four year period is within the cumulative capital limit. Management recognise the need for these limits to be applied flexibly to incorporate project slippage, inter-year transfers and additional capital income. Elimination of additional borrowing, leading to reduced debt costs will support management's achievement of a sustainable financial position.

The three year capital projects budget is being reviewed by management, taking account of slippage and overruns. An imbalance in future years, due primarily to pressure points in education, may improve as a result of the flexible application of the capital limits. Ongoing monitoring and review of capital projects will be needed to meet the financial strategy.

DRAFT

Capital limits for 2016-17 (£18 million) and 2017-18 (£18 million) have been agreed, demonstrating management's long term capital planning process. Formal budgets for these years have not yet been formed.

Due to a number of recent capital projects exceeding the allocated capital sum, management undertook a review of capital programme management. This review incorporated the findings of the Audit Scotland report *Major capital investment in councils*. The key recommendations are:

- an outline business case is produced at the project's initial approval stage supported by full business case project description and brief;
- an ICT asset plan is developed ;
- a process map is formed, linking the management of the process and role of the corporate asset group; and
- lead project officers have responsibility to monitor expenditure and highlight risks, with reports forming the building blocks for quarterly reports to members with similar high/medium/low risk assessments carried out as financial reports.

These recommendations will support improvements in the asset management processes and enable management to make capital programme decisions.

The action plan was reported to the audit and governance committee as part of management's response to the Audit Scotland report.

Financial statements and accounting

Our perspective on the preparation of the
financial statements and key accounting
judgements made by management

There have been no substantive changes to the financial reporting framework as set out in the *Code of Practice on Local Authority Accounting in the United Kingdom 2012-13* (“the Code of Practice”).

There have been no changes to accounting policies in 2012-13. All accounting policies have been applied consistently.

Disclosure has been included in respect of the impact of revisions to IAS 19 *Employee benefits*.

The financial statements have been prepared on a going concern basis.

Accounting framework and application of accounting policies	
Area	KPMG comment
Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 (“the Code”)	<p>The 2012-13 financial statements have been prepared in accordance with the Code of Practice which is based upon International Financial Reporting Standards (“IFRS”).</p> <p>During the year there have been no substantive changes in financial reporting requirements, and consequently there are no material changes to the Council’s accounting policies.</p> <p>We are satisfied that the accounting policies adopted remain appropriate to the business.</p>
Impact of revised accounting standards	<ul style="list-style-type: none"> ■ Disclosure has been included in the financial statements highlighting that the impact of revisions to IAS 19 <i>Employee benefits</i> if the standard had been adopted early in 2012-13 the impact would not have been material, with the estimated change to finance costs being £3 million. ■ No other newly effective accounting standards are considered to have a material impact on the Council’s financial statements.
Going concern	<ul style="list-style-type: none"> ■ The Council has net assets at the balance sheet date, although reduced by £25.6 million in the year; due primarily to increases in borrowing (£30.7 million) and increase in pension liability (£16.8 million), offset by the increase to property, plant and equipment (net £16 million effect of £52 million additions, £5 million disposals, £28 million depreciation and £3 million of impairments). ■ Management has considered the funding available to the Council, which is approved for 2013-14, combined with longer term funding indications and the fact that the net liability obligations do not fall due within one year. Management consider it appropriate to adopt a going concern basis for the preparation of these financial statements, and disclosed these circumstances within the financial statements. We are satisfied that this disclosure remains appropriate, noting that the pension deficit and long term borrowing does not become due in the next 12 months.

We have issued an unqualified audit opinion on the financial statements.

Audit conclusions

Our audit work is substantially complete, pending receipt of management representations and update of our subsequent events work to the date of signing of the financial statements. We have issued an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2013, and of the Council's surplus for the year then ended. There are no matters identified on which we are required to report by exception.

In gathering the evidence for our opinion we have:

- performed a mixture of substantive and controls testing to ensure an efficient approach that covers all the key risks;
- liaised with internal audit and reviewed their reports to ensure all key risk areas having a potential financial statements impact have been considered;
- reviewed assumptions and judgements made by management and considered these for appropriateness;
- considered if the financial statements may be affected by fraud through discussions with senior management and internal audit to gain a better understanding of their work in relation to prevention and detection of fraud with the potential to impact on the financial statements; and
- attended the audit and governance committee to communicate our findings to those charged with governance, but also to update our understanding of the key governance processes and obtain key stakeholder insights.

The financial statements and draft governance statement were made available on a timely basis. Improvements from 2011-12 in the preparation of the financial statements were observed.

There are further opportunities for continuous improvement in the financial statements preparation.

Financial statements preparation

- Management provided full draft financial statements on 27 June 2013, in line with the agreed timetable. This included the explanatory foreword, remuneration report and governance statement. A prepared by client audit file, including a completed disclosure checklist, was made available at the start of the final audit fieldwork on 9 July 2013.
- Improvements to the financial statements preparation were observed from recommendations raised in 2011-12. The majority of supporting documentation was received in a timely basis, and queries were answered promptly. Supported by improvements to the control framework, this has enabled the audit to progress without significant issue and be concluded within the agreed timescales.
- We provided feedback to management on the content of the financial statements, annual report and governance statement, and we are pleased to report that these were consequently prepared appropriately. A number of presentational adjustments were needed to the draft financial statements, which would benefit from a more robust review prior to release.
- The audit clearance meeting was held on 7 August 2013, three weeks earlier than in 2011-12. This demonstrates management's commitment to continuous improvement. There is further opportunity to achieve a faster close of the financial statements from 2013-14, to become sector leading. For example in the preparation of pro-forma financial statements in advance of the year end and in determining the approach to key judgements prior to the year end.
- The Council has four common good funds and around 40 trust funds. From 2013-14, all charitable trust funds registered with the Office of the Scottish Charity Regulator will require an audit. Management is reviewing the Council's funds, and progressing with reorganisation to minimise the administrative process in 2013-14.
- There is one unadjusted audit difference of £3.1 million in relation to a provision for the voluntary early release scheme (page 34).
- There are no significant matters in respect of (i) auditor independence and non-audit fees and (ii) management representation letter content, as reported in appendix one.

We have considered key accounting issues, in relation to valuation of property, plant and equipment and provisions.

We concur with management's judgements regarding pensions and valuation of property, plant and equipment.

There is an unadjusted audit difference in relation to a difference of interpretation of IAS 37 provisions, contingent liabilities and contingent assets.

Key accounting judgements	
Area	KPMG comment
<p>Valuation of property, plant and equipment</p>	<ul style="list-style-type: none"> There were no revaluations of whole asset classes in 2012-13. Revaluations of individual assets were performed by an internal valuer. They also produced a paper which considered the overall valuation of the Council's property, plant and equipment assets, concluding that <i>"the stated values for buildings and land remain valid for the 2012-13 financial statement"</i>. This supports the impairment review by considering changes due to market value. Our interim management report commented on the improvements to the valuation policy. We concur with management's valuation conclusion, there being no identified significant factors which would give rise to a material impairment. Following our recommendations in 2011-12, improvements have been made to the annual impairment review. This covers changes in condition of assets; the majority of staff submitted a return. There is opportunity to further enhance the impairment review by tracking all manager reviews, potential impairments identified and conclusions in an overall document. <p style="text-align: right;">Recommendation one</p> <ul style="list-style-type: none"> In 2013-14, a revaluation of Council dwellings will be performed. The tender to appoint the valuer is in progress and management expect this to be concluded in September. Initial valuations will be received in December and updated to 31 March 2014. Management is considering the most appropriate way to incorporate these valuations within the asset register, which is not straightforward, due to council dwellings being presented as a single line item, and total improvements being presented separately.
<p>Provisions – voluntary early release scheme</p>	<ul style="list-style-type: none"> A voluntary early release scheme was approved by cabinet on 12 March 2013 and opened to applications from staff from 18 March 2013, with a closure date of 5 April 2013. Of 289 applications received, the Council management team approved 96 applications in June 2013 at the budgeted cost of £3.1 million. IAS 37 provisions, contingent liabilities and contingent assets requires a provision to be raised if there is a present obligation (legal or constructive), an outflow of resource is probable and a reliable estimate can be made of the amount of the obligation. Management has not recognised a provision in the financial statements as they do not consider a constructive obligation to be present as at 31 March 2013 and a reliable estimate was not possible at that date. In our view a provision should be recognised. A constructive obligation was present at 31 March 2013 due to the scheme having been approved by cabinet and was open to applications and management had consulted with the unions and the department for business, innovation and skills. As a result, the outflow of resources was probable and a reliable estimate of the cost for each applicant was available. An unadjusted audit difference has been presented on page 33. This would have resulted in a net decrease on the general fund balance carried forward of £3.1 million, had this been incorporated in the 2012-13 financial statements.

We have considered key accounting issues, in relation to pensions and bad debt provisions.

We have raised a recommendation to enhance the basis of the bad debt provision calculation.

Other accounting and audit matters	
Area	KPMG comment
Provisions - other	<ul style="list-style-type: none"> Management has considered equal pay claims, following court rulings in respect of other councils. This is not considered to be a significant matter for the Council given its contractual arrangements; a small accrual has been recognised. No landfill provision has been recognised as the Council do not own any landfill sites.
Pensions	<ul style="list-style-type: none"> In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS 19 pension scheme valuation. We have reviewed the assumptions used by the actuary in calculating the pension deficit. We consider the assumptions to be within the acceptable range of the guideline assumptions. Overall, the assumptions are considered to represent a balanced approach to valuation of the net pension deficit. The closing deficit increased by £16.8 million from 2011-12, primarily due to the application of an updated discount rate.
Bad debt provision	<ul style="list-style-type: none"> The bad debt provision is calculated separately for council tax, housing rents, housing benefit and general bad debt. The council tax, housing rents and housing benefit provisions are calculated on a historic basis, meaning they may not accurately reflect the bad debt the Council will face. Overall, the Council provides for 66.29% of its debtors. We have reviewed the provision policy and compared to other authorities, we consider that council tax, rents and housing benefit provisions are prudent. Our view is that the calculation methods used should be revised to more accurately reflect debtor payment trends.

Recommendation two

Performance management

Our perspective on the performance management arrangements, including follow up work on Audit Scotland reports

Our work has identified that the Council's Best Value and performance management arrangements are best practice.

<p>Best Value</p>	<p>In accordance with the principles of Best Value, the Council seeks to pursue 'continuous improvement'. The Council has developed an improvement framework, approved on 27 March 2012, which sets out five inter-related elements:</p> <ul style="list-style-type: none"> ■ setting clear outcomes and priorities; ■ self-evaluation; ■ service and improvement planning and management; ■ performance management, monitoring and reporting; and ■ external assessment and accreditation. <p>This is good practice and should support management's ongoing assessment of the extent to which the Council is achieving Best Value and the Council's drive for continuous improvement. The council continues to use a well established approach to self-evaluation through the use of the How Good is our Council ("HGIOC") model, which is being extended across more Council departments. Management's analysis of the 2013 scores indicates a significant improvement from 2012. Management intend for three year service plans to be developed, aligning with the three year budgets, this will help deliver alignment of priorities within the challenging financial context.</p>
<p>Performance management arrangements</p>	<p>A new Single Outcome Agreement ("SOA") has been developed by the Council and related partners. Management is awaiting final approval from the Scottish Government.</p> <p>A Council improvement plan is developed annually, which identifies actions from a range of sources, including the HGIOC reviews, corporate governance self-evaluation, audit reports, Audit Scotland's <i>Overview of Local Government in Scotland</i> and any outstanding actions carried over from the prior year improvement plan. Management review progress against the improvement plan after six months, no year end analysis is performed.</p> <p>Together with the focus on self-evaluation, the main element of performance management takes place through monitoring service performance against agreed performance indicators. Elected member scrutiny is primarily performed by the policy and performance review committee and the audit and governance committee. In addition, the corporate management team reviews performance on a continuous basis.</p> <p>Management has assessed their arrangements against the characteristics of an effective performance management and improvement process as detailed in Audit Scotland's report <i>Managing performance: are you getting it right?</i> This has instigated a review of key performance indicators and adoption of a framework of Best Value reviews that will assist services in the continuous improvement journey from improvement to excellence.</p>

The AIP states that overall the Council continues to perform well in most areas. The Local Area Network will work in partnership with the Council in its self evaluation and corporate scrutiny activity in 2013-14.

During 2012-13 we have prepared returns on national studies.

<p>Shared risk assessment</p>	<p>The Council considered the updated AIP on 25 June 2013. This is used as a source of action points for the Council improvement plan, which was discussed and approved by members on the same date. The LAN recognises the Council's ongoing commitment to continuous improvement and self-evaluation.</p> <p>There will be focused scrutiny activity of the education service in 2013-14 and the Local Area Network will support the Council in its self evaluation activities and support the consistency of corporate scrutiny in 2013-14. The results of this work will determine the need for a Best Value audit in 2014-15.</p>
<p>Local response to national studies</p>	<p>We have considered the Council's response to the following national reports:</p> <ul style="list-style-type: none"> ▪ commissioning social care. <p>The 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. We prepared a short return to Audit Scotland in relation to the report.</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. Management has implemented a review process for future Audit Scotland national studies.</p>

Performance against statutory performance indicators and other local government bodies is measured by the Council and our responsibilities as external auditors extend to understanding the arrangements and systems in place for this.

<p>Statutory performance indicators</p>	<p>The Council reports on the 25 SPIs and also has a range of other performance indicators which it has developed to demonstrate progress to the outcomes contained in the Council plan and the Single Outcome Agreement.</p> <p>The Council uses the Aspireview system to input, manage, interrogate and present data. For each indicator a performance indicator verification certificate is produced. Management consider that there are adequate checks and controls to provide comfort over the completeness and accuracy of data. Internal audit completed a review of the SPI arrangements and sample testing on the completeness and accuracy of data used. Minor errors were identified with the accuracy of some of the SPIs tested and these were followed up satisfactorily by internal audit.</p> <p>Performance against the Council's performance indicators is reported in an annual performance report, publically available and discussed at the policy and performance review committee. The 2012-13 performance report highlighted that the Council's performance improved for 41% of the performance indicators, with 36% showing little or no change and 23% deteriorating. In 2011-12, 61% of indicators showed an improvement in performance.</p>
<p>Benchmarking</p>	<p>The Local Government Benchmarking Framework has been developed to help councils compare their performance using a standard set of indicators. The indicators in the framework replace the specified Statutory Performance Indicators ("SPI's") from 2013-14 onwards.</p> <p>Management reviewed the available 2011-12 results, and reported these to the policy and performance review committee in April 2013. Indicators in the upper and lower quartile were analysed. Management consider that the results are in line with their expectations and plan a review as part of the overall review of the Council's performance indicators. We consider that this will support continuous improvement in performance reporting.</p>

Governance and narrative reporting

Update on your governance arrangements

Our overall perspective on your narrative reporting, including the remuneration report and annual governance statement

Over-arching and supporting corporate governance arrangements provide a framework for organisational decision-making.

Corporate governance

The Council has overarching and supporting governance arrangements which provide a framework for organisational decision-making. The Council operates a committee based structure and at the beginning of 2012-13, Council elections resulted in a change to the composition of the Council and the membership of its committees. During 2012-13 the arrangements have continued to develop, with the appointment new convenor of the audit and governance committee.

Councillors are subject to a Code of Conduct instituted by the Ethical Standards in Public Life etc. (Scotland) Act 2000 and enforced by the Standards Commission for Scotland. The 2013 Council improvement plan contains actions related to maintaining the standard of elected member conduct, including training sessions for elected members on the new Standing Orders and the Code of Conduct. The updates to the Standing Orders were approved by Council on 25 June 2013 and include a revised scheme of delegation and new procurement procedures.

The 2012 review of chief officers resulted in a reduction in the number of heads of service and a shift in this role to a more strategic position. A further change in the management structure occurred with effect from 1 April 2013, with the number of executive directors reducing from three to two.

A structured learning programme has been established in order to increase the skills and capacity of managers to lead change in the Council. The 2013 Council improvement plan also confirms a commitment to senior officers' continuing professional development. Heads of service are part of the corporate management team, along with the executive directors and the chief executive. Collectively they have responsibility to deliver the Council's agreed objectives.

As part of the Code of Corporate Good Governance a task group comprising senior officers of the Council was given responsibility for developing, monitoring and reviewing corporate governance. A self-evaluation of arrangements was carried out for 2012-13 and while some improvements were identified, it concluded that there were generally good governance and control arrangements. This annual review of corporate governance demonstrates good practice.

Risk management

Management are continuing to review risk management arrangements to provide assurance to elected members over the mitigation of identified risks. The risk management strategy and supporting documentation demonstrate a commitment to good practice and were initially implemented in December 2009. A corporate risk register is in place and is supported by departmental risk registers. Both the corporate risk register and risk management strategy have been reviewed and updated during 2012-13.

The updated corporate risk register was approved by cabinet and the audit and governance committee in January 2013. It included changes as a result of new controls and mitigation measures introduced in 2012. This ensures that the Council has an up to date register and that measures are in place to mitigate the likelihood and impact of significant risks. Risk appetite is briefly mentioned in the strategy, which suggests that training can help staff to understand this in relation to the Council. However, it does not give any more information. This would be useful for users of the strategy to be aware of the Council's overall risk appetite.

Our reporting through the year identified improvements in the governance and controls framework from the prior year.

<p>Annual governance statement</p>	<p>The governance statement provides details of the purpose of the framework of internal control, along with an analysis of its effectiveness. It describes a number of sources of assurance for the accountable officer and identifies areas for improvements to be focussed on in the future. The statement also highlights the annual self-evaluation exercise carried out by the Council, which is based on the SOLACE/CIPFA good governance framework. Improvement points from this exercise are included within the statement and in the corporate improvement plan.</p> <p>We reviewed the governance statement and requested a number of amendments to ensure compliance with guidance and our understanding of the Council. We requested a change to the annual governance statement to include reference to mediating actions taken over the exceptions reported and to enhance the accuracy of the content of the report. In response to our suggestion management has amended the positioning of the statement within the financial statements.</p>
<p>Remuneration report</p>	<p>Since 2011-12, regulations place a requirement for local authority bodies to prepare a remuneration report. The Local Government Finance Circular number 8/2011, issued by the Scottish Government, provides guidance that the remuneration report is a statement in its own right and not a note to the financial statements. While there is no statutory prescription on its placement in the financial statements, it suggests a suitable placement would be after the governance statement. The remuneration report follows the annual governance statement.</p> <p>There were some incorrect figures stated in the draft remuneration report and presentational changes required to ensure that it complied with guidance. It would have been beneficial for the report to have been more fully reviewed prior to its inclusion in the financial statements.</p> <p>In addition to the minor errors and modifications, it was also noted that the senior officers disclosure was incomplete in the draft provided for audit. The management structure was reviewed by Council and the role of head of service was modified, with changes coming into effect on 1 April 2012. This resulted in a more strategic role for these members of staff which meets the criteria to be considered as a senior employee in line with the Local Authority Accounts (Scotland) Amendment Regulations 2011.</p> <p style="text-align: right;">Recommendation three</p>
<p>Related parties</p>	<p>Testing of relationships disclosed in councillors' and senior officers' register of interests resulted in the identification of undisclosed related party transactions. These payments related to Community Wellbeing Partnership Funding grants approved by cabinet. As various councillors and senior councillors have an interest in some of the organisations receiving funding, these should have been disclosed in the note to the financial statements for completeness. This disclosure was enhanced by management in the final version of the financial statements.</p>

While management have demonstrated a commitment to continuous improvement, a number of areas continue to require attention, including in respect of procurement and journal authorisation processes.

<p>Systems of internal control</p>	<p>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 and ongoing efficiency rationalisation. While management has acted on a number of the recommendations made in our 2011-12 audit reports, a number of areas continue to require attention, as reported in our interim management report. We note one area below where further testing was performed during our final audit work.</p> <table border="1" data-bbox="721 396 1976 868"> <thead> <tr> <th data-bbox="721 396 884 444">Audit area</th> <th data-bbox="884 396 1168 444">Key controls considered</th> <th data-bbox="1168 396 1976 444">Findings</th> </tr> </thead> <tbody> <tr> <td data-bbox="721 444 884 868">Journals</td> <td data-bbox="884 444 1168 868"> <ul style="list-style-type: none"> Journal authorisation </td> <td data-bbox="1168 444 1976 868"> <ul style="list-style-type: none"> 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. Management recognised the need to review journals and the finance manager has considered the authorisation process as a result of our recommendation. In each folder of manual journals, he reviews the first, last and some in-between. We consider that this is not a risk based manner in which to review journals and the approach should be enhanced to give greater coverage of the journal postings. Our controls testing identified one out of 13 folders had no evidence of the review being performed. <p style="text-align: right;">Recommendation four</p> <ul style="list-style-type: none"> Substantive testing of significant journal entries in 2012-13 did not identify any fraudulent or erroneous journals. </td> </tr> </tbody> </table>	Audit area	Key controls considered	Findings	Journals	<ul style="list-style-type: none"> Journal authorisation 	<ul style="list-style-type: none"> 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. Management recognised the need to review journals and the finance manager has considered the authorisation process as a result of our recommendation. In each folder of manual journals, he reviews the first, last and some in-between. We consider that this is not a risk based manner in which to review journals and the approach should be enhanced to give greater coverage of the journal postings. Our controls testing identified one out of 13 folders had no evidence of the review being performed. <p style="text-align: right;">Recommendation four</p> <ul style="list-style-type: none"> Substantive testing of significant journal entries in 2012-13 did not identify any fraudulent or erroneous journals.
Audit area	Key controls considered	Findings					
Journals	<ul style="list-style-type: none"> Journal authorisation 	<ul style="list-style-type: none"> 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. Management recognised the need to review journals and the finance manager has considered the authorisation process as a result of our recommendation. In each folder of manual journals, he reviews the first, last and some in-between. We consider that this is not a risk based manner in which to review journals and the approach should be enhanced to give greater coverage of the journal postings. Our controls testing identified one out of 13 folders had no evidence of the review being performed. <p style="text-align: right;">Recommendation four</p> <ul style="list-style-type: none"> Substantive testing of significant journal entries in 2012-13 did not identify any fraudulent or erroneous journals. 					
<p>Procurement</p>	<p>Overall, controls over procurement were found to be operating effectively. However, we identified that staff failed to follow the correct procedure with regards to submitting the documentation to ensure suppliers are checked and authorised before being added to the Council system. Our testing identified that there was no supplier authorisation form completed for 13 of the 25 items in our sample. Some had acceptable alternative evidence or reason for this, but there was no form of any background check or authorisation for 5 of the 25 sampled items. Therefore the control regarding new suppliers that the Council has had no previous dealings with was ineffective for 2012-13.</p> <p>The corporate procurement procedures manual has been updated and added to the Council's revised Standing Orders as an appendix, and these were approved by Council on 25 June 2013. The addition of the manual to this core document demonstrates a commitment to the improvement of procurement and purchasing arrangements at the Council.</p>						

DRAFT

<p>Prevention and detection of fraud</p>	<p>A key mechanism in the allocation of authority, accountability and responsibility and the prevention and detection of fraud is the existence and maintenance of strategic and financial documentation. The Council has appropriate policies and codes of conduct for staff and councillors including a whistle blowing policy. Management has identified no significant fraud or irregularities, other than issues that were already brought to our attention by internal audit.</p> <p>The absence of a number of controls identified by us as part of the audit process, does, in our view increase the risk of fraud or other irregularity not being prevented or detected on a timely basis.</p>
<p>Maintaining standards of conduct and the prevention and detection of corruption</p>	<p>The Council has recently reviewed and updated its Standing Orders and supporting Schemes of Administration and Delegation. Role descriptors for councillors will be presented to Council for approval in October. New councillors and new employees are required to agree to their respective Codes of Conduct on commencement of office or employment, and management is required to communicate any changes in the Code of Conduct to employees. This reinforcement of values will contribute to the effective prevention and detection of corruption at the Council.</p>
<p>National fraud initiative</p>	<p>The National Fraud Initiative (“NFI”) is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. This exercise runs every two years and provides a secure website for bodies and auditors to use for uploading data and monitoring matches. NFI helps participating bodies to identify possible cases of fraud and to detect and correct 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 an established process for investigating cases of potential fraud highlighted by the NFI, falling largely under the control of internal audit. Management has expressed their commitment to NFI and the value of investigating all NFI matches, however resourcing issues in some departments mean low priority matches may not always be investigated. NFI and related investigations are embedded within the internal audit annual plan and are regularly reported to the audit and governance committee. This is beneficial to demonstrate internal audit’s commitment to NFI and the prevention and detection of fraud.</p>

We are able to place reliance, where relevant, on the work of internal audit.

Internal audit

As set out in our audit plan and strategy, we have evaluated the work of internal audit. In 2011-12 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. This enabled us to conclude that we can rely, where relevant, on their work. The content of the internal audit plan is in line with our expectations. We relied on:

- council tax revenue;
- income collection;
- payroll;
- purchase cards; and
- statutory performance indicators.

Internal audit reported that “*subject to the weaknesses outlined in the controls assurance statements, that reasonable assurance can be placed on the adequacy and effectiveness of the Council’s internal control systems for the year to 31 March 2013.*” The most significant areas where internal audit identified weaknesses in the design or operation of internal controls included adherence to the Council’s standing orders, procurement arrangements, rent deposits, purchase cards, compliance with the payment card industry data security standard, the effects of organisational culture on internal financial controls, lack of statements of current working method, common repairs projects, operating arrangements within the community care finance unit and bank reconciliations.

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. We recommended in our interim management report that internal audit should perform a self assessment against them. This is ongoing and is expected to be complete by the end of September 2013.

Appendices

DRAFT

There were no changes to the core financial statement, no adjusted audit differences and one unadjusted audit difference.

Area	Key content	Reference
Adjusted audit differences Adjustments made as a result of our audit	There were no audit adjustments required to the draft financial statements which impacted on the net assets or the surplus and deficit for the year.	Appendix 2
Unadjusted audit differences	<p>We are required by ISA (UK and Ireland) 260 to communicate all uncorrected misstatements, other than those which are trivial, to you.</p> <p>There is one unadjusted audit difference for the recognition of a provision for the voluntary early release scheme's one off cost. If recognised, the decrease in general fund movement on reserves would increase by £3.1 million to £4.5 million, and the balance on general fund reserves carried forward would be £9.1 million.</p>	Appendix 2
Confirmation of Independence Letter issued by KPMG LLP to the Audit Committee	We have considered and confirmed our independence as auditor and our quality procedures, together with the objectivity of our Audit Director and audit staff. There are no non-audit fees for the year.	Appendix 3
Draft management representation letter Proposed draft of letter to be issued by the Company to KPMG prior to audit sign-off	There are no changes to the representations required for our audit from last year.	-

There are no adjusted audited differences and one unadjusted audit difference to the financial statements.

Adjusted and unadjusted audit differences

We are required by ISA (UK and Ireland) 260 to communicate all corrected and uncorrected misstatements, other than those which are trivial, to you. There are no adjusted audit differences and one unadjusted audit difference.

Unadjusted caption	Nature of difference	Balance Sheet (£'000)	Comprehensive Income and Expenditure Statement (£'000)
Comprehensive income and expenditure statement – cost of services	The recognition of a provision for the voluntary early release scheme's one off cost, and debited to service expenditure.	3,097	
Balance sheet - provisions			3,097
Net impact		3,097	3,097

A number of numerical and presentational adjustments were required to some of the financial statements notes, to add extra disclosures or to include additional information to aid the reader of the financial statements. The most significant of which were:

- remuneration report – inclusion of all heads of service as senior officers and improvements to narrative to meet best practice.
- changes to the amounts disclosed in the remuneration report to accurately reflect officer and councillor remuneration.
- related parties note – inclusion of transactions with trusts that received Community Wellbeing Partnership Funding grants and have a Council member on their board.

DRAFT

Auditing standards require us to consider and confirm formally our independence and related matters in our dealings with the Council.

We have appropriate procedures and safeguards in place to enable us to make the formal confirmation in our letter included opposite.

Auditor independence

Professional ethical standards require us to provide to you at the conclusion of an audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence.

We have considered the fees paid to us by the Council and its related entities for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Regular communications
- Internal accountability
- Risk management
- Independent reviews

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Board of Directors.

Confirmation of audit independence

We confirm that as of 5 September 2013, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the audit and governance committee and should not be used for any other purpose.

Yours faithfully

KPMG LLP

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

Priority rating for recommendations

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

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

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

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>1 Impairment review</p> <p>There is opportunity to further enhance the impairment review by tracking all manager reviews, potential impairments identified and conclusions in one document.</p>	<p>A stronger audit trail of impairment reviews tracking manager reviews, potential impairments identified and conclusions , summarised in one document, will help to support impairments recognised in the financial statements.</p>	<p>Grade three</p> <p>Agreed</p> <p>Responsible officer: Finance manager</p> <p>Implementation date: June 2014</p>
<p>2 Bad debt provision</p> <p>The bad debt provision is calculated separately for council tax, housing rents, housing benefit and general bad debt. The council tax, housing rents and housing benefit provisions are calculated on a historic basis, meaning they may not accurately reflect the bad debt the Council will face.</p> <p>Overall, the Council provides for 66.29% of its debtors. We have reviewed this compared to other authorities and consider that council tax, rents and housing benefit provisions are prudent.</p>	<p>Calculation methods should be revised to more accurately reflect debtor payment profiles.</p>	<p>Grade three</p> <p>We agree to review the calculation noting that historical data will only be one of a number of factors considered.</p> <p>Responsible officer: Finance manager</p> <p>Implementation date: June 2014</p>

DRAFT

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

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
3 Remuneration report		
Grade three		
A number of corrections and presentational adjustments were required to ensure that the remuneration report was accurate and complied with guidance.	The report should be reviewed more thoroughly prior to its inclusion in the financial statements to identify errors and inconsistencies.	Agreed Responsible officer: Finance manager Implementation date: June 2014
4 Journals		
Grade two		
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. Management recognised the need to review journals and the finance manager has considered the authorisation process as a result of our recommendation. In each folder of manual journals, he reviews the first, last and some in-between. We consider that a more visible approach to journal review, with greater coverage, would decrease the risk of fraudulent or erroneous journals and encourage a culture of propriety.	Management should implement an enhanced review and authorisation process for journal entries and ensure this is completed on a timely basis during the financial year.	Agreed Responsible officer: Finance manager Implementation date: September 2013



cutting through complexity

© 2013 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved. Use of this report is RESTRICTED - See Notice on contents page.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 September 2013

BY: Chief Executive

SUBJECT: Assurance and Improvement Plan Update 2013-2016

2

1 PURPOSE

- 1.1 To inform Audit and Governance Committee of the Assurance and Improvement Plan Update 2013-2016 provided by the Local Area Network.

2 RECOMMENDATIONS

- 2.1 Committee is asked to welcome the Assurance and Improvement Plan Update 2013-16 and to note that the Chief Executive will keep the Council updated on any inspections and focused work by the by the Local Area Network and the Auditor (see paragraphs 3.10 and 3.1).

3 BACKGROUND

- 3.1 The Local Area Networks (LAN) bring together Audit Scotland and the other local government inspectorates in each local authority area. The LANs undertake a shared risk assessment process for all 32 local authorities, to identify targeted, risk-based scrutiny. This process results in each council receiving an Assurance and Improvement Plan each year which sets out the scrutiny activity that the council can expect to take place over a rolling three-year period. The first Assurance and Improvement Plans covered the period April 2010 – March 2013. This third update brings the Plan up to the period April 2013 – March 2016.
- 3.2 The update process which began in October 2012 drew on evidence from various sources, including:
- The annual report to the Controller of Audit and elected members for 2011/12 from the council's appointed external auditors.

- The council’s own performance data, discussion with senior council officers and the council’s self-evaluation evidence.
 - Evidence gathered from Education Scotland, the Care Inspectorate and the Scottish Housing Regulator (including published inspection reports and other supporting evidence).
- 3.3 Based on this review, the LAN has produced the Assurance and Improvement Plan Update 2013-16 (see Appendix 1) which reflects an appropriate level of scrutiny based on the risks identified.
- 3.4 The narrative to the plan includes a summary of areas where risk assessments have changed since the last Assurance and Improvement Plan Update together with the impact on the scrutiny plan. It also includes an assessment of areas of on-going risks and uncertainties as against national risk priorities identified by the Scottish Government. Lastly, it includes a review of planned audit and inspection activity 2013-2016.
- 3.5 The summary of the Assurance and Improvement Plan states that *“Overall, East Lothian Council continues to perform well in most areas. However, it is entering a period of significant change in financial and organisational terms as a Council. The Chief Executive, appointed in August 2011, has established a clear vision and direction for the Council. She has ensured that there continues to be areas of strong performance and a number of improvement activities have progressed well, for example around using How Good is Our Council to support and extend self-evaluation and in Corporate Services. She is now seeking to extend this work into new areas in the Council.”*
- 3.6 The possibility of a full Best Value Audit was identified in the first Assurance and Improvement Plan of 2010. This was to focus on scrutiny risk areas, particularly in Corporate Services. However, the Annual Audit over the last three years has identified that the council has made effective progress on many areas within Corporate Services. This has meant that the Best Value Audit has been deferred for several years. The latest Scrutiny Plan indicates that a Best Value 2 Audit based on progress against financial plans and governance arrangements may be possible in 2014/15.
- 3.7 The Assurance and Improvement Plan considers 38 areas¹ of scrutiny risk assessment specific to East Lothian Council. The assessment criteria descriptions used in last year’s plan have changed from ‘significant concerns’ to ‘scrutiny required’; ‘no significant concerns’ to ‘no scrutiny required’; and ‘uncertainty’ to ‘further information required’.

¹ The 38 areas covered by the assessment include Council services, Single Outcome Agreement outcomes and strategic functions/ responsibilities

- 3.8 The 2013-2016 Update has assessed 21 areas as areas where no scrutiny is required.
- 3.9 Two areas have been identified as areas which will be the subject of scrutiny – Education and Children’s Services and the outcome ‘We have improved the life chances for children, young people and families at risk.’ These will be covered by a Care Inspectorate Children’s Services inspection which is scheduled to take place in autumn 2013.
- 3.10 Fifteen areas have been identified as areas where further information is required.
- Five of these are areas where the Council will work in partnership with the LAN on focused work as part of an agreed programme of self-evaluation for improvement around the development of the How Good is our Council framework.
 - Five areas assessed as requiring further information relate to the use of resources and financial management which will be subject to ongoing consideration by the Council’s appointed auditor as part of the annual audit process.
 - Three areas relating to education, children and young people which will be subject to focused work by the Council in partnership with the Education Scotland Area Lead Officer on a planned and mutually agreed programme of support activities.
 - Two areas relate to the inspection carried out by the Scottish Housing Regulator in late 2012 which is the subject of an improvement action plan agreed by Council.
- 3.11 The 2012-2015 Scrutiny Plan indicated that there would be a shared educational inspection with Midlothian in autumn 2013. However, given the changes in approach to sharing education services the 2013/14 Scrutiny Plan includes scrutiny activity led by Education Scotland with assistance from Audit Scotland and the external auditor on the impact of shared services on Education and Children’s Services.
- 3.12 This report and the Assurance and Improvement Plan 2013-2016 were presented to the Council (25th June 2013).

4 POLICY IMPLICATIONS

- 4.1 The Assurance and Improvement Plan Update 2013-2016 provides the Council with the LAN’s assessment of areas of risk that will be subject to specific scrutiny activity. It recognises the Council’s on-going commitment to continuous improvement and developing self-evaluation. The Assurance and Improvement Plan Update provides the Council with an indication of areas where the Local Area Network expects improvement work to be targeted in order to meet the identified risks. It

will assist in service planning and in supporting the development and implementation of the Council's Improvement Framework.

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 Appendix 1: East Lothian Council, Assurance and improvement Plan Update 2013-16

AUTHOR'S NAME	Paolo Vestri
DESIGNATION	Corporate Policy and Improvement Manager
CONTACT INFO	pvestri@eastlothian.gov.uk Tel: 01620 827320
DATE	16 th August 2013

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 September 2013

BY: Depute Chief Executive – Partnership and Services for Communities

SUBJECT: Policy and Partnerships Risk Register

3

1 PURPOSE

- 1.1 To present to the Audit and Governance Committee the Policy and Partnerships Risk Register (Appendix 1) for discussion, comment and noting.
- 1.2 The Policy and Partnerships 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 Policy and Partnerships Local Risk Working Group (LRWG).
- 1.3 The Policy and Partnerships Register presented shows only High and Very High Risks as the Council's Risk Strategy defines these risks as those which should be subject to closer scrutiny by the Audit and Governance Committee.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Audit and Governance Committee notes the content of the Policy and Partnerships 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 Policy and Partnerships LRWG and the Head of Policy and Partnerships has lead responsibility;
 - note that the significance of each risk is appropriate to the current nature of the risk;
 - note that the total profile of the Policy and Partnerships 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 2013/14, many are in fact longer term risks for Policy and Partnerships 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.
- 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 eight Risk Registers/Groups being reduced to seven.
- 3.5 A copy of the risk matrix used to calculate the level of risk is attached as Appendix 2.

4 POLICY IMPLICATIONS

- 4.1 In discussing and noting the Policy and Partnerships 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 Policy and Partnerships LRWG 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 Policy and Partnerships 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 Council Management Team.
- 6.2 Personnel – There are no immediate implications.
- 6.3 Other – Effective implementation of this register will require the support and commitment of the Risk Owners identified within the register.

7 BACKGROUND PAPERS

7.1 Appendix 1 – Policy and Partnerships Risk Register

7.2 Appendix 2 – Risk Matrix

AUTHOR'S NAME	Scott Kennedy
DESIGNATION	Risk Officer
CONTACT INFO	01620 827900
DATE	05 September 2013

Policy and Partnerships Risk Register

Date reviewed: 05 September 2013

Risk ID No.	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&P 1	<p>Major failure of IT systems (inc Telephony)</p> <ul style="list-style-type: none"> • Unable to deliver services; • Data unable to be inputted onto databases; • Activation of Business Continuity plan including Tunstall divert; • Manual procedures for the Registration of Births, Deaths and Marriages. 	<p>Test business continuity plan and ensure realistic. Business continuity plan improved and developed based on lessons learned from test environment. Ensure software updated regularly Regular meetings with IT staff to ensure that they are aware of business needs. 3rd party provider support and BC plans held (Tunstall/FER/IRBS). Manual procedures in place to support service provision. Alternative backup solutions identified where possible - e.g. Tunstall divert, ARC 2nd server etc. Staff procedure up to date and staff trained and aware of outcomes and controls.</p>	3	4	12	3 rd Party BC plan talk through to be achieved by December 2013.	3	3	9	All Customer Service Managers	December 2013		
P&P 2	<p>Breach of Data Protection or other confidentiality requirements through the loss or wrongful transmission of information (including information stored electronically). This could occur through:</p> <ul style="list-style-type: none"> - private committee reports, minutes or constituent correspondence not being stored or disposed of appropriately; - loss of material during transit; - individuals not being aware of their responsibilities in respect of confidential material; - lack of appropriate facilities for storage or disposal of material; - unauthorised publication of photographs of children. <p>Effects could include:</p> <ul style="list-style-type: none"> - breach of relevant laws; - breach of duty of care; - harm to individuals; - legal action; - fines; - requirement to pay compensation; - adverse publicity; - damage to the Council's reputation. 	<p>Arrangements for secure filing and storage of confidential papers when not in use. Disposal of confidential waste separately from other papers. Internal mail and/or Council Contractor used to transport Private & Confidential materials. Council PCs and laptops don't accept unencrypted external storage devices. Committee documents dealing with sensitive personal information (e.g. criminal convictions) are now issued only in hard copy, not electronically. Checks on licensing sub-committee documents are made by a second clerk when documents are uploaded. Employees who post web content aware of Data Protection issues. Data Compliance Officer is carrying out programme of awareness raising. We ensure that printed materials are checked with Graphics department and published through Council Print Unit. We have a permissions procedure for use of photographs of children. We have acces+C10s restrictions in Aspireview so that employees can only see material relevant to their work. We have Newspaper Licensing and Copyright Licensing permissions in place which are renewed annually.</p>	3	4	12	Continual reviewing of arrangements. Maintaining staff awareness through team meetings and briefing sessions.	3	3	9	All managers	Review Annually		

Risk ID No.	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&P 3	<p>Insufficient resources and resources not aligned to business current and future objectives leading to an:</p> <ul style="list-style-type: none"> Inability to sustain service in the short, medium, long term – long term staff absences Inability to develop service and staff i.e. skills/knowledge Inability to meet stakeholder and customer demand Legislative changes without matches resources i.e. Tell us Once/Welfare Reform Ineffective Knowledge management 	<p>Business planning and highlighting of resource requirements. Shared services with Midlothian realising a level of income potential. Current processes reviewed in line with added value outcomes. PDR meetings to maximise performance. Sickness absence monitoring and absence management and counselling. Locum posts now identified within Local Area Offices. Closure monitoring on RIVO in relation to staff experiences/stress. Analyse performance data routinely and thoroughly and use date for planning. Improved Induction Process for new staff. Staff training on CSPQ. Incidents report on RIVO and risk assessment completed. Professional Registration Qualification offered to all staff. Clear PI's identified across team. Knowledge' software deployed within key areas. Software fit for purpose and staff trained to extract, interpret and apply knowledge. PRD used effectively and Training underway. Current income streams reviewed and increased in line with inflation.</p>	4	3	12	<p>Explore further business opportunities to maximise use of resources and achieve income potential. Encourage back office stakeholders to improve processes to achieve added value. Improve performance reporting and analysis. Consider sustainability, WorkSmart options - resulting reduction in non staff costs. Consider future knowledge and skills through business planning and pull into PRD. Address stress Audit outcomes through HGIOC. Consider business resource needs throughout F2F service ensuring adequate resource to meet needs of training and staff development from changing service. Welfare Reform and Tell Us Once. Monitor and evaluate the uptake and usage of 'Knowledge' software Consider further roll out of software and skills required to extract, interpret and apply.</p>	3	3	9	All Customer Service Managers	Face to Face Review due to complete Sept 2013 PRD to be revised 11/13 – 03/14		<ul style="list-style-type: none"> Review of Customer Service - Service Plan for 2013/2014 Face to Face Service Review – November 2012 - September 2013 PRD's carried out for all staff November 2012 – March 2013 and associated action plan carried out thereafter Registration income charges increased from 01/04/13
P&P 4	<p>A failure to administer security and control of visitors could result in:</p> <ul style="list-style-type: none"> Breach of security Theft Malicious damage Threat to staff safety 	<p>Signing in/out procedures for visitors/contractors in existence in main buildings. Employees are clear of procedures and requirements to sign in/out visitors and contractors. Restrictions on permissions on staff ID cards on a building by building basis. Parking permits for ELC staff and visitor permits (JMH). Use of security protected data sticks. Passwords on PC's, telephones and laptops.</p>	3	4	12	<p>Review current procedures to gauge effectiveness and refresh.</p>	2	4	8	All Customer Service Managers	December 2013		
P&P 5	<p>Failure to implement adequate H&S controls and to comply with H&S legislation could result in poor performance, diminution of service and could also result in injury to employees or the public leading to possible insurance claims and reputational damage to the Council.</p>	<p>Safety policy and training in place and accessible to all employees. Management arrangements & procedures and specialist staff also in place.</p>	3	4	12	<p>The ELC H&S Safety Management System is in operation and controls are monitored through cross departmental auditing, inspections and RIVO data analysis to identify control and risk issues. Reporting quarterly to Cmtte ensures scrutiny by management and trades unions.</p> <p>Review performance and feedback, refresh and update guidance and training as required. Take performance mgmt and / or disciplinary proceedings forward where individual non-compliance occurs.</p>	2	3	6	Corporate Health & Safety Advisor	Under Continual Review.		

Risk ID No.	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&P 6	Occupational Health - failure to adequately monitor and manage the health surveillance regime could lead to intervention from the H&S Executive.	Occupational Health and Physiotherapy partner contractors operate to specification set by Council.	4	3	12	Monitor the use of health surveillance in those areas requiring this. Monitor contract performance and standards compliance, hold monthly contractor review meetings	2	3	6	Corporate Health & Safety Advisor HR Performance & Business Support Manager	Under Continual Review.		
P&P 7	Inadequate Risk assessment resulting in ELC being unaware of risks and exposing employees and the public to dangers or systems/procedures causing ill health. This in turn could lead to increased sickness absence within the Council and possible impacts to service delivery.	Independent checks carried out by internal H&S Safety Management System and the audit regime within it. RIVO is being used to store risk assessments within some areas but is not being used consistently.	3	4	12	Comply with the ELC H&S Safety Management System, reporting quarterly to the BOD/CMT and annually to the Chief Executive. Provide cross-departmental audit results according to the audit programme. Risk assessments consistently recorded on Rivo with findings shared with employees.	2	3	6	Corporate Health & Safety Advisor	Under Continual Review.		
P&P 8	Health & Safety governance is not consistent across all services in terms of: <ul style="list-style-type: none"> The policies/practices in place Performance monitoring Statutory compliance This leaves the Council more open to accidents, incidents and litigation and makes any audits around these challenging.	Health & Safety Policy, Guidance and Approved Guidelines in place.	3	4	12	Revised H&S Policy, Management Arrangements and procedures being developed. Performance monitoring framework being developed in-line with new Management arrangements. KPI's identified for CMT to monitor H&S Performance against, including monitoring statutory compliance.	2	3	6	Corporate Health & Safety Advisor	Under Continual Review.		
P&P 9	A fire, flood or theft at any one of our buildings could result in the loss or damage to our irreplaceable heritage assets e.g. archives, museum objects, paintings and/or all other assets held within these premises.	Service disaster plans for Museums and Archives. Emergency planning procedures in place and regularly tested. Staff training relating to fire drills and security procedures. The new archive store at the John Gray Centre was designed to be fire resistant for a long period of time. Alarm systems and CCTV systems in place for some museums and libraries. Business continuity planning exercises. An inventory has been completed on the Councils paintings which has allowed recording of values, locations and conservation needs and is in accordance with the Councils Museums Collections Policy. Accreditation governing the quality of care for collections and museum buildings received from the Museums Association.	2	5	10	Incorporating the correct fire and security systems in any new builds. Seek to maintain regular accreditation from the Museums Association subject to ongoing process of renewal.	2	5	10	Cultural Services Manager PO Libraries PO Arts PO Museums	As and when new builds become operational.	11, 14	Business continuity plan records

Risk ID No.	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&P 10	Failure to implement a Safe Driving at Work (SDAW) Policy and Guidance to ensure that the Council meets current Health & Safety guidelines and the Corporate Manslaughter and Corporate Homicide Act 2007 could result in the Council facing a significant fine and/or legal action if a serious road accident were to take place involving any driving operation undertaken by employees or Elected Members using personal, Council or hired vehicles, as well as any volunteers, agency workers or other authorised parties driving Council fleet vehicles, in connection with Council business.	A SDAW Group was set up to create a SDAW Policy and a Guidance Manual which are currently being reviewed before being submitted for approval. Following this they will be implemented to ensure that safe driving principles are embedded across the Council.	2	5	10	<p>Implementation of Policy and Guidance.</p> <p>Continued meetings of the Safe Driving at Work Group and their continual review of Policy and Guidance.</p> <p>Council vehicles used in the course of Council activities are properly maintained and fit-for-purpose. All Council vehicles are maintained in accordance with the VOSA publication "Guide to Maintaining Roadworthiness". Employees are to submit on request their MOT certificate (VT20), for vehicles over 3 years old, for inspection to ensure Grey Fleet vehicles are properly maintained.</p> <p>Arrangements in place to ensure the reporting and recording of all accidents and incidents arising from work related driving.</p> <p>Arrangements in place to identify and implement remedial actions following road traffic accidents.</p>	2	3	6	SDAW Group	October 2013		
P&P 11	<p>Loss or damage due to fire, explosion, storm, flood, malicious damage, loss of utility supply</p> <ul style="list-style-type: none"> Inability to access office accommodation, equipment, data Damage to equipment Inability to retrieve data Serious injury to staff/members of public 	<p>Business continuity planning - including alternative premises identified.</p> <p>Regular testing of Business continuity planning, including Tunstall divert for Contact Centre.</p> <p>Equipment, maintenance contracts kept up to date and in good working order.</p> <p>Regular fire drills carried out, H&S workplace inspections and Risk Assessments.</p> <p>Staff trained in aspects relating to good working practices and Business Continuity.</p>	2	5	10	<p>Set work plan of future BC exercises and include in Business plan.</p> <p>Audit whether discussions on staff meeting Agenda.</p> <p>Review training records.</p>	2	3	6	All Customer Service Managers	Ongoing but reviewed constantly		

Risk ID No.	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&P 12	A failure in Community Response processes resulting in: <ul style="list-style-type: none"> Serious injury to customers Fatality of customers Loss in confidence by stakeholders/partners/customer Financial loss due to liability claims HSE involvement 	Staff recruited for key qualifications, skills & attributes. Continual training and staff development. Monitor performance and service provision e.g. call monitoring. Staff training aligned to good practice, industry standards and agreed service delivery levels. Solo Operating risk assessment and working procedure in place.	2	5	10	Maintain Solo Operating Risk Assessment. Maintain highly skilled staff base through continual review and assessment e.g. PRD's. Encourage inclusive communication with staff. Lessons learned report from incidents arising. Ongoing development with closer working between colleagues and stakeholders. Develop existing solo operating procedures further to align to Business Continuity Plan to ensure Service Delivery with only one member of staff on duty.	1	4	4	Contact Centre Manager	Ongoing but reviewed constantly	5	Community Response staff brief issued weekly. Regular one to one meetings between staff and Community Response Line-managers. Industry standards built into service plan. Service review and improvements on the back of received Corporate Feedback. Use of quarterly reporting to stakeholders to monitor staff performance and service standards. Annual review of Solo Operating Risk Assessment and working procedure.		
Original date produced (Version 1)		22nd June 2012										Risk Score	Overall Rating		
File Name		Policy and Partnerships Risk Register										20-25	Very High		
Original Author(s)		Scott Kennedy, Risk Officer										10-19	High		
Current Revision Author(s)		Scott Kennedy, Risk Officer										5-9	Medium		
Version		Date	Author(s)	Notes on Revisions										1-4	Low
1		22/06/2012	S Kennedy	Original Version - Combining parts of former CEO, Environment and Community Wellbeing Risk Registers											
2		19/11/2012	S Kennedy	Updated following update to Risk Strategy											
3		March – August 2013	S Kennedy	Health & Safety Risks added and Communications, Economic Development and Healthy Living Risks Reviewed Customer Services Risks updated and merged. Community Development and Cultural Services Risks updated.											
4		August 2013	S Kennedy	Corporate Policy & Improvement Risks and Health & Safety Risks updated.											

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
------	-----	--------	------	-----------

REPORT TO: Audit and Governance Committee
MEETING DATE: 17 September 2013
BY: Depute Chief Executive – Resources and People Services
SUBJECT: Council Resources Risk Register

4

1 PURPOSE

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

The Council Resources Register presented shows only High and Very High Risks as the Council's Risk Strategy defines these risks as those which should be subject to closer scrutiny by the Audit and Governance Committee.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Audit and Governance Committee notes the content of the Council Resources 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 Council Resources LRWG and the Head of Council Resources has lead responsibility;
 - note that the significance of each risk is appropriate to the current nature of the risk;
 - note that the total profile of the Council Resources risk can be borne by the Council at this time in relation to the Council's appetite for risk; and,
 - recognise that, although the risks presented are those requiring close monitoring and scrutiny throughout 2013/14, many are in fact longer term risks for Council Resources and are likely to be a feature of the risk register over a number of years.

3 BACKGROUND

- 3.1 The 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.
- 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 eight Risk Registers/Groups being reduced to seven.
- 3.5 A copy of the risk matrix used to calculate the level of risk is attached as Appendix 2.

4 POLICY IMPLICATIONS

- 4.1 In discussing and noting the Council Resources 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 Council Resources LRWG 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 Council Resources 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 Council Management Team.
- 6.2 Personnel – There are no immediate implications.
- 6.3 Other – Effective implementation of this register will require the support and commitment of the Risk Owners identified within the register.

7 BACKGROUND PAPERS

7.1 Appendix 1 – Council Resources Risk Register

7.2 Appendix 2 – Risk Matrix

AUTHOR'S NAME	Scott Kennedy
DESIGNATION	Risk Officer
CONTACT INFO	01620 827900
DATE	05 September 2013

Council Resources Risk Register

Date reviewed: 05 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
			Likelihood (Probability)	Impact (Severity)	Risk Rating		Likelihood (Probability)	Impact (Severity)	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
CR 1	<p>Welfare reform</p> <p>The UK Government is introducing a range of measures to reform the welfare system and reduce the budget for welfare benefits by at least £11 billion annually. It has been estimated (Scottish Local Government Forum Against Poverty, Sept 2010) that the changes could result in the loss of £8m - £9.5m annually from welfare benefits paid to East Lothian residents.</p> <p>Within the business areas covered by Council Resources, the changes could lead to:</p> <ul style="list-style-type: none"> • Increase in rent arrears from reduced Housing Benefits and possible increase in evictions • increased pressures on rent collection teams • increase in Council Tax arrears and non-payment of Council Tax • increase in Business Rates arrears and non-payment of Business Rates • loss of income the Council currently receives for administering Housing Benefits 	<p>The Council has received several update reports and will continue to be updated.</p> <p>The Council has established a Welfare Reform Task Group to plan for the changes to the welfare system. The Task Group has four workstreams:</p> <ul style="list-style-type: none"> • Communications • Data Sharing • Training • Migration <p>The Task Group and workstreams are meeting regularly and will continue to report back to the CMT.</p> <p>The Council endorsed the work of the Tackling Poverty Theme Group to refocus the work of the group on a single headline outcome: 'Fewer People in East Lothian will experience poverty'. The Fairer East Lothian Fund (£476,000 in 2011/13) funds projects to deliver on the following key outcomes:</p> <ol style="list-style-type: none"> 1. Fewer people in East Lothian will be financially excluded. 2. Financial capability in East Lothian will be improved. 3. The life chances of people at risk of falling into poverty, or already living in poverty, will be improved. 4. People in East Lothian will have better access to advice and information services, including debt and money advice. 	4	4	16	<p>The Council's Welfare Reform Task Group and four workstreams will develop a detailed action plan that will ensure the Council takes necessary measures to prepare for the changes in the welfare system.</p> <p>A Tackling Poverty Strategy and Action Plan are being prepared detailing how the Council and the Community Planning Partnership aims to achieve the outcome: 'Fewer People in East Lothian will experience poverty'.</p> <p>Proposals for targeting the Fairer East Lothian Fund in 2013/14 to assist in achieving the Strategy and Action Plan will be considered.</p>	4	3	12	Depute Chief Executive – Resources and People Services	Under constant review.	N/A	

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				
CR 2	<p>Financial pressures:</p> <p>If the council's financial pressures were not to be successfully planned for and managed effectively over the medium to longer term (i.e. the next 3 and possibly up to 7 years), there would be a serious risk of unplanned/ reactive budget realignments with significant adverse impact on availability and quality of both front-line services and required investment in the Council's infrastructure and asset base.</p> <p>Over the medium term it is highly likely that the Council's income will remain static. At the same time it will have specific cost pressures to deal with. These include:</p> <p>(1) demographic change and social-economic pressures - increasing pupil and elderly numbers;</p> <p>(2) general inflationary pressures;</p> <p>(3) specific cost pressures such as the affordability of the increasing number of high-cost individual care packages; and</p> <p>(4) potential financial costs associated with legislative changes such as a number of environmental issues.</p>	<p>The Council has well developed short to medium term financial planning arrangements and financial management arrangements for managing in year budget performance, both of which provide mitigating controls in terms of the immediate financial risk and pressures the Council is faced with.</p> <p>Long-term modelling is deemed to be of little value as the public sector financial environment is unlikely to be stable in other than the short and medium term. Focus is on creating a programme of short and medium term organisational change that can be adapted to match the Council's position as that emerges.</p> <p>The Chief Social Work Officer also has a role to play in overall performance improvement and the identification and management of corporate risk in so far as they relate to social work services.</p>	3	5	15	<p>CMT/Managers continue to follow the financial strategy i.e. cost control/cost minimisation/deliver on agreed savings.</p> <p>Through the Corporate Asset Group, the Council implements the approved Asset Management Strategy and related action plan.</p> <p>CMT to consider a more strategic approach to Procurement and/or a different Procurement Strategy.</p>	3	4	12	<p>Chief Executive</p> <p>Depute Chief Executive – Resources and People Services</p> <p>Head of Council Resources</p>	<p>Action ongoing.</p> <p>Control measures approved by Council, October 2012. Monitoring arrangements will continue to be applied.</p> <p>Risk to be reviewed Dec 2013</p>	N/A	
CR 3	<p>Failure of power and/or cooling in the John Muir House Server Room has the potential to cause major loss of network, application and Internet services for a prolonged period of time as has happened previously. This would have a serious impact on the business of the Council.</p>	<p>Key systems (Email & Social Care) are replicated at Penston House. However access to the Internet and other network services will be severely restricted.</p>	3	5	15	<p>Awaiting budget approval to upgrade power and cooling facilities in the room. To date no budget has been allocated.</p>	2	3	6	Head of Council Resources	Ongoing	N/A	

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				
CR 4	Breach of Data Protection or other confidentiality requirements through the loss or wrongful transmission of information (including information stored electronically). This could occur through: - private committee reports, minutes or constituent correspondence not being stored or disposed of appropriately; - loss of material during transit; - individuals not being aware of their responsibilities in respect of confidential material; - lack of appropriate facilities for storage or disposal of material; Effects could include: - breach of relevant laws; - breach of duty of care; - harm to individuals; - legal action; - fines; - requirement to pay compensation; - adverse publicity; - damage to the Council's reputation.	Arrangements for secure filing and storage of confidential papers when not in use. Disposal of confidential waste separately from other papers. Internal mail and/or Council Contractor used to transport Private & Confidential materials. Council PCs and laptops do not accept unencrypted external storage devices. Committee documents dealing with sensitive personal information (e.g. criminal convictions) are now issued only in hard copy, not electronically. Checks on licensing sub-committee documents are made by a second clerk when relevant documents are uploaded. Data Compliance Officer is carrying out a programme of data protection health checks. The Data Protection Policy has been approved. Revenues Information Security Procedure in place.	3	4	12	Continual reviewing of arrangements. Maintaining staff awareness through team meetings, briefing sessions and health checks. Online Data Protection Training to be rolled out to all employees over the next year and then repeated every 2 years.	3	3	9	All managers.	Review Annually	N/A	
CR 5	An inability to meet an increase in competing demands from various services due to a lack of a sufficient staff resource could lead to a failure to provide an adequate service.	An ability to employ temporary employees if required. Ongoing monitoring of team workloads.	3	4	12	Liaison with departmental management teams to discuss future work demands and improve service delivery.	3	3	9	Head of Council Resources	Review Annually	N/A	
CR 6	Efficient Workforce Management, VERS, restructures and budget restrictions could result in the service not being able to maintain a level of staff to allow the service currently provided to continue in its present form.	Two way communication between CMT and all employees regarding the impact of change. All VERS decisions were made following business impact assessments, with support given only to those applications with minimum business impact.	3	4	12	CMT to work with managers to redesign services within resources.	2	4	8	Head of Council Resources	August 2014	N/A	
CR 7	Failure to comply with our procurement processes and/or also business failure of key suppliers leads to service failure, poor value for money, fraud, loss of reputation and/or legal action.	Corporate Procurement Strategy and Procedures including pre-qualification of suppliers. Purchase Card Procedures Procurement Improvement Panel (PIP). Reporting to PIP and CMT. Procurement Skills Training. Regular Internal Audits. Controls over New Suppliers. Supplier Finder on Intranet. Close working with legal services, internal audit and departments. Annual Procurement Capability. Assessment in place and action plan progressed.	3	4	12	CMT ensuring improved compliance with existing Procurement Procedures by championing them and taking action when breaches are found. Improved contract management procedures to be put in place. Continue to improve procurement practices with a view to securing an improved PCA score.	2	4	8	Head of Council Resources	Ongoing	N/A	

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				
CR 8	Council IT systems are compromised by internal employee - causing the loss of a system, virus/trojan infection or loss/disclosure of data. This potentially would have a serious impact on the business of the Council.	<p>Internal IT Systems are protected by antivirus, group policy etc. Employees sign the Acceptable Usage Policy and are party to various HR policies and legislation such as the Data Protection Act and Computer misuse act. Info security awareness, HR and Data Protection training etc is provided for employees. Continue to take regular software and data backups to allow systems and data to be restored, following any failure.</p> <p>Continue and constantly improve security measures. Keep up to date with new and emerging threats. Ensure we purchase secure systems and maintain security throughout the system life cycle.</p> <p>The Council complies with ISO27001 the International standard for Information Security (which sets out a risk based approach to ensure the confidentiality, integrity and availability of Council held information & information systems).</p>	3	4	12	Make Information Security awareness training mandatory for employees' council wide.	2	3	6	Head of Council Resources	December 2013	N/A	
CR 9	Mismanagement of the Council's bank accounts or failure of the Council's bank leads to the Council having no funds available to pay staff or suppliers.	<p>Contract in place with our bank. Daily cash flow forecasting and monitoring of bank accounts. Treasury Strategy approved by ELC. Treasury Management Advisor in place.</p>	2	5	10		2	5	10	Head of Council Resources	Continue with level of risk.	N/A	
CR 10	Council IT systems are compromised by criminal 3rd party (e.g. hacker, terrorism) - causing the loss of a system, virus/trojan infection or loss/disclosure of data. This potentially could have a serious impact on one or more Council services.	<p>Systems are protected from outside world by firewall. All external facing systems are vulnerability tested once a year and extra testing takes place on any change to form or function. Comprehensive change control and IT security measures also in place to ensure confidentiality, integrity and availability of systems. All IT staff are trained in the change control procedure. Info sec awareness training of employees to ensure they are aware of risks. Continue to take regular software and data backups to allow systems and data to be restored, following any failure. Regular awareness training of employees' council wide.</p> <p>Continue and constantly improve security measures. Keep up to date with new and emerging threats. Ensure all IT employees take part in regular training in the change control procedures. Ensure we purchase secure systems and maintain security throughout the system life cycle.</p>	2	5	10	Make Information Security awareness training mandatory for employees' council wide.	1	5	5	Head of Council Resources	December 2013	N/A	

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				
		The Council complies with ISO27001 the International standard for Information Security (which sets out a risk based approach to ensure the confidentiality, integrity and availability of Council held information & information systems).											
CR 11	Complete loss of ELC's circuit to the Internet, resulting in no access to external systems which include but not limited to Pecos, SEEMIS (schools management system) external email, home working access etc. This would have a serious impact on the business of the Council.	SLA's in place with supplier. Supplier has resilient backbone in place.	2	5	10	Introduce a second link to Internet from network outwith Haddington.	1	4	4	Head of Council Resources	Review after all corporate sites on new network, expected to be around December 2013.	N/A	
CR 12	Council wide Catastrophic failure of central IT systems (inc Telephony) which could be caused by a fire/flood event, terrorist attack or a major virus. This would have a serious impact on the business of the Council.	IT Disaster Recovery plan in place - backup site for systems identified and core system backup plan created.	2	5	10	Improve and develop disaster recovery plan based on lessons learned from regular testing of existing plan. Ensure IT Staff are trained and know their role in event of a disaster.	1	4	4	Head of Council Resources	December 2013	N/A	
Original date produced (Version 1)		19th December 2011									Risk Score	Overall Rating	
File Name		CH&PM Risk Register									20-25	Very High	
Original Author(s)		Scott Kennedy, Risk Officer									10-19	High	
Current Revision Author(s)		Scott Kennedy, Risk Officer									5-9	Medium	
Version		Date	Author(s)		Notes on Revisions							1-4	Low
1		19/12/2011	S Kennedy		Original Version								
2		31/05/2012	S Kennedy		IT Risks updated by S Buczyn and Register revised following Senior Management Restructure								
3		19/11/2012	S Kennedy		Updated following update of Risk Strategy								
4		Jan-June 2013	S Kennedy		Updated following review of Legal Services Risks.								
5		Feb – May 2013	S Kennedy		H&S transferred to Policy & Partnerships, IT and HR risks updated and Welfare Reform risk added.								
6		June-July 2013	S Kennedy		Revenues & Benefits and Finance Risks updated.								

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
------	-----	--------	------	-----------

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 September 2013

BY: Depute Chief Executive - Resources and People Services

SUBJECT: Managing Early Departures from the Scottish Public Sector
(Audit Scotland, May 2013)

5

1 PURPOSE

- 1.1 To provide Audit and Governance with a summary of the Audit Scotland report, '*Managing Early Departures from the Scottish Public Sector*'.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Committee notes the report and the actions that East Lothian Council has taken with regards to managing early departures.

3 BACKGROUND

- 3.1 Audit Scotland published '*Managing Early Departures from the Scottish Public Sector*' in May 2013. The report aims to remind public organisations of the principles of good practice in managing early departures of staff. It is not based on new audit work. It uses information on costs and numbers already published in annual accounts and examples of current practice drawn from auditors' reports over the past year or two.
- 3.2 Early departures, as defined in the report include voluntary early release or retirement, voluntary redundancy and compulsory redundancy. In broad terms, this is any early release for which public sector organisations fund part or all of the departure cost. Ill health and normal age retirements are excluded as pension funds cover the full cost of these departures.
- 3.3 The Audit Scotland report covers the wider Scottish public sector including the Scottish Government and its agencies and non- departmental public bodies, local authorities, NHS Boards, police and fire and rescue.
- 3.4 The report provides a comprehensive survey of the numbers and cost of early departure schemes across the Scottish public sector in 2010/11 and 2011/12.

3.5 The report provides a reminder of the principles of good practice in managing early departures. It is based on the standards set out in the Accounts Commission's report *Bye Now, Pay Later*, published in 1997 and which was the subject of a follow-up report in 2003. The main principles of good practice for early departure schemes are:

- Early departure schemes should be driven by the needs of organisations and their workforce plans.
- Alternatives to early departures should be considered such as redeployment, natural turnover and service redesign.
- There should be clear policies and procedures which are consistently applied.
- Proposals should be supported by business cases, showing the full additional costs of early departures and their anticipated savings.
- There should be restrictions on staff who have accepted an early departure package from being re-employed.
- Councillors or board members should approve early departure schemes, ensuring that proposals represent value for money.
- Councillors or board members should approve proposals affecting senior managers to ensure each application is independently authorised.
- Compromise agreements should not be used to limit public accountability, for example by trying to silence whistleblowers or by hiding the full cost of departures.
- Senior managers, as well as councillors or board members, should monitor progress to help ensure that planned savings are being made.
- Senior managers, as well as councillors or board members, should use lessons learned from past and existing schemes and apply these accordingly to future proposals.
- Organisations should be open in their annual reports and accounts about the costs of early departures and the savings they have generated.

The East Lothian Position

3.6 The Audit Scotland report provides helpful information on how such schemes have been applied in practice throughout Scotland and also highlights aspects of good practice.

3.7 Mindful of bye now pay later, the ELC approach applied in recent years has been to ensure that any early departures have been based on business need and affordability with compulsory redundancies being approved where redeployment or alternative routes have been exhausted. Early departures are carried out in line with the Council's Dealing with Redundancies Policy and Procedure /Protocols for the Conduct of Service Reviews and/or the

Voluntary Early Release Scheme. Compensation is based on the Council Policy on Enhanced Compensation for Redundancies and Early Retirement approved by Council in December 2010.

- 3.8 As members will be fully aware, the Council has recently operated/completed a VERS process. This process was designed taking into account existing practice but was also informed by some of the early fieldwork undertaken as part of this study. With specific reference to the principles listed in 3.5, the Council is mindful of the good practice when carrying out early departures to ensure the best interest of both Council and employees as far as reasonably possible and management believe that we are compliant.

4 POLICY IMPLICATIONS

The Audit Scotland report has highlighted useful guidance and recommendations that will provide a beneficial reference document when reviewing existing policies and practices.

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 *Managing Early Departures from the Scottish Public Sector*, Audit Scotland, May 2013

AUTHOR'S NAME	Sue Cormack
DESIGNATION	HR Manager
CONTACT INFO	scormack@eastlothian.gov.uk
DATE	15 August 2013

Managing early departures from the Scottish public sector



 ACCOUNTS COMMISSION

 AUDITOR GENERAL

Prepared by Audit Scotland
May 2013

The Accounts Commission

The Accounts Commission is a statutory, independent body which, through the audit process, requests local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of their resources. The Commission has four main responsibilities:

- securing the external audit, including the audit of Best Value and Community Planning
- following up issues of concern identified through the audit, to ensure satisfactory resolutions
- carrying out national performance studies to improve economy, efficiency and effectiveness in local government
- issuing an annual direction to local authorities which sets out the range of performance information they are required to publish.

The Commission secures the audit of 32 councils and 33 joint boards and committees.

Auditor General for Scotland

The Auditor General's role is to:

- appoint auditors to Scotland's central government and NHS bodies
- examine how public bodies spend public money
- help them to manage their finances to the highest standards
- check whether they achieve value for money.

The Auditor General is independent and reports to the Scottish Parliament on the performance of:

- directorates of the Scottish Government
- government agencies, eg the Scottish Prison Service, Historic Scotland
- NHS bodies
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Police Authority, Scottish Fire and Rescue Service.

You can find out more about the work of the Auditor General on our website: www.audit-scotland.gov.uk/about/ags

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents



Key messages	4
Part 1. Introduction	7
Part 2. Numbers and costs	10
Part 3. The principles of best practice	14
Endnotes	21
Appendix 1. Calculating the additional costs of early departures	22
Appendix 2. Proportion of staff taking early departure	25
Appendix 3. Average cost of early departure packages	26
Appendix 4. The principles of good practice	27



Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

Key messages



- 1** In most public sector organisations, staffing costs make up a significant proportion of the budget. Early departure schemes have been used for many years by both the public and private sectors as a way of changing the size, shape and cost of the workforce. Early retirements and voluntary redundancies, for example, can be a useful way of avoiding the delays and costs of compulsory redundancies and quickly reducing staff numbers and costs. Once the initial outlay has been recouped, they can provide significant savings for organisations.
- 2** In recent years, many public sector organisations have turned to a range of early departure schemes. Given the significant financial challenges facing the public sector, they can be an effective way of achieving savings. Scotland's devolved public sector has been spending about £280 million a year on early departure schemes. This has helped reduce the size of its workforce, encouraging over 14,000 staff to accept early retirement in 2010/11 and 2011/12.
- 3** There is evidence to show that this is leading to savings. But significant amounts of public funds are also being spent on these departure schemes and, with a continuing need to reduce public spending, they are likely to remain an important management tool. Organisations therefore need to ensure that they follow the principles of good practice in how they:
 - design early departure schemes
 - ensure they provide value for money
 - report publicly on the costs and savings.
- 4** The principles of effective early departure schemes have been known for many years. In 1997, for example, the Accounts Commission published *Bye Now, Pay Later*. Based on a review of local authority schemes, this set out a series of good practice standards. It encouraged councils to have clear policies on these schemes, to consider all their costs and potential savings, and to check that these savings were delivered. These principles continue to be relevant to all parts of Scotland's public sector.
- 5** There is evidence to show that Scotland's public sector generally follows the principles of good practice. Many have up-to-date policies on their early departure schemes. Wider workforce strategies are used by organisations to help decide where they need to reduce staff

numbers or which grades they need to reduce. Most use some form of business case to help decide if early departure will lead to savings.

- 6** However, there are striking differences in how organisations design and implement their early departure schemes. For example, some look to recover their costs within a year, others within three years or even longer. The quality of the business cases used to inform decisions varies and organisations also vary in the extent to which they keep councillors or board members informed on early departure schemes. This can be particularly noticeable on proposals affecting senior managers. There is also a marked inconsistency in what information is openly provided to the public on the costs of early departures and the savings which they have generated.
- 7** Compromise agreements can be a useful means of protecting public sector organisations from legal challenges relating to departures. They must not, however, be used to hide the full cost of early departures from the public.
- 8** This report provides a reminder of the principles of good practice on how organisations should design, manage and monitor their early departure schemes. The circumstances of individual organisations will vary and it is up to managers and councillors or board members to ensure that their early departure schemes are tailored to their needs. However, the underlying principles of consistent policies, independent checks, value for money, and open reporting to the public apply to everyone.

Good practice

The main principles of good practice for early departure schemes

- Early departure schemes should be driven by the needs of organisations and their workforce plans.
- Alternatives to early departures should be considered such as redeployment, natural turnover and service redesign.
- There should be clear policies and procedures which are consistently applied.
- Proposals should be supported by business cases, showing the full additional costs of early departures and their anticipated savings.
- There should be restrictions on staff who have accepted an early departure package from being re-employed.
- Councillors or board members should approve early departure schemes, ensuring that proposals represent value for money.
- Councillors or board members should approve proposals affecting senior managers to ensure each application is independently authorised.
- Compromise agreements should not be used to limit public accountability,

for example by trying to silence whistleblowers or by hiding the full cost of departures.

- Senior managers, as well as councillors or board members, should monitor progress to help ensure that planned savings are being made.
- Senior managers, as well as councillors or board members, should use lessons learned from past and existing schemes and apply these accordingly to future proposals.
- Organisations should be open in their annual reports and accounts about the costs of early departures and the savings they have generated.

See [Appendix 4](#) for a more comprehensive list.

Source: Audit Scotland

Part 1

Introduction



1. This report aims to remind public organisations of the principles of good practice in managing early departures of staff. It is not based on any new audit work. Instead, it uses information on costs and numbers already published in annual accounts and examples of current practice drawn from auditors' reports over the past year or two.

2. Given the significant financial challenges facing the public sector, early departure schemes can be an effective way of achieving savings. They are used in both the public and private sectors. But, with higher standards of transparency, their use is more clearly visible in the public sector, where organisations are required to disclose information in their annual accounts or in response to requests made under the Freedom of Information (FOI) legislation.

3. In recent years, early departure schemes have become a particularly important issue for public sector organisations, faced with mergers and reduced budgets and a pressing need to make savings. Staffing costs form a high proportion of the costs of most public sector organisations. But, with a Scottish Government policy to avoid compulsory redundancies in the NHS and central government, organisations have needed to look for other ways to reduce the size of their workforce. In many cases, they have turned towards early retirement schemes or voluntary redundancies as a way of quickly restructuring the workforce and reducing payroll costs. With continuing financial pressures for the foreseeable future, public sector organisations will continue to use early departure schemes to deliver recurring savings by reducing the size of their workforce.

4. Reaching agreement on some form of voluntary departure package can be more straightforward and cheaper than compulsory redundancy. Initial costs can be high, but these can be quickly repaid with significant savings in payroll costs. However, organisations need to be clear about how they assess the value for money of early departure schemes. They need to consider the full costs of such deals, including the impact on pension funds as well as their own revenue budgets. They also need to ensure that schemes are transparent and subject to independent scrutiny and challenge from councillors or board members, particularly where they affect senior managers.

5. There are some differences between sectors in the details of pension arrangements and how the costs of early departures are calculated. Local government pensions, for example, are 'funded'. In essence, this means that throughout their employment, each individual and their employer set aside money to fund the pension. In contrast, NHS and central government pensions are mainly 'unfunded'. Employees and employers make contributions to pensions throughout an individual's career, but no specific fund is earmarked. When pensions become

**early
departure
schemes
can be an
effective way
of achieving
savings**

due, they are simply funded from current expenditure. A more detailed explanation of pension and redundancy payments, together with a worked example, is provided at [Appendix 1](#).

6. These differences can affect how organisations account for the costs of their early departures. However, there are underlying principles which should apply to all parts of the public sector. Any assessment of the value for money of early departures should only take into account the additional costs associated with an early retirement or redundancy. In other words, pension entitlements which have been earned over the individual’s career and would be paid in due course should not be included. The assessment of value for money should focus on additional costs, such as those associated with paying pensions early or other incentives such as added years. These should include the additional costs that will be met from pension funds and recharged to employers, as well as direct costs paid from employers’ budgets.

7. This report provides a reminder of the principles of good practice in managing early departures. It is based on the standards set out in the Accounts Commission’s report *Bye Now, Pay Later*, published in 1997 and which was the subject of a follow-up report in 2003. These reports focused on local government, but their underlying principles are relevant to all public sector organisations, helping them achieve the highest standards of transparency and demonstrate that their early departure schemes represent value for money.

8. Early departures, as defined in this report and outlined in [Exhibit 1](#), include voluntary early release or retirement, voluntary redundancy and compulsory redundancy. In broad terms, this is any early release for which public sector organisations fund part or all of the departure cost. Ill health and normal age retirements are excluded as pension funds cover the full cost of these departures.

9. It should be noted that not all individuals departing under early departure schemes will be entitled to a pension. Many will not yet be of retirement age, and will receive only a redundancy payment upon their exit.

Exhibit 1

Scope of this report

Included in this report

- ✓ Voluntary early release agreements
- ✓ Voluntary early retirement
- ✓ Voluntary and compulsory redundancy

Not included in this report

- ✗ Normal age retirement
- ✗ Ill-health retirement

Source: Audit Scotland

10. This report also provides information on the current level of early departure schemes across the devolved Scottish public sector. This includes:

- the Scottish Government and its agencies and non-departmental public bodies (NDPBs)
- local authorities
- NHS boards
- police, and fire and rescue.

11. The information in this report is drawn largely from the annual accounts for 2011/12 which, for the first time, require most of these organisations to disclose the costs of exit packages.

12. With a planned programme of mergers, further education colleges are also making significant use of early departure schemes. However, as there is currently only a limited requirement to disclose these in their accounts, we have not been able to obtain comprehensive information on the number of staff involved or the costs of these schemes.

13. The report also provides examples of how organisations manage these schemes and assess value for money. These are drawn from reports already published by auditors and from a limited number of case studies. These examples do not seek to provide a comprehensive assessment of early departure schemes throughout Scotland's public sector. They simply aim to illustrate some of the variations in how public sector organisations currently manage early departure schemes.

14. During 2013, the Accounts Commission and the Auditor General for Scotland will also publish a joint report *Reshaping Scotland's public sector workforce*. This report will consider whether public bodies are effectively managing changes to their workforces, using cost-effective approaches and will highlight good practice. In particular, the report will consider:

- how the size and structure of the public sector workforce is changing
- what the financial costs and benefits of changes to the public sector workforce are and whether these changes are likely to provide long-term cost reductions
- whether the workforce planning approaches being used follow good practice and assess the capability of public sector organisations to meet future needs
- what are the significant opportunities and challenges which face those managing the public sector workforce in future years.

15. In addition, the Auditor General will monitor the position of the new police and fire authorities and further education colleges with regards to workforce management.

Part 2

Numbers and costs



The number of staff employed in the Scottish public sector has fallen by about 40,000 since 2009

16. Scotland's devolved public sector in recent years has been facing significant budget cuts. This has affected all areas, including Scottish Government directorates and their associated agencies and non-departmental public bodies (NDPBs), local authorities, and NHS boards. In addition, police, fire and rescue and further education colleges have been going through significant organisational mergers. As a result, after many years of growth, the number of people directly employed in the Scottish public sector has fallen by about 40,000 since 2009. About half of this reduction is due to early departures, with some also due to staff moving to other jobs, retiring normally or retiring through ill health. While there is no reliable information on the numbers involved, a significant proportion also relates to staff being transferred from local authorities to arm's-length external organisations (ALEOs).

Public sector organisations are currently spending approximately £280 million per year on early departure packages

17. Information on the scale of early departure packages is now disclosed in the annual accounts for most public sector organisations. These show that, in the two years 2010/11 and 2011/12, over 14,000 public sector staff accepted some form of early retirement or redundancy, at an initial overall cost of £561 million¹ ([Exhibit 2](#)).

18. Proportionately, central government organisations have made greatest use of early departures, with 8.4 per cent of staff leaving under some form of package during 2010/11 and 2011/12. This sector is very diverse, with a wide range of Scottish Government directorates, NDPBs and other agencies. As a result, it is difficult to identify any common pattern among these organisations. However, many of these organisations have undergone significant restructures or mergers, such as Education Scotland and the Care Inspectorate.

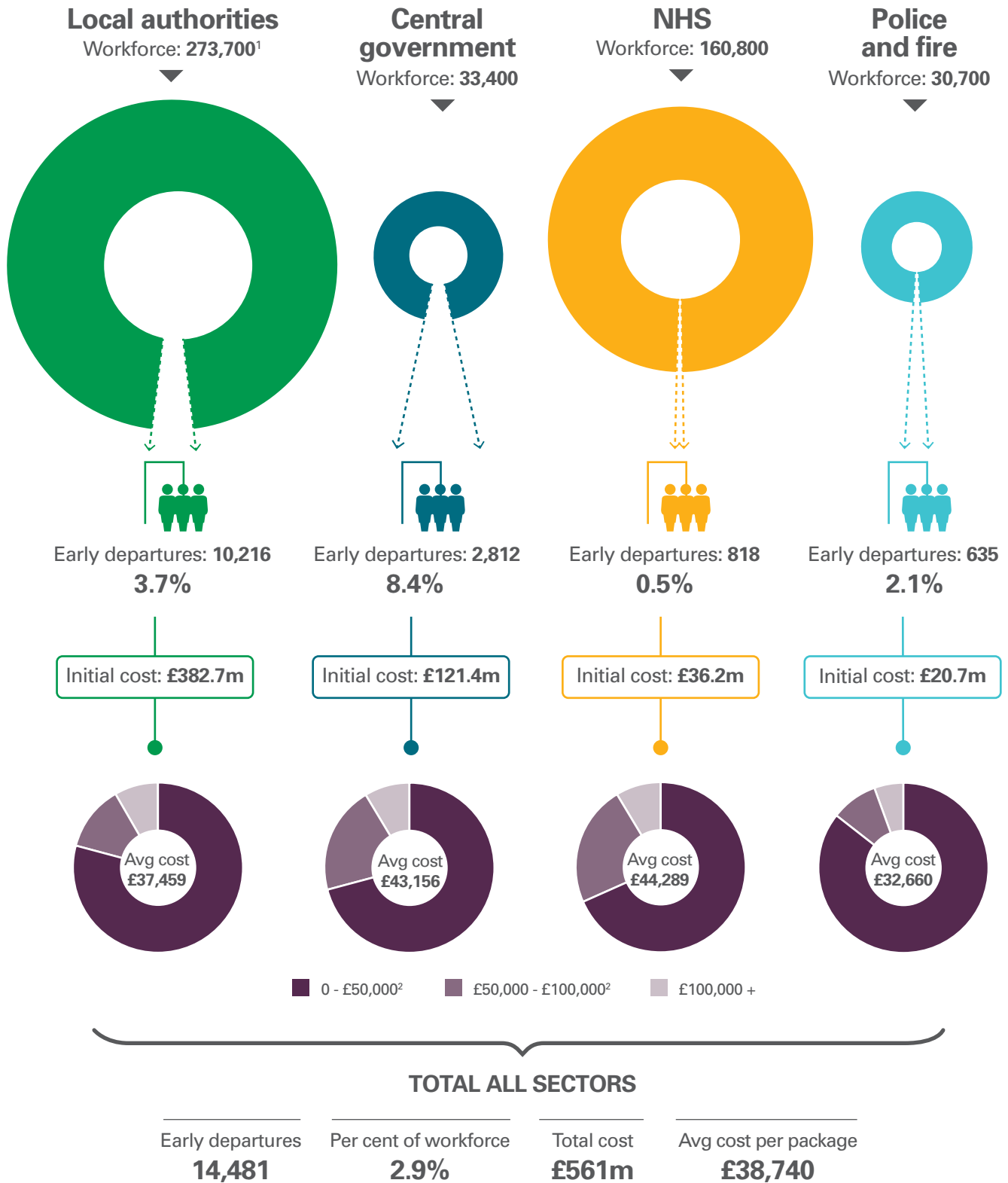
19. There has also been some variation in the cost of early departure packages. As indicated in [Exhibit 2](#), the vast majority of individual packages have an average cost of less than £50,000. But about 8.3 per cent of packages had an average cost over £100,000, representing over 40 per cent² of the total expenditure on early departure packages. This can reflect a number of factors, such as the number of years service by individuals and their final salary.

20. There are also some differences between the sectors in the average cost of packages. The average cost of NHS and central government packages, at £44,289 and £43,156 respectively, is significantly higher than the costs of local government and police and fire packages. This is likely to reflect a greater focus

over 14,000 public sector staff accepted some form of early retirement or redundancy, at an initial overall cost of £561 million

Exhibit 2

Early departures by sector in 2010/11 and 2011/12



Notes:

1 Workforce figures as at Q1 2010 (headcount).

2 Local authorities and police and fire figures are measured £0 - £60,000 | £60,000 - £100,000.

Source: 2011/12 audited annual accounts; Scottish Government employment statistics

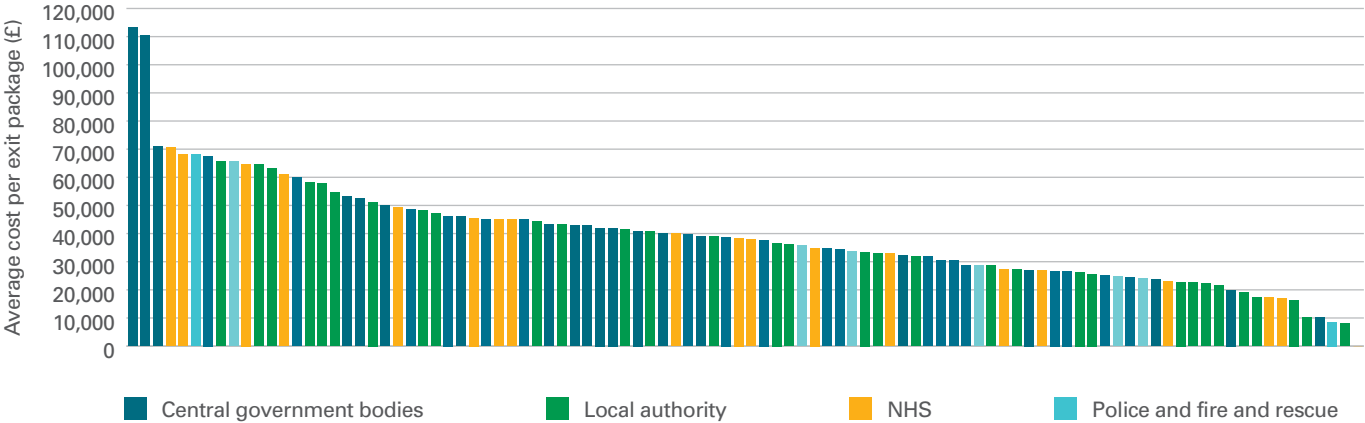


23. There are also striking variations in the average cost of departure packages of individual organisations (Exhibit 4). There can be good reasons for this. For example, over the two years 2010/11 and 2011/12, the highest average cost packages were made by the Scottish Funding Council and Scottish Enterprise. This, at least in part, reflects a planned restructuring of their management teams and a need to reduce the number of senior and relatively highly paid managers.

Exhibit 4

Average cost of early departure

The average cost of departure deals varies significantly between organisations (see Appendix 3 for more details).



Source: 2011/12 audited annual accounts



Part 3

The principles of best practice



24. Early departure schemes are an important tool for public organisations. They are not a way of rewarding staff and should not be seen as an entitlement. But they can provide a cost-effective way of managing overall employee numbers and costs. This can be particularly important in times of budget cuts or public sector mergers, where there is a need to implement relatively quick changes in the workforce.

25. But there is a price to pay. There is a risk that some organisations are unaware of the true costs of early retirements or redundancies to revenue budgets or to pension funds. Decisions made in response to short-term pressures can lead to long-term costs.

26. Public organisations face a range of different circumstances, both in terms of their financial position and the need to restructure their workforce, and in terms of the funding of their pension schemes. However, there are a number of principles of good practice which can help all public sector organisations achieve value for money. These are discussed below and listed in more detail at [Appendix 4](#).

Early departure schemes should be driven by a long-term workforce strategy, rather than by short-term budget cuts

27. In the short term, organisations can turn to early departure schemes as a way to achieve budget cuts. However, early departure schemes should be driven by the strategic needs of organisations, shaped by service needs and local and national policy decisions. This more considered approach should try to ensure that schemes and decisions are based on planned restructures and skill needs.

28. There is a risk that the timescale within which budgetary decisions are currently made can compromise the quality of decision-making by enforcing rapid, reactive decisions in the few months between the end of the calendar year and the beginning of the next financial year. If more time was available for such major decisions, it would allow better analysis, consultation and communication within organisations and between the employer and the pension fund.

29. Organisations may, for example, identify the need to reduce staff numbers in a particular department or at certain grades and should tailor their early departure schemes accordingly. The audit report for Argyll & Bute Council, for example, notes that the council has a 'workforce planning framework in place which informs a five-year workforce planning strategy. All staff reductions have taken place as part of an integrated approach to transformation/modernisation. All service reviews have addressed workloads, job descriptions and have detailed implementation plans associated with them.'

early departure schemes can provide a cost-effective way of managing overall employee numbers and costs

30. In addition, organisations should ensure that proposals on restructuring their workforce take into account future needs and are sustainable. There is little point in spending money on departure schemes, only to spend more money on recruiting new staff to fill these vacant posts.

31. The public sector's approach to early departure schemes has steadily evolved. While there may have been an initial focus on short-term savings, there is some evidence to suggest that greater consideration is now being given to longer-term workforce planning. For example, some organisations are tailoring early departure schemes, aiming them at specific departments or jobs where they are planning to make reductions. At NHS Greater Glasgow, proposed early departures must demonstrate how they support the organisation's programme of service redesign, as well as showing why any planned payment represents value for money.

Organisations should consider alternatives to early departures

32. Early departure schemes should not be the only option considered when facing budget cuts. They can lead to savings. But they can also reduce the effectiveness of organisations, with the loss of experienced staff and specialist skills which may take years to replace. These long-term non-financial costs may outweigh any short-term savings made.

33. Organisations should, for example, consider the possibility of redesigning services and retraining staff and redeploying them in other roles. They should also take into account the impact of natural turnover, with staff reaching retirement age or moving on to other jobs.

34. Some organisations do not make widespread use of early departure schemes. Aberdeen City Council's audit report, for example, highlights that 'there is no major programme of workforce reduction required to balance the budget'. Angus Council's audit report notes that the organisation 'has not been in the position of having to offer voluntary early release schemes in order to secure significant long-term cost savings'. The report identifies that the council 'is on track to reduce the workforce...through natural wastage, vacancy management and ad hoc voluntary redundancies and early retirements'. Similarly, at NHS Tayside, the annual audit report notes that the board 'will consider savings through natural turnover and redeployment'.

35. Organisations can also make use of other ways to reduce staffing numbers. At the Crown Office and Procurator Fiscal Service, for example, the annual audit report highlighted that the organisation also had 'a significant reduction in the number of agency, temporary/contract staff and trainees employed'.

Organisations should have clear and up-to-date policies and procedures, setting out their approach to early departures

36. Organisations should have clear policies and procedures for the use of early retirements, ill-health retirements, and compulsory redundancies. These should be regularly reviewed and updated, to help ensure that they are based on accurate management information on which to base decisions and monitor trends. Organisations should also consult with trade unions or staff representatives to help ensure that they are seen as fair and reasonable. Policies and procedures should be approved by board members.

37. In general, organisations have clear and up-to-date policies and procedures for their early departure schemes. Where these are not in place, this is generally because the organisations are seeking other ways of reducing the size of their workforce through, for example, natural turnover or restrictions on overtime.

38. There are examples where organisations could have a clearer and more consistent approach when applying their early departure policies. Scottish Enterprise's annual audit report, for example, states that the organisation 'used the 2011/12 Selective Voluntary Severance (SVS) scheme in a targeted way and therefore did not formally communicate the scheme to all staff or update their policy, which dates from 2009 and is available to staff via the intranet.' The report also identifies that 'in some circumstances the compensation payable under the terms of Scottish Enterprise's contractual severance scheme were now more than available under the recently revised Civil Service Compensation Scheme. As such the scheme did not currently meet all of the guidance set out in the revised Scottish Public Finance Manual'. The scheme was approved by the Scottish Government and payments were in line with contractual obligations. The Scottish Government also noted that, for future schemes, Scottish Enterprise should make efforts, through its normal staff engagement process, to review the terms of its compensation schemes for severance, early retirement and redundancy so as to meet the guidelines in the SPFM.

39. Organisations can also vary the terms offered to different grades of staff. This may be justified by a greater need to reduce numbers at certain levels. But, without clear and transparent policies, it can leave organisations open to accusations of inconsistency, for example if an organisation implements revised schemes each year to target sections of their workforce, and offers more favourable incentives to managers than was available to other staff.

Early departure proposals should be supported by business cases, demonstrating that they represent value for money

40. Senior managers and board members need to be fully aware of the costs and benefits when making decisions. Before approving any early departures, organisations must ensure that they represent a good use of public money. Any additional costs associated with incentives such as 'added years' or lump sums, should be offset by savings in subsequent years.

41. Business cases, setting out proposals for early departures, should be based on the full additional costs. These should include the costs to pension funds which are recharged to the employer – sometimes known as the 'strain on the fund' and 'capitalised added years' costs – as well as the costs charged to their own revenue accounts. They should not, however, include costs which were due to be paid as part of a normal retirement.

42. There may be circumstances where it makes sense for the costs of individual departures to be met by the organisation's central budget, for example, where they form part of an overall corporate policy to reduce the numbers of managers at a certain grade. In general, however, costs should be charged to the budgets of the departments which expect to make savings from the early departures.

43. There should be controls over the potential re-employment of individuals who have received an early departure deal or have chosen to retire early. Strathclyde

Fire & Rescue's decision to re-employ its chief fire officer, immediately after he took early retirement, was the subject of a report by the Accounts Commission and attracted much media attention and criticism. And similar decisions have been taken in recent years by other fire and rescue and police services. Even where there are some savings, for example in superannuation contributions, organisations need to think about public perceptions. Dumfries & Galloway Council, for example, has recently announced an intention to place restrictions on the future recruitment of individuals who have accepted any form of early departure.

44. Similarly, posts which are vacated by an individual taking an early departure package should not subsequently be filled by new recruitment at the same cost. If posts are to be filled by lower graded or lower paid staff, this should be reflected in any business plans and the assessment of value for money.

45. In terms of payment in lieu of notice, organisations should plan to avoid such payments being required. It is, however, acknowledged that such arrangements may be unavoidable in exceptional circumstances, such as contractual entitlement. However, where staff start alternative employment before the notice period has expired, the payment in lieu should be reduced accordingly.

46. Scotland's public sector organisations routinely calculate payback periods, the number of years before the initial costs are met by savings, before agreeing to early departures. But the work we have carried out suggests that there is significant variation in the payback periods that are used. For schemes that we examined, the overall payback periods ranged from between one and three years.

47. There is even greater variation in the payback periods used to justify individual packages. This can be due to the incentives provided in these packages, particularly the number of 'added years' ([Appendix 1](#)). Some pension schemes allow local authorities to offer up to ten added years. In the schemes we examined, the number of added years offered ranged from zero to six and two-thirds. Organisations are not obliged to offer 'added years' and they need to have a clear rationale for their use.

48. There can, of course, be different pressures on organisations. Where there are mergers, for example, some can have a more pressing need to reduce staff numbers and therefore a greater willingness to wait longer until early departure costs are repaid. However, the longer the payback period, the greater the risk that the anticipated savings will not be realised. Organisations need to ensure that the payback periods they are using are justified and represent value for money.

49. There can also be some inconsistency in the costs which are included in these payback calculations. Central government organisations generally account for exit costs in full, in the year of agreement. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service Pension Scheme. Similarly, councils should include capitalised added years costs where added years have been awarded. This is the additional cost of providing added years, which the pension fund pays before recharging the former employer. However, these costs are not always fully taken into account. In Fife Council, for example, the annual audit report noted that 'capitalised costs had been excluded when calculating the future "payback periods" for individual exit packages'. This may have affected decisions on the value for money of individual packages and overstated the savings that will be made from the council's workforce reduction programme.

Councillors or board members should provide independent scrutiny of early departure schemes and formally approve packages for senior managers

50. Senior managers and board members need to be fully aware of the costs and benefits when making decisions. Councillors and non-executives do not necessarily need to be kept informed on the details affecting every individual departure deal. But they do need to approve and maintain oversight of early departure schemes and assure themselves that they are delivering the planned savings and represent value for money.

51. Councillors or board members can provide an important independent check on early departure proposals, and should formally approve the departure of senior employees. This is particularly important for senior managers, who may be responsible for designing the terms and conditions of exit schemes. It will help ensure that decisions affecting senior managers conform with the organisation's policies and procedures, and provide some additional assurance to the public where large sums may be involved.

52. In general, councillors or board members approve and are kept informed about the planned costs and benefits of proposed early departure schemes. Detailed decisions on the packages for individual members of staff are, correctly, delegated to chief executives or other senior managers. But councillors or board members generally approve policies and are kept informed about matters such as 'added years' or other incentives, the proposed number of staff involved, the planned overall costs, and the anticipated savings.

53. There can, however, be less consistency in how councillors or board members review the proposals affecting senior managers. For example, in some local authorities, approvals for early departures for senior officers are delegated to the chief executive. In others, councillors are kept fully informed about the costs and savings of the overall scheme, but not provided with separate information on the packages affecting senior managers. There is also an example of proposals affecting senior managers being discussed informally with the leader of the council, but not considered formally by a wider committee.

54. Organisations should ensure that they do not commit to generous exit packages when appointing staff, and that councillors or board members approve all exit packages for senior employees. At West Dunbartonshire Council, for example, the annual audit report includes reference to the departure package of the former chief executive. The chief executive was employed on a five-year fixed-term contract which expired during 2011/12. The contractual entitlement resulted in an 'added years' pension enhancement of eight years and 236 days. The auditors highlighted a lack of transparency in the decision-making process, as 'the council was not afforded the opportunity to review the final settlement terms which...would have been consistent with good practice'.

Compromise agreements should be clear about which employment rights are being waived and should not be used to limit public accountability

55. Employers are able to offer additional payments to encourage individuals to accept voluntary redundancy or early retirement. These are sometimes known as *ex gratia* payments. In accepting the additional payments, individuals can be asked

to sign compromise agreements. These are, in effect, a way of reaching an out-of-court settlement and avoiding the costs of employment tribunals. The agreements can help manage the risk and financial implications of an early departure.

56. Compromise agreements are legally binding contracts between an employer and employee. Once signed the employee waives some employment rights in return for benefits as set out in the agreement. The agreement prevents the employee from pursuing any litigation based on claims, for example of unfair dismissal or equalities arising from their employment and its termination.

57. The use of compromise agreements has attracted significant public interest, with fears that they can be used to silence whistleblowers. The Scottish Government has recently emphasised that confidentiality clauses should only be used appropriately. It is essential that in reaching compromise agreements, public sector organisations adhere to the principles of transparency and accountability. Organisations must also understand any restrictions in terms of what employment rights have been waived by the employee.

58. Payments made under compromise agreements, or *ex gratia* payments, are not subject to the same degree of public disclosure as other early departure payments. Organisations should not use these instead of other incentives, such as 'added years', in order to avoid public accountability.

59. Organisations must also ensure that compromise agreements are administered correctly to avoid claims from employees and former employees. Aberdeenshire Council's annual audit report, for example, notes that 'significant provisions may be required to reflect the costs of compensation for equal pay claims for staff who have not yet signed compromise agreements and who have progressed a tribunal claim and costs in relation to early retirement/redundancy costs where agreements have been reached prior to the year end'.

Organisations should monitor that the planned savings in early departures have been achieved and use this to help shape future proposals

60. Having carried out a programme of early retirements and redundancies, organisations should conduct a review to check that the expected benefits were delivered. Senior managers and board members should receive information on the number of staff that have taken some form of early retirement, the initial costs of these decisions, and a comparison of the planned and actual savings. This information should be used to help shape any future programmes of early retirements or redundancies.

61. Organisations should monitor the savings generated from their early departure schemes and compare these with the planned savings. In some cases, however, this monitoring is carried out by senior managers and not reported to councillors or board members. The auditors at Falkirk Council, for example, reported that, while councillors were 'advised of the cost of compensatory payments through budget monitoring reports, they have not been informed of the most recent numbers, costs and savings attached to the voluntary departure arrangements'. Glasgow City Council reported departures for the whole workforce but did not have separate arrangements for senior employees. In January 2013, however, it was reported to the Finance & Audit

Scrutiny Committee that the chief executive had agreed to keep elected members informed of any early release or voluntary departure proposals affecting executive directors or assistant directors.

Organisations should report openly about their use of early departures and the extent to which they have delivered savings

62. Public organisations should be open about their use of public money to fund early retirements and redundancies. Since 2011/12, almost all of Scotland's public sector organisations are required to provide some information in their annual accounts on early departures. Typically, this provides details on the overall initial costs and the number of staff involved. The only exceptions are further education colleges, where there is currently only a limited requirement for any disclosure in their accounts. There is no obvious reason for this.

63. However, there is scope for organisations to go beyond their formal accounting requirements, which focus purely on the initial costs of early departures. Information can be available in committee papers or provided as a result of FOI requests. But very few organisations publish details on the actual savings that have been made from early departure schemes. This would provide a more balanced picture of early departures and allow the public to assess value for money.

64. In general, there is an expectation that organisations should be open about their use of public funds. However, they can sometimes be reluctant to publish details of individual agreements. The requirements of the Data Protection Act can be seen as preventing organisations being fully open about specific packages. However, this is not necessarily true. For example, NHS National Services Scotland agreed to the disclosure of a director's remuneration package, despite a confidentiality agreement being in place, following consultation with legal advisers.

Endnotes



- ◀ 1 These figures do not include further education colleges or staff retiring early due to ill health.
- ◀ 2 Local authorities, police joint boards and fire and rescue joint boards combined incurred 44.0 per cent of their expenditure on early departure packages in 2010/11 and 2011/12 on exits costing over £100,000.

Appendix 1

Calculating the additional costs of early departures



The main payments or charges associated with early departures

There are many variables that need to be considered when calculating the costs of offering employees early retirement or voluntary redundancy. There are, for example, differences in the details of NHS and local government pension schemes. Employee entitlements have also decreased significantly for more recent employees. In addition, employers may choose to offer additional incentives, while others may not.

However, there are four main elements common to all public sector pension or redundancy terms:

- **Pension payments:** Employees are entitled to an annual pension. The value of this will vary depending on how many years they have worked for the organisation. It may be based on their final salary or, for more recent employees, the average salary over their career. These costs are met by a pension fund, built up throughout the person's career and funded through employer and employee superannuation payments.
- **Pension lump sum:** As well as an annual pension, employees are also entitled to a lump sum. This will be based on how many years they have worked and their salary. Again, these costs are met by an individual's pension fund.
- **Added years:** An individual's annual pension and lump sum is based on how many years they have worked for the organisation and contributed towards their pension fund. As a result, they may be reluctant to accept an early retirement and reduced pension payments. Employers can choose to offer 'added years' as an incentive to individuals, adding up to ten years when calculating their annual pension and lump sum payments.
- **Redundancy lump sum:** Where they are made compulsorily redundant, employees are entitled to statutory redundancy payments. This is based on how many years they have worked for the organisation. In addition, however, employers may choose to increase these statutory payments to encourage individuals to accept redundancy or early retirement. These incentives are sometimes known as **compromise agreements** or **ex gratia payments**. They are, in effect, a way of reaching an out-of-court settlement and avoiding the potential costs of employment tribunals.

The additional costs of early departures

When considering offering employees early retirement or voluntary redundancy, organisations need to assess the costs and benefits. They may have an urgent

need to reduce the number of employees, but organisations need to ensure that any short-term costs are outweighed by long-term savings.

In calculating these costs, there are two fundamental principles. They should:

- only focus on the **additional costs** that are incurred by an early departure package. They should not include any lump sum or annual pension payments that an employee will be entitled to if they retire normally. These have already been funded throughout the individual's career, with employer's and employee's superannuation contributions being paid into a pension fund. Additional costs such as redundancy lump sums and the impact of 'added years', however, do need to be included. The 'added years' element should be disclosed under two headings. An **additional lump sum** charge should be included to reflect the increased lump sum the individual will receive, and a **capitalised added year** charge, which is an estimate provided by the pension fund of the cost of paying an inflated pension over the employee's remaining life
- take into account the costs commonly known as the '**strain on the fund**'. In other words, the cost to the pension fund of allowing the employee to retire early without actuarial reduction. This cost is calculated by the pension fund and is based on a range of factors including the employee's age, sex and marital status. The cost is borne by the employer under early retirement and voluntary redundancy arrangements.

Illustrative example

This example is based on an employee working in local government. It shows the main costs involved when an employee retires normally and when they accept some form of early departure package. This provides a simplified picture, ignoring, for example, recent changes in pension entitlements, in order to illustrate the main principles involved. In reality such calculations are complex and take into account a number of different actuarial and other factors. While this example is based on local government, the same principle applies to all public sector organisations.

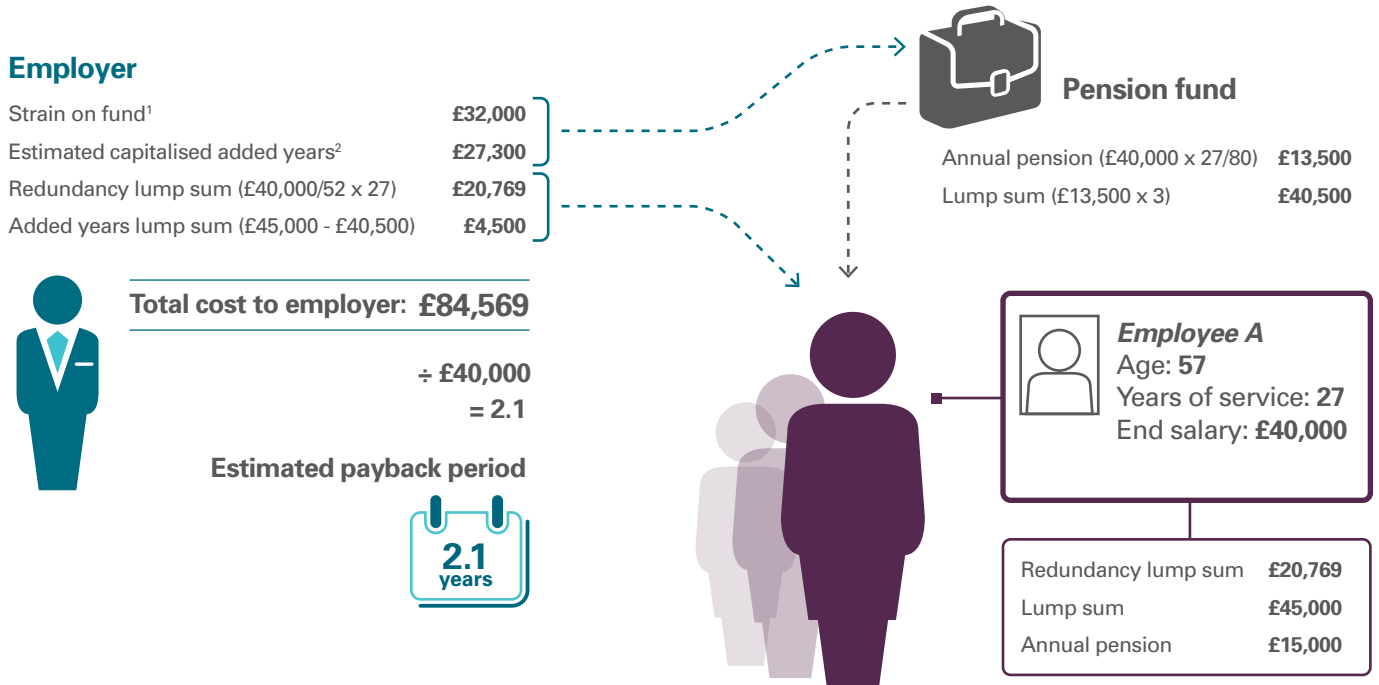
Employee A is 57 years old and currently has 27 years' service. She is due to retire at age 60 in three years' time, with a final salary of £40,000. Her pension will be based on her number of years' service, with each year contributing one-eightieth of her final salary. In addition, she will be entitled to a lump sum, calculated as three times her annual pension. In three years' time, with a total of 30 years' service, Employee A will be due to receive an annual pension of £15,000 and a lump sum of £45,000. The entire cost of this package is funded by her pension fund, built up over her career from employer and employee superannuation contributions.

In contrast, Employee A could be offered some form of early departure package. Not all public sector schemes provide additional payments. However, in this particular example, the employer has included the incentive of three 'added years' service plus a redundancy lump sum of one week's pay per year of service.

Appendix 1 illustrative example shows the payments due to Employee A and the costs met by the employer and the pension fund for this particular package. With the award of three 'additional years', she receives the same annual pension and lump sum had she worked on until she was 60. However, the cost to her

Appendix 1 illustrative example

Cost of early retirement at age 57, with 27 years' service and 3 added years



Notes:

- 1 Based on the cost of paying the annual pension over a longer period, and based on actuarial estimates of life expectancy.
- 2 The cost of adding unworked years to the length of service, and based on actuarial estimates of life expectancy.

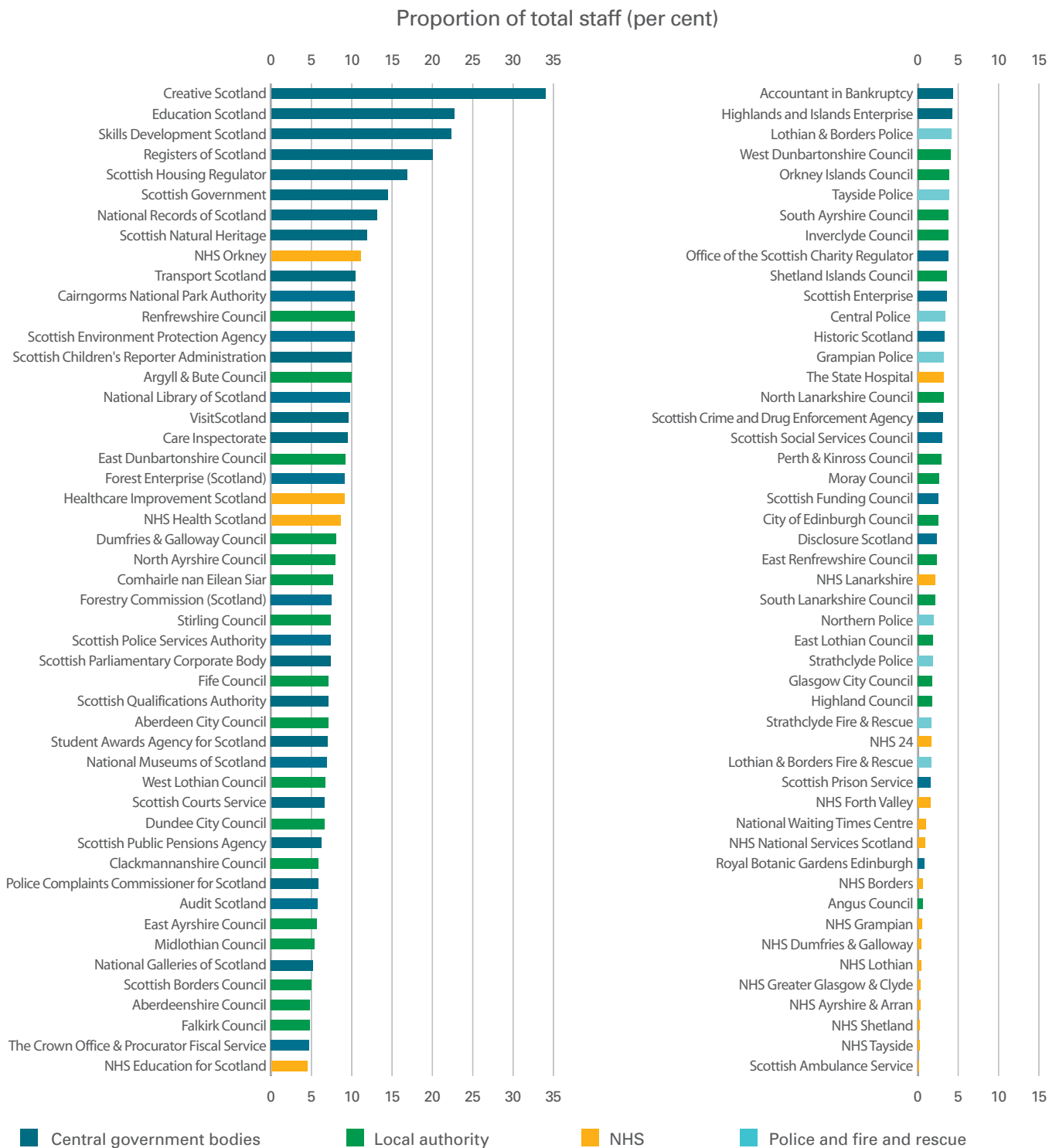
Source: Audit Scotland

pension fund is limited to the actual number of years that she has worked. The additional costs are met by the employer. The redundancy lump sum and the 'added years' lump sum are paid directly to Employee A. The costs relating to the 'strain on the fund' and the capitalised added years, which are based on actuarial estimates of life expectancy, are paid by the employer into the pension fund.

The total cost to the employer of providing this early departure package for Employee A is £84,569. Assuming that her post is not filled, the employer will now save £40,000 per year on salary costs (this is a simplification as, in reality, the employer will also save on other costs such as superannuation contributions). This would mean that, in 2.1 years, the employer will have recovered its initial outlay and will now benefit from recurring savings.

Appendix 2

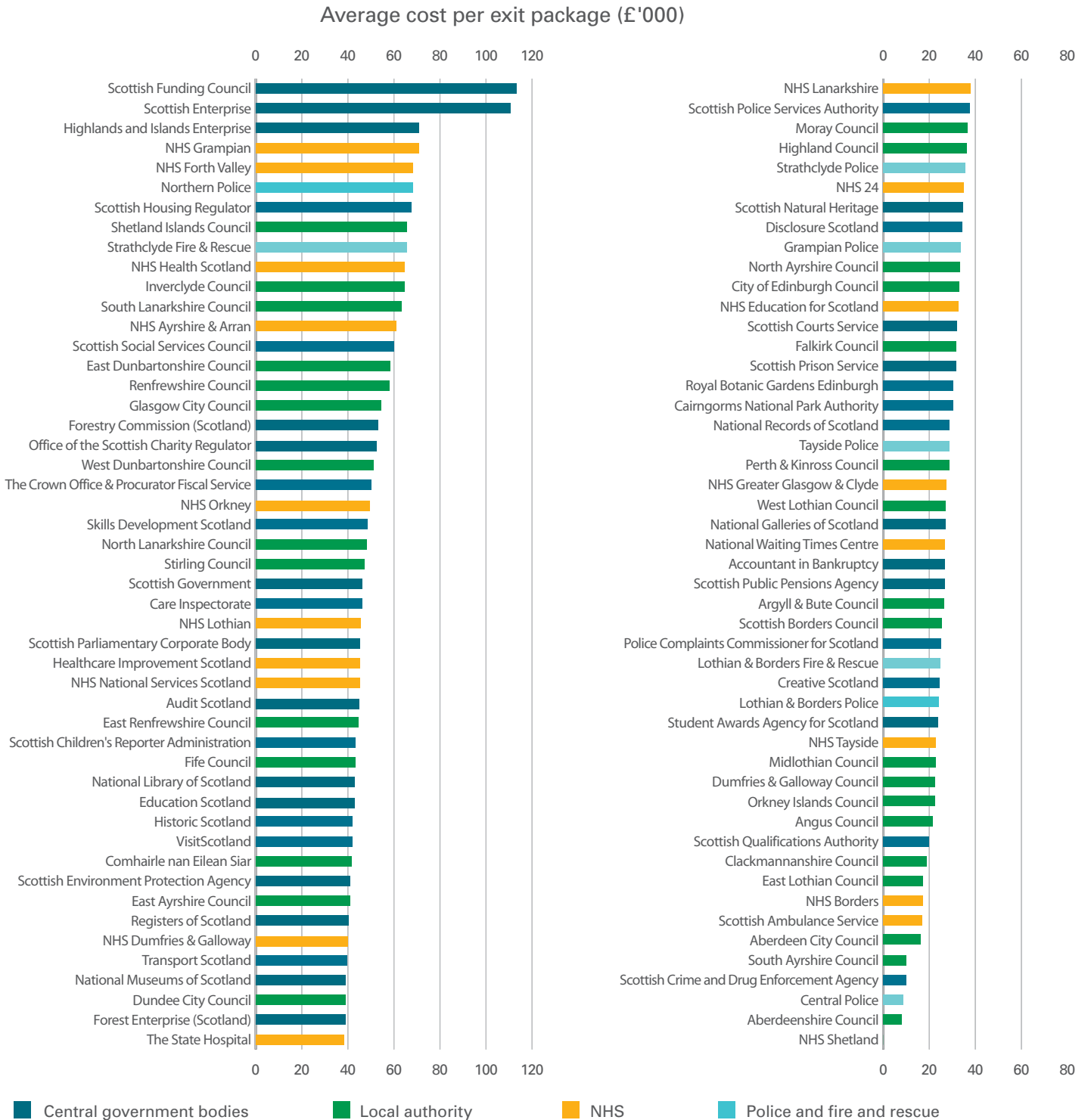
Proportion of staff taking early departure



Note: The graph does not include organisations who reported no early departures, or organisations that made no disclosure.

Appendix 3

Average cost of early departure packages



Note: The graph does not include organisations who reported no early departures, or organisations that made no disclosure.

Appendix 4

The principles of good practice



Workforce planning

Early departure schemes should be driven by the needs of organisations, not the wishes of individuals.

Workforce and service plans should be used to help shape proposals for early departure schemes, identifying parts of the organisation or particular grades where there is greatest need for reducing the number of employees.

Organisations should ensure that they retain sufficient skills and experience before authorising individual early departures.

Option appraisal

In order to avoid unnecessary costs, alternatives to early departures should be considered. These include:

- natural turnover
- vacancy management
- reducing overtime levels
- reducing the use of agency or contract staff.

Policies and procedures

Policies and procedures for early departure schemes should be regularly updated to reflect the changing needs of organisations, the results of earlier schemes and relevant guidance.

Policies and procedures should cover issues such as:

- incentives, such as 'added years', that might be available
- criteria for the use of ill-health retirements
- restrictions on any return to employment within the organisation or sector.

Organisations should consult with trade unions or staff representatives to help ensure that they are seen as fair and reasonable.

Policies and procedures should be clearly communicated to all staff and be transparent to the public.

Policies and procedures should be consistently applied to all staff, except where the

organisation's programme is being targeted at specific grades or business areas.

Business cases

Proposals should be supported by clear business cases, showing the full additional costs of early departures and their anticipated savings.

There should be restrictions on staff who have accepted an early departure package from being re-employed by their previous employer.

Business cases should include 'strain on the fund' and 'added years' costs, borne by pension funds and recharged to employers, not just those costs directly charged to an organisation's budget.

Business cases should take into account the costs of any replacement staff employed at lower pay scales.

Organisations should ensure they are using appropriate and justifiable payback periods.

Compromise agreements

Organisations should be clear about which employment rights they expect individuals to waive in return for *ex gratia* payments.

Compromise agreements should not be used to help silence whistleblowers and limit public accountability.

Independent scrutiny

Councillors or board members should oversee early departure schemes, ensuring that proposals represent value for money.

While there may be some need for confidentiality, proposals affecting senior managers should be subject to detailed formal scrutiny by councillors or board members.

Costs presented to councillors or board members should detail separately the costs borne by the organisation as a result of offering 'added years' (the 'added years' lump sum and capitalised 'added year' costs).

Monitoring

Senior managers should monitor progress to help ensure that planned savings are realised and review future proposals accordingly.

Senior managers should report regularly to councillors or board members, detailing the cost of early departure schemes, and providing assurance that business cases are accurate and that value for money has been achieved.

Openness

Organisations should be open in their annual reports and accounts about the costs of early departures and the savings they have generated.

Managing early departures from the Scottish public sector

This report is available in PDF and RTF formats, along with a podcast summary at:
www.audit-scotland.gov.uk

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0845 146 1010
or info@audit-scotland.gov.uk



Audit Scotland, 110 George Street, Edinburgh EH2 4LH
T: 0845 146 1010 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

ISBN 978 1 909705 01 2 AGS/2013/4

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 September June 2013

BY: Chief Executive

SUBJECT: 2013/14 Council Improvement Plan

6

1 PURPOSE

- 1.1 To present the 2013/14 Council Improvement Plan to the Audit and Governance Committee for comment and noting.

2 RECOMMENDATIONS

- 2.1 That Committee notes the 2013/14 Council Improvement Plan (Appendix 2) that was approved by Council, 25th June 2013.

3 BACKGROUND

- 3.1 Council, 25th June 2013 approved the 2013/14 Council Improvement Plan.
- 3.2 The diagram in Appendix 1 illustrates the sources used to determine the 2013/14 Council Improvement Plan. The action points in the Plan are primarily drawn from the results of the How Good is Our Council? (HGIOC) self-evaluation carried out by all services and the Corporate Governance self-evaluation (reported to Audit & Governance Committee, 11th June 2013). All of the improvement points raised in the self-evaluations have been reviewed to ascertain which actions should be addressed corporately. The results of the 2013 Employee Engagement Survey have also been taken into account.
- 3.3 The Council Improvement Plan also contains relevant improvement points and actions from Audit Scotland's Overview of Local Government in Scotland, Audit Scotland's Annual Report to Members and the Shared Risk Assessment prepared by the Local Area Network. A small number of action points from the 2012/13 Council Improvement Plan that have not been completed have also been carried forward into the latest Plan.
- 3.4 In accordance with the principles of Best Value the Council strives to pursue 'continuous improvement' and seeks to deliver services in as effective and efficient way as possible. The recommendations arising from all of the self-evaluation, review and inspection work identified above help to inform the Council's pursuit of 'continuous improvement through the adoption and implementation of the 2013/14 Council Improvement Plan.

- 3.5 The 2013/14 Plan outlines the actions that the Council as a whole will be undertaking at a council-wide level. This year's Plan includes 21 action points, which is a similar number of action points as were included in previous years' plans. Improvement points from HGIOC and other sources relating to specific Council services are not contained within the Council Improvement Plan as they are dealt with in Service and Business Plans.
- 3.6 One of the four areas of focus of the Council Plan 2012-2017 is *Growing the Capacity of Our Council* which has one specific outcome: *We deliver excellent services as effectively and efficiently as possible*. All the improvement points in the 2013/14 Council Improvement Plan will contribute to growing the capacity of the Council to meet this outcome.
- 3.7 The Council Plan established five core principles that underpin or influence the Plan. The 2013/14 Council Improvement Plan supports four of these principles:
- Services built around people and communities
 - Effective, efficient and excellent services
 - Working together to achieve outcomes
 - Prioritising prevention and promoting equality
- 3.8 Implementation of the Plan will be assured via ongoing internal monitoring of progress on key actions points by the relevant lead officers and Executive Directors. Monitoring reports on progress with implementing the Plan will be made to the Council Management Team and the Audit and Governance Committee.

4 POLICY IMPLICATIONS

- 4.1 The 2013/14 Council Improvement Plan will assist the Council in demonstrating that it is achieving Best Value. It will provide the necessary focus to improve key areas of the Council at a corporate level, thus aiding delivery of the Council Plan. Moreover, it will support East Lothian Council in its constant striving for continuous improvement, to continue improving the quality and delivery of its services and to meet the Council Plan outcome: *'We deliver excellent services as effectively and efficiently as possible.'*

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 directly, although certain actions within the Plan are likely to require the commitment of staff resources.

6.3 Other – none.

7 BACKGROUND PAPERS

7.1 Overview of Local Government in Scotland; report to Audit & Governance Committee, 11th June 2013

7.2 Corporate Governance Self-Evaluation and Annual Governance Statement 2013; report to Audit & Governance Committee, 11th June 2012

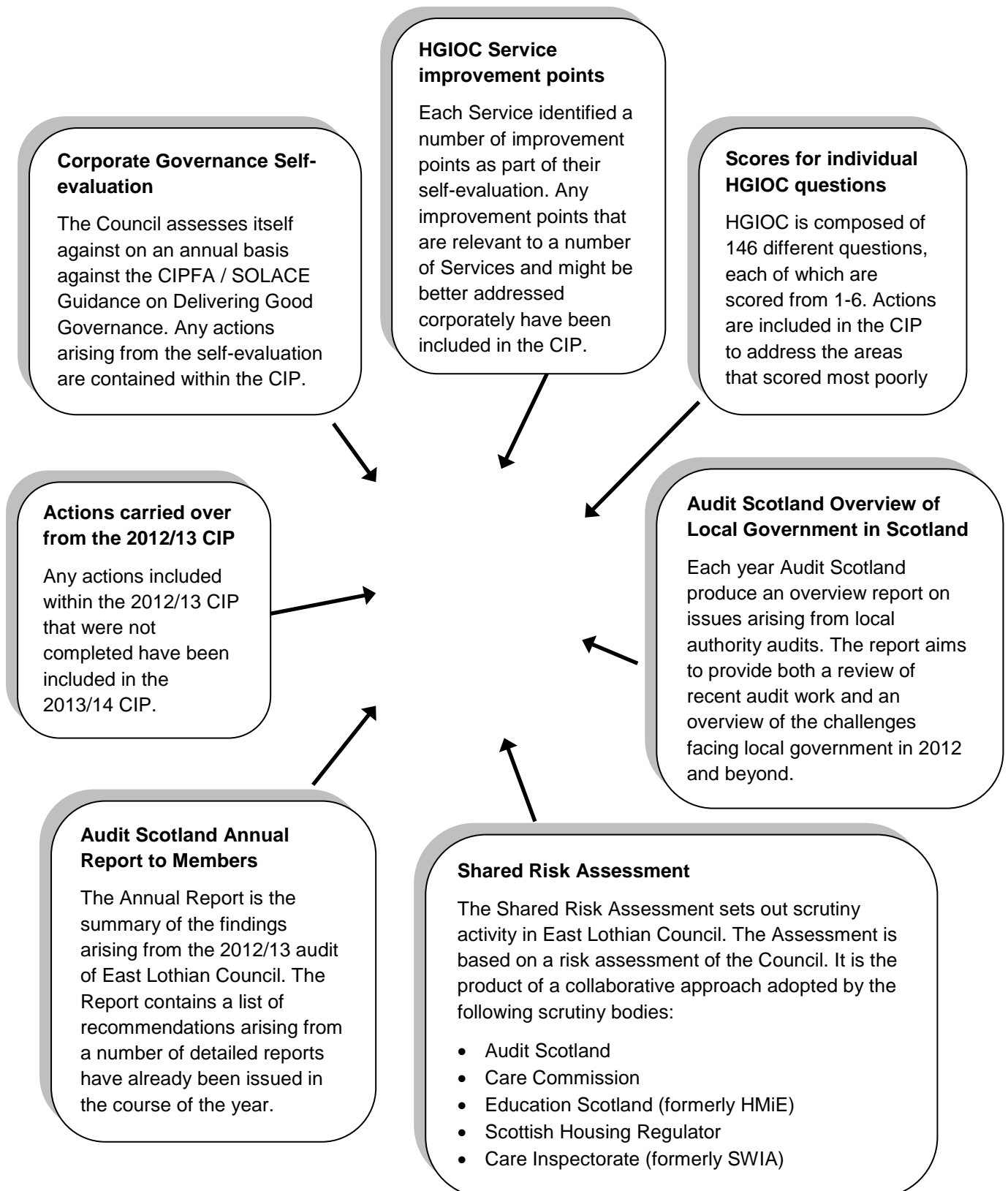
7.3 Appendix 1: Sources of the Content of the Council Improvement Plan

7.4 Appendix 2: 2013/14 Council Improvement Plan

AUTHOR'S NAME	Paolo Vestri
DESIGNATION	Corporate Policy Manager
CONTACT INFO	pvestri@eastlothian.gov.uk 01620 827320
DATE	16 August 2013

Appendix 1: Sources of the Contents of the Council Improvement Plan

Actions contained within the Corporate Improvement Plan have arisen from several different sources.



Appendix 2: 2013/14 Council Improvement Plan

2013/14 Council Improvement Plan

We deliver excellent services as effectively and efficiently as possible

	ACTION	LEAD SERVICE	TIMESCALE	SOURCE (see glossary)
1	Develop toolkit for self-evaluation of strategic partnerships	Policy and Partnerships	Dec 2013	CGSE / HGIOC
2	Review consultation strategy with view to ensuring that service users' views about quality of services is measured and used effectively	Policy and Partnerships	Nov 2013	CGSE
3	Roll out CPD for elected members and continue to support elected member and senior management development	Council Resources	Sept 2013 / Mar 2014	CGSE/ Outstanding from 2012/13 Plan
4	Hold training session for elected members on new Standing Orders including session on Members Conduct delivered by the Standards Commission	Council Resources	Oct 2013	CGSE
5	Training for Audit & Governance Co and PPR Co members	Council Resources	Oct 2013	CGSE
6	Induction programme for all members of new Community Planning Partnerships, including elected members	Policy and Partnerships	Oct 2013	CGSE
7	Review and revise the Improvement Framework and make more effective use of benchmarking, develop guidance and training on the use of benchmarking, Best Value reviews and options appraisal	Policy and Partnerships	Nov 2013/ Mar 2014	CGSE / HGIOC Outstanding from 2012/13 Plan
8	Focused work with Local Area Network on an agreed programme of self-evaluation for improvement	Policy and Partnerships	Mar 2014	CGSE / AIP

9	Implement programme of action to respond to the results of the Employee Engagement Survey	Policy and Partnerships	Nov 2013	CGSE / HGIOC
10	Review Whistleblowing Policy and publicise to all staff	Internal Audit	Oct 2013	CGSE
11	Introduce Combined Impact Assessment and process for monitoring the needs of minority and vulnerable groups	Policy and Partnerships	Aug 2013/ Mar 2014	CGSE
12	Review People Strategy including the how the values from the East Lothian Way are disseminated to staff	Policy and Partnerships	Oct 2013	CGSE / HGIOC
13	Develop Workforce Development Plan (including supporting internal jobs market, management of change, leadership development and succession planning)	Policy and Partnerships	Nov 2013	HGIOC / OLG
14	Review and further develop HGIOC self-evaluation, including involvement of stakeholders	Policy and Partnerships	Jan 2014	HGIOC / AIP
15	Review service planning guidance and develop 3-year service plans	Policy and Partnerships	Dec 2013	HGIOC
16	Review staff communications	Policy and Partnerships	Oct 2013	HGIOC
17	Prepare and implement Records Management Plan setting out arrangements for management and retention of records in line with requirements of the Public Records (Scotland) Act 2011	Council Resources	Dec 2013	Legislative requirement
18	Complete review of Standing Orders and Schemes of Administration and Delegation	Council Resources	June 2013	Outstanding from 2012/13 Plan
19	Develop a methodology for systematically reviewing and updating corporate policies	Council Resources	Nov 2013	Auditor
20	Review and further strengthen the Council's financial management process	Council Resources	Dec 2013	Auditor
21	Focused work with the Local Area Network and external auditors as part of an agreed programme of external audit to meet the financial challenges faced by the Council	Council Resources	Mar 2014	AIP

Glossary of sources:

CGSE = Corporate Governance Self-evaluation (May 2013)

HGIOC = How Good is Our Council? (March 2013)

AIP = Assurance and Improvement Plan Update 2013-2016 (April 2013)

Auditor = Auditor's Interim Management Report (April 2013)

OLG = Overview of Local Government, Audit Scotland (March 2013)



REPORT TO: Audit and Governance Committee
MEETING DATE: 17 September 2013
BY: Bill Axon, General Manager, **enjoyleisure**
SUBJECT: **enjoyleisure** Management Report

7

1 PURPOSE

1.1 To update elected Members on the current status and progress of Enjoy East Lothian Ltd (**enjoyleisure**).

2 RECOMMENDATIONS

2.1 To note the report.

2.2 To acknowledge the continued success of **enjoyleisure** in its four years since formation.

3 BACKGROUND

3.1 Enjoy East Lothian Limited was established by East Lothian Council in October 2009 to manage and develop their indoor and outdoor leisure facilities for the benefit of the communities within the area described as East Lothian.

3.2 As a company limited by guarantee with charitable status, we do not have a share capital. We are also known as a Non Profit Distributing Organisation (NPDO).

3.3 Our corporate objective is to bring a business focused approach to the management of leisure services with all profits generated being retained for service, activity and facility improvement. However, this is required to be achieved by ensuring we meet the social objectives of both East Lothian Council and Enjoy East Lothian Ltd.

Performance including staffing

3.4 I am pleased to report we have returned a surplus for the period 1st April 2013 – 31st March 2013. Although it should be noted the level of our success is not only calculated by our ability to make financial surpluses, it is also measured by our social performance.

- 3.5 We take our responsibilities in becoming a fully inclusive organisation seriously by ensuring wherever possible there are no known barriers (including affordability) to accessing facilities, activities or employment opportunities. Our strength is that our services and facilities are accessible and offer exceptional quality and value for money. To achieve this objective we currently work in partnership with East Lothian Council with regards the appointment of a dedicated member of staff to evaluate all access matters.
- 3.6 With regards increased opportunities for individuals with disabilities, we have launched East Lothian Disability Swimming Club at Musselburgh Sports Centre. This is the first club of its kind in East Lothian and is the result of many months of discussion and planning with East Lothian Council, Scottish Swimming, Scottish Disability Sports and **enjoy**leisure.
- 3.7 The club is led by members of **enjoy**leisure staff who have gone through specific training in teaching and coaching aquatics to children and adults with a disability/additional support needs.
- 3.8 **enjoy**leisure conducted its first employee survey in May 2013. The purpose of the survey was to measure employees' views and attitudes about their job and working environment on issues such as levels of motivation and commitment within the workforce, how well staff work as teams, relationships between employees and their line manager and responding to customers.
- 3.9 The questionnaire consisted of 50 questions, which were in the form of statements and rated in a four point scale ranging from "Strongly Agree" to "Strongly Disagree".
- 3.10 In total 175 employees were identified as eligible to participate, with a responses received from 114, giving us a healthy response rate of over 65%. This included vocational trainees, temporary staff but excluded casual/relief staff.
- 3.11 This response rate is sufficient to permit reliable analysis in terms of the workforce as a whole.
- 3.12 A number of outcomes of this survey are worth noting:
- **All** respondents (100%) said they enjoyed the work they do and the vast majority also find their work rewarding
 - Virtually all respondents stated they understood the needs of customers and most felt that customer complaints were taken seriously.
 - Almost all respondents said they are treated fairly by their line manager and most feel valued, with a large majority having confidence in the decisions taken by management.

- The results clearly provide evidence of a “no blame culture” within the organisation as virtually all respondents felt able to admit mistakes.
- Over two thirds felt that senior management had a clear vision for the future, while 75% had confidence in the decisions taken by management.
- Three out of four respondents feel that equality at work is taken seriously within **enjoyleisure**.
- 93.7% of respondents would recommend **enjoyleisure** as a good place to work.
- 88.5% proud to tell people they work for **enjoyleisure**.

3.13 I am also pleased to report that with regards industrial relations we have had:

- No industrial relations problems.
- No major negative customer complaints.
- No reportable Health and Safety incidents
or
- No service days lost for any reason other than essential maintenance.

3.14 The current staff turnover within **enjoyleisure** is estimated at fewer than 4%.

3.15 In 2009 a total of 2143 days were lost to sickness absence, this fell to 1309 in 2012 a reduction of 39%. This has had a positive impact on the service we provide and results in savings of both cover costs and loss of productivity.

3.16 **enjoyleisure** introduced the Living Wage to staff during 2013.

3.17 Employee consultation meetings (Connections) happen at each of the Sports Centres twice per year. This provides staff the opportunity to meet with the General Manager and other members of the Senior Management Team and ask any questions, voice concerns and provide suggestions in a relaxed informal session. These have proven to be a very successful method of communicating directly with staff

Connections meeting are organised on a monthly rotational basis, this allows for two sessions per annum at each site. A number of issues have been raised within a broad range:

- Business updates
- Business development

- Operational issues
- HR Issues
- Site specific matters
-

3.18 **enjoy**leisure operates with an open and welcoming attitude to customer feedback. Under the slogan, “enjoy talking” we actively encourage members of the public to communicate with us and put forward any comments, compliments or complaints they have about the service. Feedback can be provided by:

- Completing the enjoyleisure customer comments form, available at all facilities.
- Contacting us online, through the dedicated comments form on the **enjoy**leisure website.
- Verbally, by speaking to a member of staff on site.
- Contacting the Sports Centres / Head Office directly by telephone, email or post.
- 124 comments have been received from customers between 1st January and August 2013

3.19 Providing targeted concessions is also priority for **enjoy**leisure. We have continued to provide access to affordable fitness and swimming for those on low income, unemployed, the disabled, carers, students etc. This is achieved through working in partnership with the Council in terms of an access scheme sponsored by East Lothian Council.

3.20 Maintaining a safe and enjoyable experience for all our customers is paramount. This is recognised by our membership in the Leisurewatch Scheme.

The Leisurewatch Scheme was developed to help protect vulnerable adults and children and gives **enjoy**leisure staff the confidence to recognise, assess and help manage the risk presented by individuals who exhibit certain behaviours in our facilities.

This is an annual membership scheme which includes training for all frontline staff and managers, a thorough assessment of the facilities to gauge risk, a reporting system linked directly to the Police and mystery visits to test the resilience of the systems in place.

As a result of the training given to staff to recognise suspicious behaviour displayed by potential abusers.

It is also worth noting that all operational staff employed by **enjoy**leisure has attained (as a minimum) the National Pool Lifeguard qualification

Financial Performance

- 3.21 Please see attached appendix a.
- 3.22 I am pleased to report that following an external audit conducted by our appointed auditors we have again returned unqualified accounts for the period 1st April 2012 and 31st August 2013. These will be presented to the Board later this month.
- 3.23 I can also confirm there were no major observations of concern highlighted within the audit.
- 3.24 We also continued generate surplus throughout this period.
- 3.25 Due to the current economic position regarding the financing of public bodies, the management fee from ELC has reduced year-on-year. In 2011/2012 this fee equated to **52.8%** of **enjoyleisure**, this figure fell to **49.1%** during 2011/2012 and to **47.7%** during 2012/2013. This means a reduced cost for Council tax payers in East Lothian but with a greater return with regards participation, opportunity and increased service delivery.
- 3.26 Surpluses generated during the periods 2010/2011 & 2011/2012 exceed those in other Trusts
- 3.27 Management costs as a percentage of staff costs are the lowest in the benchmarked group (Trusts)

User Statistics

- 3.28 There has been a dramatic increase in the attendance at fitness classes throughout the County. A new fitness timetable is introduced each quarter and the number of classes offered per week has risen from 124 in spring 2010 to 240 in autumn 2013.
- 3.29 To encourage teen participation, special after school Teen Gym sessions have been introduced and teen Metafit classes have also started.
- 3.30 A teen membership has also been introduced, which is aimed at attracting this "hard to reach" group to access sport regularly.
- 3.31 We have maintained our competitive pricing for casual users and introduced our direct monthly membership scheme at the very accessible price of £29. This is one of the most affordable available in Scotland and has replaced the plethora of membership cards available previously available. This leads to lower administrative costs, increased loyalty and better income forecasting.

- 3.32 By August 2013, there were 2979 members in the direct debit scheme contributing 78k income in that month.
- 3.34 The free swims programme during the summer for children between the ages of 5 – 16 allowed over 25,000 young people to enjoy **free swims** during the summer holiday period.

The Future

- 3.35 Over the next twelve months we will build on our success by continuing to explore new and improved ways of working. This will be achieved by using every available resource, including untapped staff ideas, experience, qualifications and expertise. We will invest in new ideas and innovation, to ensure customers' visits are both safe and enjoyable.

We will continue with our upgrading and refurbishment programme of 'Bodyworks' during 2014.

Energy efficiency is an area we take very seriously and we will continue to work with partners to develop and introduce processes and services that seek to reduce environmental damage and waste. We will continue to be focused on managing and reducing (wherever possible) the environmental impact of our business. This included the installation of solar panelling at Dunbar Leisure Pool, which reduces costs on site

We are also committed to carrying out in depth customer consultations, which will allow Enjoy to determine a positive way forward based on customer expectations and requirements.

We have invested £8000 in purchasing defibrillators and training units for each of our six main sites these will become operational shortly. The model that we have purchased is fully automated and is capable of interpreting a victim's heart rhythm and automatically delivers an electric shock with minimal input from the operator. When the AED is switched on, it speaks in a computer-generated voice that guides the operator through the procedure.

As the membership scheme is a critical income stream for the business a key focus in the coming year will be to further develop and grow numbers using appropriate marketing techniques.

We are working closely with the Department of Work and Pensions and have recently become a 'Work Place Academy' providing genuine qualifications, real training and work experience, leading to increased job opportunities for participants. This will be followed next year by offering Modern Apprenticeship opportunities for both staff and DWP nominated candidates.

Two recent major investments have been a new sports hall floor at Dunbar Leisure Pool and the purchase of new cafe furniture to enhance the customer visit.

4 EQUALITIES IMPACT ASSESSMENT

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

5 RESOURCE IMPLICATIONS

- 5.1 Financial – There are no implications
 5.2 Human Resource - There are no implications
 5.3 Business – There are no implications

6 BACKGROUND PAPERS

- 5.1 Appendix a

AUTHOR'S NAME	Bill Axon
DESIGNATION	General Manager, enjoyleisure .
CONTACT INFO	Telephone: 0131-653-5202 Fax: 0131-653-5201 e-mail; baxon@eastlothian.gov.uk or baxon@enjoyleisure.com
DATE	17 September 2013

FINANCIAL PERFORMANCE

Appendix a

The following is an extract from the Statement of Financial Activities of Enjoyleisure for the year to 31 March 2013.

	Unrestricted Funds	Restricted Funds	Year to 31 March 2013	Year to 31 March 2012
	£	£	£	£
Incoming resources				
Incoming resources from generated funds:				
- Voluntary income	-	33,509	33,509	94,500
- Management service fee	2,675,592	-	2,675,592	2,731,596
- Investment income	73,962	-	73,962	113,196
	<u>2,749,554</u>	<u>33,509</u>	<u>2,783,063</u>	<u>2,939,292</u>
Incoming resources from charitable activities:				
- Membership fees	608,574	-	608,574	306,858
- Services	2,392,466	-	2,392,466	2,319,377
	<u>3,001,040</u>	<u>-</u>	<u>3,001,040</u>	<u>2,626,235</u>
Total incoming resources	5,750,594	33,509	5,784,103	5,565,527
Resources expended				
Charitable expenditure:				
- Membership services	5,654,091	69,192	5,723,283	5,435,423
- Governance costs	16,440	-	16,440	16,422
Total resources expended	5,670,531	69,192	5,739,723	5,451,845
Net incoming resources before transfers	80,063	-35,683	44,380	113,682
Gross transfers between funds	-18,893	18,893	-	-
Net incoming resources before other recognised gains	61,170	-16,790	44,380	113,682
Actuarial (loss)/gain on retirement benefit scheme	-515,000	-	-515,000	-590,000
Net movement in funds	-453,830	-16,790	-470,620	-476,318
Total funds brought forward	5,663,674	69,325	5,732,999	6,209,317
Fund balances carried forward	5,209,844	52,535	5,262,379	5,732,999

All activities of the charity relate to continuing activities.

The surplus for the year is £44,380 (2012: £113,682). Excluding gifts, donations and defined benefit pension scheme realised movement, the underlying surplus from activities for the year is £41,171 (2012: £51,682). The income from direct funding was £2,675,592 a decrease of £56,004 on 2012. Income from direct funding as a percentage of total income has dropped to 47% (2012: 50%): this is a drop of 10% from the first period following the date of transfer when the percentage was 57%.

The income from the charity's activities was £3,001,040 increasing £374,805 on 2012, the reasons for which include increased take up of monthly memberships following the offer revision in May 2012 along with increased participation levels in swimming lessons and increase in re-sale income.

Enjoy received a donation of £8,209 from The Molly Keith Trust and, matched by Enjoy, was used to fund the purchase of pool toys at Dunbar Leisure Pool.

Expenditure on charitable activities, excluding defined benefit pension scheme adjustments, has increased by £278,860 on 2012. This increase reflects the higher usage in the Centres. Employee related costs have increased by £69,213 due to an increase in the Head Office team and a fixed term management consultancy cost. Property costs have increased by £67,334 due to a revision in waste water charges and increases to gas and electricity costs from price and usage. Supplies and Services has increased by £120,009 mainly due to an increase in Tool and Equipment costs resulting from increased usage of facilities and purchase of items for re-sale.

There are no significant one-off items of expenditure charged to the statement of financial activities in either 2013 or 2012.

All costs incurred were in support of the key objectives of Enjoy.

At 31 March 2013 the FRS 17 valuation of the pension scheme resulted in a net pension liability of £547,000, this is recognised in the Balance Sheet. The valuation has resulted in an actuarial loss of £515,000 being recognised in the Statement of Financial Activities in the year. The balance on the pension fund will change annually according to economic conditions and the Trustees will keep the position under review.

YEAR 2012/13

FINANCIAL STATEMENTS

for the year ended 31st March 2013

Required by

BRITISH HORSERACING AUTHORITY

In accordance with The Rules of Racing

=====

8

Name of Racecourse.....MUSSELBURGH.....

Any Communications respecting this Form should be addressed to -

**REGISTRY OFFICE OF THE BRITISH HORSERACING AUTHORITY
151 SHAFTESBURY AVENUE, LONDON WC2H 8AL**

Musselburgh Joint Racing Committee

Profit and Loss Account

for the year to 31st March 2013

Previous Year

£	£	Profit directly relating to race days -	£	£
	465,204	Flat	512,120	
	236,251	National Hunt	275,559	
	<u>100,000</u>	Race fixture transfer to York	<u>-</u>	
801,455				787,679
670,147		Add - Fixed income		582,562
<u>1,471,602</u>				<u>1,370,241</u>
1,337,825		Deduct - Fixed expenditure		1,299,780
<u>133,777</u>		Profit (Loss) for the year		<u>70,461</u>
(343,177)		Donation to East Lothian Council in relation to capital expenditure		(430,712)
<u><u>(209,400)</u></u>		Retained profit (loss)		<u><u>(360,251)</u></u>

The notes on pages 5 to 6 form part of the Financial Statements

Musselburgh Joint Racing Committee

Balance Sheet at 31st March 2013

Previous Year

£	£		£	£
		CURRENT ASSETS		
	561,717	Debtors	461,479	
	533,189	Balance on Racecourse Bank Account	2,905,421	
	<u>93,784</u>	Cash in Bank	<u>-</u>	
	1,188,690		3,366,900	
		CURRENT LIABILITIES		
		CREDITORS :		
	-	Balance on ELC Bank Account	(2,645,126)	
	(<u>615,794</u>)	Amounts falling due within one year (Note 2)	(<u>509,129</u>)	
			3,154,255	
572,896		NET CURRENT ASSETS		212,645
<u>572,896</u>		TOTAL CURRENT ASSETS LESS CURRENT LIABILITIES		<u>212,645</u>
		CAPITAL AND RESERVES		
	-	Revaluation Reserve write off due to Asset transfer		-
	<u>572,896</u>	Other Reserves - Retained Profit (Note 3)		<u>212,645</u>
<u>572,896</u>				<u>212,645</u>

The notes on pages 5 to 6 form part of the Financial Statements

Approved on

.....
Alex McCrorie Treasurer

.....
Member of Committee

Musselburgh Joint Racing Committee

Notes to the Financial Statements 31st March 2013

(1) ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historical cost convention.

Income

Profit directly relating to race days represents admission and other related income including sponsorship less direct race day expenditure and net prize money.

Taxation

The Committee is exempt from taxation

(2) CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012/13	2011/12
	£	£
Other Creditors	509,129	615,464
	<u>509,129</u>	<u>615,464</u>

(3) RETAINED PROFIT

	2012/13	2011/12
	£	£
Balance at beginning	572,896	782,296
Profit (Loss) for the year	(360,251)	(209,400)
Balance at end	<u>212,645</u>	<u>572,896</u>

The following pages do not form part of the financial statement which are the subject of the independent auditor's report on page 2.

Musselburgh Joint Racing Committee

Fixed Expenditure

for the year ended 31st March 2013

Previous Year

£	£		£	£
		ESTABLISHMENT EXPENSES		
	119,000	Rent	121,000	
	73,568	Rates	65,666	
	25,357	Insurances	23,594	
	62,016	Maintenance of Stands and Buildings	72,011	
	125,842	Maintenance of Course	130,878	
405,783				413,149
		MANAGEMENT COSTS		
	358,385	Salaries, NI etc	331,970	
	160,943	Wages :- Groundsmen / Caretaker	170,009	
	46,001	Bonus Payments	36,100	
	8,588	Fees and Expenses	13,468	
587,675	13,758	Training and Development	13,377	564,924
		GENERAL ADMINISTRATION EXPENSES		
	24,545	Professional Fees	28,318	
	111,226	Marketing / Advertising	100,718	
	4,990	Subscriptions and Donations	6,830	
	18,845	Contributions to R.C.A.	19,292	
	-	B.H.B. Programme Announcement Fee	-	
	48,586	Heat and Light	58,886	
	18,906	Telephone	18,518	
	1,051	Annual Badges and Labels	1,301	
	23,390	Printing, Stationery and Advertising	26,690	
	58,068	Furniture, Fittings & Equipment	44,581	
	-	Harness Racing	-	
	2,071	Twinning / Annual Members Visits	2,535	
	7,101	Hospitality	5,546	
	25,588	Events Catering etc	8,492	
344,367				321,707
		FINANCIAL CHARGES		
-		Interest		-
-		DEPRECIATION		-
-		LEASEHOLD IMPROVEMENTS ETC		
1,337,825		GRAND TOTAL ¹²²		1,299,780

Musselburgh Joint Racing Committee

Fixed income

for the year ended 31st March 2013

Previous Year				
£	£	RELATING TO RACING ACTIVITIES	£	£
	22,827	Brewery Supply Discount	23,078	
	316,333	RMG Media Licence Fee	330,759	
	113,206	Consultancy & Directors Fees	56,000	
	9,366	Extra Race Day Fixture	15,053	
	20,266	Tote Bonus Payment	-	
	95,485	Other Income	83,651	
	40,000	Race Fixture transferred to Cartmel	42,500	
	7,764	Advertising	9,131	
625,247				560,172
		OTHER OPERATING INCOME		
44,900		Events Catering etc		22,390
<u>670,147</u>		Total		<u>582,562</u>

MUSSELBURGH RACING 2012/13 FLAT

	Total	Apr 07	Apr 08	May-03	May-04	May 25	Jun 02	Jun 15	Jun 29	Jul 24	Aug 3	Aug-10	Sep-04	Sept 17	Sep 30	Oct 15
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Raceday Income																
Admissions	612,428	41,059	40,754	8,419	14,738	45,934	115,207	211,394	13,354	11,078	36,236	20,456	9,011	9,777	25,585	9,426
Annual Members subscription fees	16,800	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120	1,120
Bookmakers' badges	49,822	3,763	4,305	2,080	2,480	3,675	5,250	6,690	2,160	1,440	3,885	2,160	2,208	3,360	4,158	2,208
TurfTV License Fee Per Race	531,000	33,500	38,500	39,000	35,000	28,500	29,500	40,000	33,500	34,500	30,000	30,500	39,000	39,500	40,000	40,000
TurfTV LBO Variable Licence Fee	141,870	9,458	9,458	9,458	9,458	9,458	9,458	9,458	9,458	9,458	9,458	9,458	9,458	9,458	9,458	9,458
Tote percentage receipts	6,330	371	421	291	385	324	866	1,020	288	172	311	317	307	474	431	352
Betting Shop	9,307	948	583	477	441	441	1,589	560	330	433	442	442	582	717	820	502
Catering Commission	95,811	7,425	6,229	2,095	3,586	7,329	17,762	19,853	3,212	2,621	6,002	4,600	2,781	4,825	5,365	2,126
Corporate Hospitality	308,353	9,840	5,936	20,962	27,634	12,713	31,193	66,711	24,582	9,917	15,563	25,484	12,847	12,287	11,451	21,233
Sponsors Contribution	135,668	38,500	0	2,002	5,372	10,620	23,000	19,500	7,788	1,390	7,700	5,048	3,366	2,440	5,442	3,500
HBLB Appearance Money	4,520	0	4,520	0	0	0	0	0	0	0	0	0	0	0	0	0
HBLB Fixture Incentive Scheme	6,700	0	0	0	0	0	0	0	0	0	0	0	0	0	0	6,700
HBLB Integrity Grant (fieldforce/cameras/photo)	154,700	0	11,900	11,900	11,900	0	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900	11,900
HFL Laboratory Costs Grant	-	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Share of sale/claims	1,750	0	550	0	0	0	0	0	0	0	0	1,200	0	0	0	0
Contribution for fixture swaps	27,500	0	0	10,000	0	0	0	0	0	0	5,000	2,500	0	0	0	10,000
Total Raceday Income	2,102,559	145,984	124,276	107,804	112,114	120,114	246,845	388,206	107,692	84,029	127,617	115,185	92,580	95,858	115,730	118,525
Raceday Expenditure																
Officials (including refreshments)	16,937	1,307	477	978	790	1,035	866	1,254	1,043	1,082	1,183	1,609	1,292	1,260	1,234	1,527
Owners & Trainers Catering	8,990	756	756	0	0	0	2,108	2,193	0	420	420	957	480	420	0	480
Raceday Staff	51,725	3,894	4,274	2,552	3,488	3,554	7,369	7,569	2,009	2,253	2,804	2,238	1,671	2,812	2,608	2,630
Maintenance of Racecourse	66,659	4,104	4,104	3,585	3,717	4,886	7,504	6,881	3,790	3,051	4,188	4,111	2,766	3,710	4,115	6,147
Stables & Accommodation	36,889	2,944	3,492	2,350	2,419	1,933	2,480	3,028	2,188	2,279	2,317	1,635	2,219	2,337	2,345	2,923
Racecards	56,309	4,331	4,693	2,457	2,595	3,419	6,372	7,420	2,594	2,594	3,419	2,594	2,594	3,831	4,150	3,246
Corp Hosp (Catering/Marquees etc)	183,623	6,751	4,404	12,125	12,295	9,265	12,856	53,985	13,469	4,864	7,486	13,362	7,821	5,813	6,449	12,678
Sponsorship (Banners/ BTO)	10,771	467	633	643	643	1,225	2,474	350	210	510	580	710	640	640	573	473
Marketing	22,071	3,360	360	0	0	3,324	7,068	6,075	0	0	1,360	0	0	230	294	0
Advertising	66,822	7,826	720	0	665	4,494	18,085	20,202	150	915	5,912	764	0	1,231	5,858	0
Police and security	43,595	2,552	2,704	1,911	2,031	2,173	6,453	9,020	1,882	1,943	2,159	1,989	1,998	2,165	2,389	2,226
RTS Starting Stalls	56,070	3,738	3,738	3,738	3,738	3,738	3,738	3,738	3,738	3,738	3,738	3,738	3,738	3,738	3,738	3,738
Racetech CCTV/Public Address	8,515	897	897	517	517	517	517	517	517	517	517	517	517	517	517	517
Medical / Vets Costs	48,202	3,787	3,283	2,644	2,733	2,708	4,406	5,150	2,931	2,773	2,741	2,818	3,127	2,811	3,146	3,144
Racing Calendar & Entries	-	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
BHA Fixture Licence Fee	58,905	3,927	3,927	3,927	3,927	3,927	3,927	3,927	3,927	3,927	3,927	3,927	3,927	3,927	3,927	3,927
HBLB Appearance Money Payments	4,520	0	4,520	0	0	0	0	0	0	0	0	0	0	0	0	0
Development Race Fund Contribution	5,000	0	0	0	0	0	0	0	0	0	0	0	5,000	0	0	0
BHA Fixture Fees (Field Force etc)	132,000	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800
Integrity (Cameras/Photo Finish)	69,330	4,622	4,622	4,622	4,622	4,622	4,622	4,622	4,622	4,622	4,622	4,622	4,622	4,622	4,622	4,622
Payments for fixture swaps	15,000	0	0	0	0	0	0	7,500	7,500	0	0	0	0	0	0	0
Operational Costs (Big Screen etc)	233,264	16,081	27,086	1,958	2,829	13,339	50,356	72,682	3,134	3,107	15,184	3,721	2,115	7,535	11,394	2,743
Total Raceday Expenditure	1,195,197	80,144	83,490	52,807	55,809	72,959	150,001	224,913	62,504	47,395	71,357	58,112	53,327	56,399	66,159	59,821
Gross Prize Money	783,166	104,000	57,000	29,000	50,000	34,000	151,766	57,000	34,000	30,000	32,000	46,000	27,900	34,000	51,000	45,500
less																
HBLB Basic Daily Rate	277,590	0	30,600	25,600	22,600	0	0	30,600	22,600	22,600	14,690	22,600	2,900	25,600	30,600	26,600
Prize Money Grants	2,000	0	0	0	0	0	0	0	0	0	0	2,000	0	0	0	0
BHA Development Race Grant	35,190	0	1,500	0	2,250	0	11,250	750	750	750	750	4,000	0	2,690	2,250	8,250
Entry Fees	73,144	7,457	4,121	2,483	4,993	3,457	16,650	5,070	2,863	3,261	3,597	3,630	2,618	2,794	4,632	5,518
Total Non-Executive	387,924	7,457	36,221	28,083	29,843	3,457	27,900	36,420	26,213	26,611	19,037	32,230	5,518	31,084	37,482	40,368
Cost Prize Money to MRC	395,242	96,543	20,779	917	20,157	30,543	123,866	20,580	7,787	3,389	12,963	13,770	22,382	2,916	13,518	5,132
Expenditure + Prize Money	1,590,439	176,687	104,269	53,724	75,966	103,502	273,867	245,493	70,291	50,784	84,320	71,882	75,709	59,315	79,677	64,953
Raceday Profit/ -loss	512,120	-30,703	20,007	54,080	36,148	16,612	-27,022	142,713	37,401	33,245	43,297	43,303	16,871	36,543	36,053	53,572

MUSSELBURGH RACING 2012/13 NATIONAL HUNT

	Total	Nov 08	Nov 09	Nov 30	Dec 10	Jan-01	Jan 04	Jan 18	Feb 03	Feb 13
	£	£	£	£	£	£	£	£	£	£
Raceday Income										
Admissions	94,791	6,449	8,709	0	7,949	35,940	8,092	0	21,619	6,033
Annual Members subscription fees	10,330	1,120	1,120	1,120	1,120	1,170	1,170	1,170	1,170	1,170
Bookmakers' badges	19,455	2,112	2,208	0	2,112	5,439	2,304	0	4,032	1,248
TurfTV LBO License Fee Per Race	302,000	35,000	33,500	34,000	35,000	29,500	33,500	30,000	34,500	37,000
TurfTV LBO Variable Licence Fee	85,122	9,458	9,458	9,458	9,458	9,458	9,458	9,458	9,458	9,458
Tote percentage receipts	3,706	531	417	270	589	629	306	0	624	340
Betting Shop Income	4,709	369	442	643	521	660	557	0	1,131	386
Catering Commission	19,239	2,160	2,027	1,698	2,227	4,165	1,492	0	3,549	1,921
Corporate Hospitality	87,449	11,903	8,670	9,530	14,797	13,174	3,033	0	13,936	12,406
Sponsors Contribution	84,274	4,700	2,228	0	25,350	30,000	500	100	19,432	1,964
HBLB Appearance Money	0	0	0	0	0	0	0	0	0	0
HBLB Fixture Incentive Scheme	70,800	0	0	4,700	7,800	8,000	14,800	14,800	7,200	13,500
HBLB Integrity Grant (Fieldforce/cameras/p	99,600	11,900	11,900	11,900	11,900	0	13,000	13,000	13,000	13,000
HFL Laboratory Costs Grant	0	0	0	0	0	0	0	0	0	0
Contribution from fixture swaps	29,500	5,000	17,000	0	0	0	7,500	0	0	0
Total Raceday Income	910,975	90,702	97,679	73,319	118,823	138,135	95,712	68,528	129,651	98,426
Raceday Expenditure										
Officials (including refreshments)	8,764	926	1,068	1,403	976	1,069	996	0	1,143	1,183
Owners & Trainers Catering	11,632	304	504	1,344	2,016	2,064	1,800	0	1,800	1,800
Raceday Staff	23,545	2,173	2,233	2,307	2,284	8,028	2,255	0	2,300	1,965
Maintenance of Racecourse	54,034	4,495	4,495	4,674	5,712	8,893	6,845	1,055	9,406	8,459
Stables & Accommodation	21,609	2,332	2,649	2,136	2,672	4,155	1,639	796	3,617	1,613
Racecards	24,567	2,594	2,595	3,246	2,595	4,313	2,576	600	3,126	2,922
Corp Hosp (Catering/Marquees etc)	42,591	4,961	5,311	5,607	6,342	4,838	2,869	0	6,576	6,087
Sponsorship (Banners/ BTO)	3,765	623	663	120	387	83	443	0	693	753
Marketing	4,259	0	0	259	0	4,000	0	0	0	0
Advertising	14,239	259	130	1,560	759	6,100	1,178	0	4,253	0
Police and security	17,929	1,862	1,871	1,794	1,878	3,460	1,861	973	2,293	1,937
Racetech CCTV/Public Address	4,223	427	427	427	427	532	532	329	561	561
Medical / Vets Costs	34,676	3,713	3,726	2,871	3,430	7,832	3,581	566	4,116	4,841
Racing Calendar & Entries	0	0	0	0	0	0	0	0	0	0
BHA Fixture Licence Fee	35,343	3,927	3,927	3,927	3,927	3,927	3,927	3,927	3,927	3,927
Appearance Money Payments	0	0	0	0	0	0	0	0	0	0
Development Race Fund Contribution	0	0	0	0	0	0	0	0	0	0
BHA Fixture Fees (Field Force etc)	70,400	8,800	8,800	8,800	8,800	0	8,800	8,800	8,800	8,800
Integrity (Cameras/Photo Finish)	41,692	4,622	4,622	4,622	4,622	4,622	4,622	4,716	4,622	4,622
HFL Laboratory Costs	0	0	0	0	0	0	0	0	0	0
Operational Costs (Big Screen etc)	39,791	2,460	2,019	761	2,100	19,939	2,142	155	7,169	3,046
Total Raceday Expenditure	453,059	44,478	45,040	45,858	48,927	83,855	46,066	21,917	64,402	52,516
Gross Prize Money	441,626	36,000	48,000	0	55,000	91,000	41,000	0	114,000	56,626
less										
HBLB Basic Daily Rate	149,310	24,000	20,700	0	20,000	5,000	29,870	0	24,870	24,870
Prize Money Grants	21,000	0	0	0	0	0	0	0	8,000	13,000
BHA Development Race Grant	28,500	0	2,000	0	6,500	6,000	2,000	0	10,000	2,000
HBLB Winter Jump Payment	23,400	0	0	0	0	0	7,800	0	7,800	7,800
Entry Fees	37,059	2,580	3,794	0	5,780	7,405	3,565	0	9,860	4,075
Total Non-Executive	259,269	26,580	26,494	0	32,280	18,405	43,235	0	60,530	51,745
Cost Prize Money to MRC (C-D)	182,357	9,420	21,506	0	22,720	72,595	-2,235	0	53,470	4,881
Expenditure plus Prize Money	635,416	53,898	66,546	45,858	71,647	156,450	43,831	21,917	117,872	57,397
Raceday Profit/ (loss)	275,559	36,804	31,133	27,461	47,176	-18,315	51,881	46,611	11,779	41,029

Musselburgh Joint Racing Committee
Debtors and Creditors

Year Ended 31st March 2013

		AMOUNT				
DEBTORS BAAA 990305		£				
		VAT				
Amalgamated	RANH012517	34,500.00	6,900.00	41,400.00		
	RANI012517	37,000.00	7,400.00	44,400.00	85,800.00	
Heriage Commission	RANE012525	794.86	158.97	953.83		
	RANF012525	330.77	66.15	396.92		
	RANH012525	683.10	136.62	819.72		
	RANI012525	645.15	129.03	774.18	2,944.66	
RUK	RFAA613005	596.04		596.04		
	RFAA613005	302.87	60.58	363.45	959.49	
Country Refresh	RANI012525	426.67	85.33	512.00		
	RANI616010	- 182.50 -	36.50 -	219.00	293.00	
Heineken	RFAA011550	1,726.16		1,726.16		
Heineken 24/07	RAFI012523	2,050.00	410.00	2,460.00		
Heineken 03/02	RANH012523	27,500.00	5,500.00	33,000.00		
Heineken 01/01	RANE012523	5,000.00	1,000.00	6,000.00		
Country Refreshments 13/02	RANI012523	2,000.00	400.00	2,400.00		
Racecourse Betting Co	RANE012521	660.00	132.00	792.00		
	RANE012520	628.72	125.74	754.46		
	RANF012521	557.47	111.49	668.96		
	RANF012520	305.73	61.15	366.88	2,582.30	
	RANH012520	624.47	124.89	749.36		
	RANH012521	1,131.00	226.20	1,357.20		
	RANI012520	340.29	68.06	408.35		
	RANI012521	385.80	77.16	462.96	2,977.87	
Janet Bosworth	RANF012523	773.75	154.75	928.50		
RCA Expenses January	RFAA613005	292.50		292.50		
March	RFAA613005	164.78	32.96	197.74		
March	RFAA613005	258.07		258.07		
Hogarth February	RFAA613005	185.07		185.07	933.38	
RUK	RFAA613005	211.07		211.07		
	RFAA613005	82.78	16.55	99.33	310.40	
BHA	RFAA613005	49.78	9.96	59.74		
	RFAA613005	308.07		308.07	367.81	
RUK Dividend	RFAA011550	13,844.43		13,844.43		
Tote Stock	RFAA614526	14,450.00		14,450.00		
VLf Adj 12-13	RFAA011550	2,566.00		2,566.00		
RUK 2012 Licence Fee	RFAA011550	260,300.00		260,300.00		
Tote Stock	RFAA614526	- 1,305.00		- 1,305.00		
Cash Machine	BAAA990410	27,840.00		27,840.00		
		438,027.90	23,351.09	461,378.99	97,168.90	-
			46,702.19			-

Vouchers		996.83	
		287.49	
		33.33	
		33.33	
	01-Oct	Gift Exp	91.67
	06-Nov		16.66
	09-Nov		87.50
	10-Nov		20.83
	11-Nov		41.66
	15-Nov		33.33
	19-Nov		54.16
	20-Nov		33.33
	21-Nov		41.67
	21-Nov		16.67
	23-Nov		100.00
	24-Nov		16.67
	26-Nov		266.67
	26-Nov		50.00
	27-Nov		16.67
	28-Nov		83.33
	29-Nov		83.33
	30-Nov	-	283.00
	30-Nov	-	183.33
	30-Nov	-	40.00
	02-Dec		16.67
	08-Dec		25.00
	09-Dec		16.67
	07-Dec		25.00
	10-Dec		183.33
	11-Dec		41.67
	11-Dec		16.67
	12-Dec		83.33
	12-Dec		33.33
	15-Dec		25.00
	14-Dec		41.67
	16-Dec		16.67
	17-Dec		225.00
	18-Dec		62.50
	18-Dec		50.00
	20-Dec		66.67
	24-Dec		83.33
	21-Dec		41.67
	23-Dec		75.00
	25-Dec		20.83
	28-Dec		33.33
	01-Jan	Vouchers Redeemed	- 103.17
	01-Jan		- 20.83
	02-Jan		41.67
	04-Jan		41.67
	08-Jan		37.50
	15-Jan	Gift Exp	154.83
	15-Jan		66.67
	15-Jan		41.67
	17-Jan		12.50
	30-Jan		233.33
	31-Jan		- 267.00
	31-Jan	Vouchers Redeemed	- 54.00
	31-Jan	Vouchers Redeemed	- 125.00
	31-Jan	Vouchers Redeemed	- 33.00
	31-Jan	Vouchers Redeemed	- 41.67
	07-Feb	Gift Exp	145.83
	25-Feb	Gift Exp	- 1,408.00
	24-Feb		83.33
	04-Mar		183.33
	12-Mar		62.50
	28-Mar		33.33
			87.03
	26-Mar	2,337.99	83.33
Racecourse Media		2,000.00	
32 Red	22-Feb	127,300.00	2,300.00

Bookmakers Free Day	04-Sep		230.00	
	17-Sep		300.00	
	30-Sep		330.00	
	15-Oct		230.00	
	08-Nov		220.00	
	09-Nov		230.00	
	16-Dec		230.00	
	01-Jan		370.00	
	04-Jan		240.00	
	03-Feb		320.00	
	13-Feb		130.00	
	30-Mar		320.00	
	31-Mar	3,560.00	410.00	
Abandoned CH 18/01			9,523.32	
Abandoned Admissions 18/01			355.38	
Abandoned Admissions 30/11			2,897.00	
YSC 12/09 Cancelled	RAFM012523		6,100.00	
		18,875.70		29,073.69
30th March 2013				
	RAFR012505	316.66		
		1,078.87	1,395.53	
Friday 3rd May 2013				
Admissions	12-Nov		169.16	
	04-Dec		25.00	
	10-Dec		25.00	
	16-Jan		125.00	
	30-Jan		13.33	
	01-Feb		32.50	
	05-Feb		25.00	
	31-Jan		26.67	
	11-Feb		7.50	
	12-Feb		371.67	
	14-Feb		96.66	
	20-Feb		48.33	
	13-Mar		270.83	
	15-Mar		227.50	
	17-Mar		185.00	
	18-Mar		75.00	
	20-Mar		233.33	
	26-Mar		112.50	2,069.98
Friday 3rd May 2013				
Moss EP	14-Jan		3,880.00	
CH Oak Underwriting	30-Jan		1,470.00	
CH Brewin Dolphin	15-Feb		2,058.00	
Baillie Gifford	19-Feb		3,660.00	
CH Donaldson Timber	28-Feb		1,940.00	
CH Donaldson Timber Refund	13-Mar	-	388.00	
CH Oak Underwriting	01-Mar		2,210.00	
Vbbink Bistro	13-Mar		100.00	
Core Oil	11-Jan		5,955.00	
Fraser	14-Feb		679.00	
Core Oil	25-Mar		5,955.00	27,519.00
Monday 13th May 2013				
Admissions	12-Dec		48.33	
	13-Feb		50.00	
	04-Mar		50.00	
	07-Mar		37.50	
	13-Mar		113.33	299.16
Monday 13th May 2013				
EP Drummond	11-Dec		132.00	
EP Aitchison	06-Feb		396.00	
	15-Feb		263.17	
	22-Feb		345.67	
EP Sinclair	05-Mar		264.00	
EP Ferguson	06-Mar		270.67	
EP Thomson t/f 18/01	11-Mar		180.00	
EP Thomson t/f 18/01	11-Mar		42.00	
EP McNab	20-Mar		132.00	
EP Drummond	20-Mar		132.00	2,157.51
Friday 24th May 2013		128		
Admissions	30-Nov		40.00	

05-Dec	56.67	
01-Jan	32.50	
09-Jan	65.00	
20-Jan	158.33	
23-Jan	311.67	
25-Jan	1,229.17	
28-Jan	28.33	
29-Jan	35.00	
04-Feb	184.17	
05-Feb	184.17	
07-Feb	252.33	
08-Feb	116.25	
09-Feb	32.50	
10-Feb	35.00	
11-Feb	32.50	
12-Feb	35.00	
17-Feb	32.50	
18-Feb	35.00	
20-Feb	453.33	
22-Feb	32.50	
24-Feb	48.75	
28-Feb	16.25	
02-Mar	56.67	
04-Mar	195.00	
06-Mar	32.50	
07-Mar	97.50	
10-Mar	235.42	
11-Mar	140.00	
01-Mar	100.00	
02-Mar	68.00	
14-Mar	56.67	
15-Mar	114.17	
17-Mar	65.00	
18-Mar	203.33	
21-Mar	781.66	
22-Mar	32.50	
23-Mar	263.33	
26-Mar	162.50	6,051.17

Friday 24th May 2013

Bernard Hunter	16-Jan	1,923.33	
McQuay	18-Dec	1,029.00	
Muirhall	25-Jan	1,163.66	
Tillbrook	07-Feb	252.33	
Brebner ep	08-Feb	194.00	
Central Taxis CH	22-Feb	2,048.33	
McQuay	28-Feb	1,234.80	
EP Black	05-Mar	194.00	
CH BNY	21-Mar	2,940.00	10,979.45

Saturday 1st June 2013

Admissions	29-Oct	365.00	
	05-Nov	263.33	
	28-Nov	341.67	
	29-Nov	581.67	
	30-Nov	57.50	
	01-Dec	183.33	
	07-Dec	38.33	
	07-Dec	41.67	
	11-Dec	30.83	
	16-Dec	266.67	
	18-Dec	305.00	
	19-Dec	140.00	
	20-Dec	249.17	
	22-Dec	61.67	
	28-Dec	41.67	
	01-Jan	38.33	
	03-Jan	50.00	
	05-Jan	38.33	
	09-Jan	466.67	
	14-Jan	275.00	
	15-Jan	134.17	
	18-Jan	57.50	
	19-Jan	1,094.17	
	21-Jan	38.33	
	22-Jan	431.67	129
	29-Jan	241.67	

	01-Feb	450.00	
	06-Feb	38.33	
	07-Feb	76.67	
	09-Feb	191.67	
	10-Feb	57.50	
	11-Feb	8.33	
	12-Feb	533.33	
	15-Feb	76.67	
	17-Feb	38.33	
	18-Feb	228.33	
	19-Feb	216.67	
	21-Feb	783.33	
	22-Feb	38.33	
	23-Feb	230.00	
	24-Feb	277.50	
	25-Feb	474.17	
	26-Feb	191.67	
	27-Feb	153.33	
	28-Feb	38.33	
	02-Mar	225.00	
	03-Mar	76.67	
	04-Mar	316.67	
	05-Mar	263.33	
	07-Mar	665.00	
	08-Mar	301.67	
	12-Mar	172.50	
	13-Mar	1,057.50	
	14-Mar	729.17	
	15-Mar	936.67	
	16-Mar	76.67	
	17-Mar	38.33	
	18-Mar	134.17	
	19-Mar	312.50	
	20-Mar	230.83	
	21-Mar	484.16	
	22-Mar	424.17	
	23-Mar	425.00	
	25-Mar	383.33	
	26-Mar	38.33	17,227.51
Saturday 1st June 2013	28-Dec	16.67	
Bistro Dep Woodstock	01-Jan	38.33	
	03-Jan	41.67	
	24-Jan	1,430.00	
	24-Jan	1,500.00	
	29-Jan	3,800.00	
Bistro Dep Bruce	18-Feb	66.67	
EP Muir	04-Mar	16.67	
	04-Mar	780.00	
EP Mair	07-Mar	2,100.00	
EP Ross	07-Mar	520.00	
EP Salierno	13-Mar	260.00	
EP Thomas	19-Mar	520.00	
	25-Mar	291.67	11,381.68
Friday 14th June 2013			
Admissions			-
	31-Oct	4,850.00	-
	01-Nov	900.00	
	02-Nov	275.00	
	02-Nov	150.00	
	02-Nov	50.00	
	03-Nov	575.00	
	03-Nov	50.00	
	04-Nov	225.00	
	05-Nov	550.00	
	06-Nov	708.33	
	07-Jan	375.00	
	08-Nov	200.00	
	09-Nov	475.00	
	09-Nov	591.66	
	11-Nov	50.00	
	13-Nov	100.00	
	13-Nov	150.00	
	14-Nov	50.00	
	16-Nov	200.00	
	17-Nov	200.00	
	19-Nov	558.33	

20-Nov	75.00
22-Nov	100.00
23-Nov	75.00
26-Nov	200.00
27-Nov	50.00
27-Nov	350.00
28-Nov	283.33
29-Nov	125.00
30-Nov	75.00
02-Dec	550.00
03-Dec	200.00
04-Dec	1,008.33
05-Dec	75.00
07-Dec	100.00
08-Dec	50.00
11-Dec	250.00
12-Dec	250.00
14-Dec	325.00
15-Dec	358.33
16-Dec	50.00
17-Dec	1,333.33
18-Dec	175.00
19-Dec	100.00
20-Dec	875.00
21-Dec	292.50
21-Dec	425.00
22-Dec	458.33
23-Dec	125.00
24-Dec	250.00
27-Dec	125.00
28-Dec	250.00
29-Dec	433.33
30-Dec	75.00
31-Dec	50.00
01-Jan	100.00
02-Jan	550.00
03-Jan	133.33
06-Jan	333.33
08-Jan	625.00
09-Jan	900.00
04-Jan	25.00
11-Jan	325.00
12-Jan	975.00
14-Jan	125.00
15-Jan	25.00
16-Jan	25.00
17-Jan	50.00
17-Jan	1,075.00
18-Jan	841.67
19-Jan	300.00
20-Jan	825.00
21-Jan	433.33
22-Jan	850.00
23-Jan	75.00
24-Jan	475.00
25-Jan	691.67
26-Jan	300.00
27-Jan	550.00
25-Jan	50.00
25-Jan	50.00
28-Jan	325.00
30-Jan	325.00
06-Feb	50.00
01-Feb	325.00
02-Feb	775.00
03-Feb	425.00
04-Feb	733.33
05-Feb	841.67
06-Feb	100.00
31-Jan	450.00
07-Feb	1,450.00
08-Feb	1,175.00
09-Feb	483.33
11-Feb	683.33
12-Feb	75.00
13-Feb	1,025.00

13-Feb	675.00	
14-Feb	858.33	
15-Feb	625.00	
16-Feb	175.00	
17-Feb	483.33	
15-Feb	25.00	
18-Feb	1,258.33	
19-Feb	1,150.00	
20-Feb	1,200.00	
20-Feb	200.00	
21-Feb	25.00	
21-Feb	258.33	
22-Feb	708.33	
23-Feb	775.00	
24-Feb	283.33	
25-Feb	900.00	
26-Feb	2,975.00	
27-Feb	608.33	
28-Feb	1,383.33	
01-Mar	475.00	
02-Mar	250.00	
03-Mar	825.00	
04-Mar	1,150.00	
05-Mar	200.00	
05-Mar	875.00	
07-Mar	575.00	
06-Mar	375.00	
07-Mar	850.00	
08-Mar	475.00	
09-Mar	400.00	
10-Mar	825.00	
11-Mar	1,475.00	
12-Mar	900.00	
13-Mar	150.00	
14-Mar	824.00	
13-Mar	225.00	
14-Mar	1,875.00	
15-Mar	150.00	
15-Mar	775.00	
16-Mar	825.00	
17-Mar	400.00	
18-Mar	1,000.00	
19-Mar	550.00	
20-Mar	1,225.00	
21-Mar	900.00	
22-Mar	100.00	
22-Mar	600.00	
24-Mar	300.00	
25-Mar	300.00	
25-Mar	875.00	
26-Mar	75.00	
26-Mar	325.00	76,441.43

	31-Oct	
Marquee Macleod	01-Nov	1,841.66
Marquee Parliament House	01-Nov	1,071.66
EP	05-Nov	1,340.00
EP	07-Nov	450.00
EP	13-Nov	650.00
Fox Lothian	15-Nov	1,300.00
Marquee	21-Nov	666.67
Marquee Cann	23-Nov	1,047.00
Grieves Bistro	27-Nov	50.00
Laidlaw EP	30-Nov	780.00
Marquee McClelland	12-Dec	1,340.00
	21-Dec	292.50
EP Tui Travel	27-Dec	1,300.00
EP Shepherd	07-Jan	650.00
EP Shepherd	11-Jan	260.00
	16-Jan	25.00
Marquee Dainton	16-Jan	2,680.00
EP Norboard	17-Jan	132,860.00
EP	17-Jan	390.00

Marquee Dundas Wilson	24-Jan	2,680.00	
	24-Jan	130.00	
	25-Jan	390.00	
	25-Jan	293.33	
	28-Jan	2,210.00	
	31-Jan	1,340.00	
	01-Feb	295.83	
Marquee S.Life	05-Feb	2,983.33	
M & F	01-Feb	1,333.33	
Marquee McEwan fraser	08-Feb	4,020.00	
Ramsay Marquee	19-Feb	1,340.00	
Brown Bistro Dep	19-Feb	50.00	
Sorbie	20-Feb	296.00	
EP Stewart	27-Feb	130.00	
Marquee Cann	27-Feb	133.33	
Bistro Duffy	04-Mar	133.33	
Champers MacQuarrie	06-Mar	296.00	
VIP Marquee McFarlane	11-Mar	1,072.00	
Marquee DBM	13-Mar	2,144.00	
Marquee Cummings	13-Mar	1,072.00	
Marquee/Champers Bistro	19-Mar	2,791.33	
Marquee RZ	26-Mar	1,340.00	
Marquee Red McGregor	28-Mar	1,340.00	46,808.30
Saturday 15th June 2013	06-Nov	115.00	
	24-Dec	61.67	
	04-Jan	61.67	
	16-Jan	38.33	
	22-Jan	19.17	
	24-Jan	375.00	
	28-Jan	83.33	
	06-Feb	233.33	
	08-Feb	76.67	
	11-Feb	525.83	
	15-Feb	300.00	
	17-Feb	129.17	
	23-Feb	328.33	
	24-Feb	38.33	
	02-Mar	38.33	
	04-Mar	210.83	
	06-Mar	150.83	
	07-Mar	314.17	
	08-Mar	138.33	
	10-Mar	435.00	
	12-Mar	76.67	
	14-Mar	325.83	
	16-Mar	230.83	
	17-Mar	1,307.50	
	19-Mar	38.33	
	21-Mar	519.16	
	14-Jun	76.67	6,248.31
Saturday 15th June 2013			
CH Hardie	07-Jan	6,000.00	
EP McIndoe	31-Jan	267.00	
CH Hardie Refund	15-Feb	- 6,000.00	
CH Graphic	28-Feb	2,100.00	
EP Downie	06-Mar	260.00	
			2,627.00
Friday 28 th June 2013			
Admission	31-Jan	50.00	
	18-Feb	205.83	255.83
Friday 28 th June 2013			
Investec	07-Feb	7,080.00	
Be personnel	25-Mar	2,030.00	9,110.00
Tuesday 23rd July 2013			
EP Bennet	11-Feb	132.00	
EP Looper	11-Mar	132.00	264.00
Friday 2nd August 2013			
Admission	24-Jan	425.00	425.00
Friday 2nd August 2013			
EP Butler	22-Feb	194.00	
CH PDM	28-Feb	133,740.00	
CH Wilkinson	11-Mar	3,675.00	

Bistro paris	14-Mar	191.67	7,800.67
--------------	--------	--------	----------

Friday 9th August 2013

Admission	14-Dec	123.33	
	11-Jan	50.00	
	01-Feb	162.50	
	04-Feb	132.00	
	28-Feb	151.67	
	03-Mar	76.67	
	26-Mar	16.67	712.84

Friday 9th August 2013

C/H HSBC	07-Mar	1,160.00	1,160.00
----------	--------	-----------------	----------

Wednesday 21st August 2013

CH Brown Shipley	04-Mar	4,454.40	4,454.40
------------------	--------	-----------------	----------

Tuesday 3rd September 2013

Admission	01-Feb	25.00	25.00
-----------	--------	-------	-------

Monday 16th September 2013

EP Curry	04-Mar	264.00	
EP Irwin	21-Mar	177.83	441.83

Sunday 29th September 2013

Admission	01-Feb	316.67	316.67
-----------	--------	--------	--------

Sunday 29th September 2013

EP	03-Jan	114.00	114.00
----	--------	--------	--------

8th November 2013

Admissions	09-Jan	25.00	25.00
------------	--------	-------	-------

1st January 2014

Admissions F & C	17-Feb	113.33	113.33
------------------	--------	--------	--------

1st January 2014

EP Whyte	05-Mar	330.00	330.00
----------	--------	--------	--------

Olypus Narquees	RAFE616055	- 3,665.00	
3X1 Marketing Ladies Day	RAFE616024	- 3,450.00	
CBS Outdoors	RAFD616024	- 2,455.00	- 9,570.00 #####

G Nish Atic H & S	RFAA611020	630.00	
G Nish Store	RFAA611020	4,100.00	
Border Safeguard	RFAA611020	39.40	
CBS Outdoor	RFAA614510	4,500.00	
Dr Lamb	RANG616042	139.50	
Sonny Windows	RFAA611020	400.00	
Weber Labels	RFAA614040	533.73	
Weber Labels	RFAA614040	311.18	
OUI	RFAA614510	250.00	
OUI	RFAA614510	130.00	
Grossick	RANH616023	433.33	
	RANI616023	433.33	
S.Racing Tipster	RANI616023	120.00	
S.Racing Tipster	RANH616023	120.00	

RTS F & F Radio Mic	RFAA614042	252.96	
---------------------	------------	---------------	--

Sage Pay			60.66
BT VP52483270	RFAA614025		810.23
Jedforest TS Graham March 13	RFAA613010		2,503.90
Heritage Catering 26/02	RFAA614055		2,100.00
React 24 Alterations Links Cafe'	BAAA990105		304.00
RVS VideO Vision TV Office	BAAA990105		479.00
Streamline March Streamline	RFAA614041		228.41
Streamline March Internet	RFAA614041		621.32
Sage Pay	RFAA614041		72.80
B.Ross Wages t/f	RFAA611035		1,851.44
John Ferguson Plan Ap Bend	BAAA990105		350.00
S.Rafferty March Fees	RFAA614513		500.00
RBS Bank Charges March 13	RFAA614040		69.61
A.Jackson		-	95.00
Bauer Radio	RFAA614510		170.00
Farnsworth expenses March	RFAA613005		120.71
Lauderdale Pt to Pt	RANI012523		1,000.00
Image IT Services	RFAA614512		560.00
Image IT Services	RFAA614512		2,642.50
Image Mailguard email	RFAA614512		300.00
Image Equipment	RFAA614512		454.75
Image Broadband	RFAA614512		275.12
Image Monthly	RFAA614512		107.17
J.Budden PR	RANH616055		190.00
J.Budden PR	RANI616055		190.00
RCA Pass System	RANE616055		89.50
	RANF616055		89.50
	RANG616055		89.50
	RANH616055		89.50
	RANI616055		89.50
	RAFA616055		89.50
	RAFB616055	626.50	89.50
HBLB 2012 Channel 4 Excess	RFAA011550		1,442.27
Paperview Papers	RFAA614040		200.00
HMRC PAYE	BAAA990515		13,480.02
Bonus 2012-13	RFAA612015		36,100.00
Bonus Emma	RFAA612005		237.50
Bonus Lyndsey	RFAA612005		350.00
RAFR C/Fwd			41,873.02
RAFS C/Fwd			31,018.21
Directors Fees Adj	RFAA011550		4,500.00
Investors in People	RFAA614509		3,900.00
Audit Fee/ELC Charges	RFAA614005		7,579.79
Annual Membership	RFAA010505		24,772.10
University of Edin	RANI616042		785.40
Scottish Racing	RFAA614509		8,000.00
	RFAA614512		1,000.00
HRMC VAT	BAAA990320		43,705.50
HRMC VAT	BAAA990320	-	1,484.04
Other Creditors	BAAA990520		6,524.50
		509,129.11	29,073.69
			-
			29,073.69

Musselburgh Joint Racing Committee
Leasehold Improvements etc as at 31st March 2012

	Grandstand £	Racetrack £	Picnic Area £	Vehicles Plant £	Hospitality Suite £	TOTAL £
COST						
At 1st April 2009	-	-	-	-	-	-
Additions	48,727	-	27,427	52,824	96,870	225,848
As At 31st March 2010	48,727	-	27,427	52,824	96,870	225,848
Additions	53,404	-	27,558	51,762	-	132,724
As At 31st March 2011	102,131	-	54,985	104,586	96,870	358,572
Additions	54,396	183,281	-	105,500	-	343,177
As At 31st March 2012	156,527	183,281	54,985	210,086	96,870	701,749
Additions	235,196	164,595	-	30,921	-	430,712
As At 31st March 2013	391,723	347,876	54,985	241,007	96,870	1,132,461

Musselburgh Joint Racing Committee
Leasehold Improvements etc as at 31st March 2013

COST	Grandstand	Racetrack	Picnic Area			Vehicles/ Equipment	Hospitality Suite	TOTAL
	£	£	£	£	£	£	£	
Links Cafe Impts	18,656.00						18,656.00	
TVs	2,353.00						2,353.00	
Toilets Phase 1	30,160.00						30,160.00	
Cash Machine Canopy	1,474.00						1,474.00	
Fences		22,864.00					22,864.00	
O/T Marquee	162,140.00	-					162,140.00	
Road Sweeper					10,000.00		10,000.00	
Irrigation		7,166.00					7,166.00	
Pick Up					14,995.00		14,995.00	
Trailer					5,926.00		5,926.00	
Office Equip/Furniture	5,940.00						5,940.00	
Catering Equip Upgrade	14,473.00						14,473.00	
Tarmac etc							-	
Roller Mower							-	
Fan Pinkie							-	
Bends		134,565.00					134,565.00	
Plan Fee							-	
Tourist Signs							-	
							-	
	235,196.00	164,595.00	-	-	-	30,921.00	-	430,712.00

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 September 2013

BY: Depute Chief Executive – Resources & People Services

9

SUBJECT: Internal Audit Report – Electronic Document and Records Management System (EDRMS)

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on the Electronic Document and Records Management System (EDRMS).

2 RECOMMENDATION

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

3 BACKGROUND

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

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

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

7 BACKGROUND PAPERS

- 7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	5 September 2013

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
ELECTRONIC DOCUMENT AND RECORDS MANAGEMENT SYSTEM (EDRMS)**

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2012/13, a review was undertaken of the Electronic Document and Records Management System (EDRMS). A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- An Information and Records Management Policy is in place, which provides a framework for the creation and management of records within the Council.
- There is adequate separation of duties – the responsibility for managing user access controls within EDRMS is assigned to specific members of staff.
- Users with access to sensitive or confidential information are required to sign an Access and Confidentiality Agreement prior to access being granted to EDRMS – the Agreement clearly outlines employees' responsibilities in respect of confidentiality.
- An adequate audit trail exists of all tasks undertaken on EDRMS.

1.3 Areas with Scope for Improvement

- For users who were granted access to EDRMS during the implementation stage, there was a lack of evidence to demonstrate that access levels granted were appropriate to the individual user's roles and responsibilities. *Risk – inappropriate access levels may be granted.*
- There was a failure to ensure that all documents had been properly imported on to EDRMS during the implementation stage. *Risk – information held may be incomplete.*
- The batch processing of documents during the scanning process requires review – the batch header sheets in use fail to fully capture all key information required to ensure the completeness of documents scanned. *Risk – errors may occur and remain undetected.*
- For records held on EDRMS, retention periods have yet to be set up on the system. *Risk – failure to ensure effective records management.*

1.4 Summary

Our review of EDRMS 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**

August 2013

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.3	Management should ensure that procedures are drawn up covering key aspects of the use of EDRMS, including the scanning and indexing of documents, to ensure that a consistent approach is adopted throughout the Council.	Medium	Project Manager EDRMS	Agreed – will explore the possibility of guidance being issued, where processes are similar.		Ongoing
3.2.2	For all employees granted access to EDRMS during the implementation stage, evidence should be held to demonstrate that the access levels granted are appropriate to the employees’ roles and responsibilities.	Medium	Project Manager EDRMS	Agreed		In Place
3.2.4	Management should explore the possibility of introducing a stage within the EDRMS process to inform System Administrators of employees changing positions within the Council.	Medium	HR Manager Operational Services	Agreed – HR to explore the possibility of building an additional stage within EDRMS when processing staff changing positions within the Council.		Ongoing

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.2	Management should explore the possibility of exception reports being produced, which may assist in identifying inappropriate user activity.	Medium	Project Manager EDRMS	Agreed – will explore with system provider.		Ongoing
3.4.1	Management should ensure that all failed documents have now been correctly transferred on to EDRMS.	Medium	Project Manager EDRMS	Agreed		Ongoing
3.4.2	<p>Management should ensure that the batch header includes an additional box to record the total number of pages to be scanned in each batch.</p> <p>For each batch, a reconciliation should be carried out between the number of physical copies recorded on the batch header and the number of scanned pages recorded on EDRMS.</p> <p>Management should ensure that the 'checked by' box on the batch header is fully completed – the batch header should be retained as evidence of checks being carried out.</p>	Medium	Project Manager EDRMS	Agreed – batch header will be changed to reflect this.		Ongoing

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.3	Management should ensure that all scanned documents are indexed – where documents do not relate to HR processes these should be assigned to the correct area and a clear audit trail should exist.	Medium	Project Manager EDRMS	Agreed – current practice of dealing with scanned, but un-indexed documents to be reviewed.		Ongoing
3.5.1	Management should ensure that retention periods are applied to all records held on EDRMS – these should be consistent with the Council’s agreed retention schedules.	Medium	Records Manager/Project Manager EDRMS	Agreed		Ongoing
3.6.1	For all areas where EDRMS has been implemented, a training needs analysis should be undertaken to identify gaps in the training provided to staff – all training needs identified should be addressed.	Medium	Project Manager EDRMS	Agreed		Ongoing

GRADING OF RECOMMENDATIONS

To assist Management in using our reports, our recommendations are categorised according to their level of priority as follows:

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

REPORT TO: Audit and Governance Committee
MEETING DATE: 17 September 2013
BY: Depute Chief Executive – Resources & People Services
SUBJECT: Internal Audit Report – Gifts and Hospitality Policy

10

1 PURPOSE

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

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 As part of the audit plan for 2013/14, we have undertaken a review of the arrangements in place for dealing with offers of Gifts and Hospitality. The audit has focused specifically on the Gifts and Hospitality Policy relating to Council employees.
- 3.2 The objective of the audit was to review the adequacy and effectiveness of the Council's 'Acceptance by Employees of offers of Gifts and Hospitality Policy'.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

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

7 BACKGROUND PAPERS

- 7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	5 September 2013

EAST LoTHIAN COUNCIL – INTERNAL AUDIT GIFTS AND HOSPITALITY POLICY

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2013/14, a review was undertaken of the arrangements in place for dealing with offers of Gifts and Hospitality. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has in place an 'Acceptance by Employees of offers of Gifts and Hospitality Policy'. The Policy was approved by Council in August 2009.
- The Gifts and Hospitality Policy is available on the Council's intranet.
- The induction pack provided to new employees includes reference to the acceptance of gifts and hospitality.

1.3 Areas with Scope for Improvement

- The Council's 'Acceptance by Employees of offers of Gifts and Hospitality Policy' requires review to reflect changes in legislation – the Policy has not been updated following the introduction of the Bribery Act 2010. *Risk – failure to reflect changes in legislation.*
- The declaration form currently in place requires review – the form does not facilitate the recording of key information including the date the form was completed, the reasons for accepting hospitality or the relationship with the person offering gifts or hospitality. *Risk – lack of openness and transparency.*
- The Gifts and Hospitality Policy in place relates specifically to the acceptance of offers of gifts and hospitality – no arrangements are currently in place for the recording of offers of gifts and hospitality that are declined. *Risk – lack of transparency in respect of offers of gifts and hospitality declined.*
- While arrangements are in place for employees to complete a declaration form in line with Council Policy, no corporate register is maintained to provide a comprehensive record of all offers of gifts and hospitality. *Risk – failure to ensure effective monitoring of gifts and hospitality.*
- While reminders are being issued to staff in some areas, a consistent approach is not being adopted across the Council to raise awareness of the Gifts and Hospitality Policy in place. *Risk – employees may be accepting inappropriate gifts and hospitality.*
- There is a lack of adequate monitoring and reporting arrangements in place in respect of gifts and hospitality. *Risk – failure to demonstrate compliance with the Policy.*

1.4 Summary

Our review of the Council's Gifts and Hospitality Policy has identified a need to review the adequacy and effectiveness of the arrangements in place. Detailed findings and Internal Audit's recommendation are contained in our main Audit Report.

Mala Garden
Internal Audit Manager

September 2013

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
GIFTS AND HOSPITALITY POLICY**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
4.1.1	In view of Internal Audit's findings, Management should review the adequacy and effectiveness of the Council's 'Acceptance by Employees of offers of Gifts and Hospitality Policy'.	Medium	Depute Chief Executive – Partnership and Services for Communities	Agreed		March 2014

GRADING OF RECOMMENDATIONS

To assist Management in using our reports, our recommendations are categorised according to their level of priority as follows:

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

REPORT TO: Audit and Governance Committee
MEETING DATE: 17 September 2013
BY: Depute Chief Executive – Resources & People Services
SUBJECT: Internal Audit Report – Payments to Scottish Water

11

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Payments to Scottish Water.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for Payments to Scottish Water.

3 BACKGROUND

- 3.1 A review of Payments to Scottish Water was undertaken as part of the audit plan for 2013/14.
- 3.2 The main objective of the audit was to ensure that the internal controls in place for administering Payments to Scottish Water were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	5 September 2013

EAST LOTHIAN COUNCIL – INTERNAL AUDIT PAYMENTS TO SCOTTISH WATER

1. EXECUTIVE SUMMARY

1.1 Introduction

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

1.2 Areas where Expected Controls were Met

- Checks are in place to ensure that billing system parameters for water and sewerage charges are correctly entered on the Capita system prior to Council Tax bills being produced.
- Mandatory water charge reductions are correctly applied to taxpayers' accounts in accordance with legislation.
- Systems are in place to ensure that key information from the Capita system is correctly updated for water and sewerage charges to enable payment calculations to be carried out.
- Adequate arrangements are in place to ensure that payments to Scottish Water are properly authorised and submitted by the due date.
- Adequate documentation is in place to support the total number of properties used in the payment calculations.
- Procedures are in place to ensure that the collection fees due to the Council are correctly calculated and are properly deducted from the payments made to Scottish Water.

1.3 Areas with Scope for Improvement

- There was a lack of adequate documentation in place to support the adjustments being made in the payment calculations for costs raised. *Risk – inappropriate adjustments may be made.*
- The current checking arrangements in place to ensure that payments made to Scottish Water are accurate and complete require review. *Risk – errors and irregularities may occur and remain undetected.*

1.4 Summary

Our review of Payments to Scottish Water identified areas with scope for improvement. Detailed recommendations and opportunities for improvement are contained in our main Audit Report.

Mala Garden
Internal Audit Manager

September 2013

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
PAYMENTS TO SCOTTISH WATER**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.3	Management should ensure that appropriate documentation is held to support the adjustments being made in the payment calculations for costs raised.	Medium	Revenues Manager	Agreed Formal supportive documentation to be sought.		December 2013
3.4.4	All Scottish Water payment calculations should be checked for accuracy and completeness by a person independent of processing.	Medium	Head of Council Resources	Under discussion		Ongoing

GRADING OF RECOMMENDATIONS

To assist Management in using our reports, our recommendations are categorised according to their level of priority as follows:

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

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 September 2013

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – Tyne Esk LEADER Programme

12

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on the Tyne Esk LEADER Programme.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for the Tyne Esk LEADER Programme.

3 BACKGROUND

- 3.1 A review of the Tyne Esk LEADER Programme was undertaken as part of the audit plan for 2013/14.
- 3.2 The Tyne Esk LEADER Programme is part of the Scottish Rural Development Programme (SRDP) aimed at promoting economic and community development within rural areas in East Lothian and Midlothian.
- 3.3 The objective of the audit was to establish if assurance could be placed on the adequacy and effectiveness of the internal controls in place for administering the Tyne Esk LEADER Programme.
- 3.4 We note that during 2012/13 Audit Scotland carried out a review of LEADER projects throughout Scotland. The findings from the review identified significant concerns in a number of areas including the quality of financial appraisal and eligibility checking by Local Action Groups (LAGS) when approving projects and claims, the quality of file documentation in support of project approvals being generally poor and the existing framework supporting the LEADER scheme not being fit for purpose.

- 3.5 In light of the Audit Scotland findings, the Scottish Government has requested that all LAGS carry out a review of their live projects. We note that at the time of our audit, the LEADER Project Officer was in the process of carrying out this review. East Lothian Council (as lead partner for the Tyne Esk LEADER Programme) was required to submit its findings from the review to the Scottish Government.
- 3.6 We further note that a Scottish Government monitoring visit was carried out in May 2013 during which 10 Tyne Esk LEADER project files were reviewed. A number of issues were identified during the monitoring visit and an action plan was drawn up by the LEADER Project Officer to address these. As part of their overall findings, the Scottish Government recognised that there had been changes to staff since their previous monitoring visit and that this had resulted in a positive change in procedures.
- 3.7 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

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

7 BACKGROUND PAPERS

- 7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	5 September 2013

EAST LOTHIAN COUNCIL – INTERNAL AUDIT TYNE ESK LEADER PROGRAMME

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the audit plan we have undertaken a review of the internal controls in place for the administration of the Tyne Esk LEADER (Liaison Entre Actions de Developpement de l'Economie Rurale) Programme. This report covers audit work undertaken for the LEADER financial years 2011/12 and 2012/13.

1.2 Areas where Expected Controls were Met

- For the grant claims reviewed, we found that the total grants paid to applicants were consistent with the LEADER grant amounts approved.
- Grant payments made had been correctly recorded in the quarterly returns submitted to the Scottish Government.
- Appropriate arrangements are in place to ensure that monitoring visits are carried out prior to the payment of the final grant claim – a copy of the Project Monitoring Form was held on file.

1.3 Areas with Scope for Improvement

- A number of anomalies were identified in the processing and payment of LEADER grant claims. *Risk – inappropriate payments may be made.*
- There was a lack of adequate segregation of duties – our review highlighted that final grant claims were being checked by a person independent of processing, however no similar arrangements were in place for checking interim claims. *Risk – errors and omissions may occur and remain undetected.*
- The governance arrangements operating in respect of the Tyne Esk LEADER Programme require review – we found that there was a risk of potential conflicts of interest arising, particularly where LAG (Local Action Group) members were connected to organisations that had been awarded significant amounts of LEADER funding. *Risk – favouritism and bias may occur.*
- Grant claims submitted by one applicant had been approved for payment, although the claims contained items of expenditure that had not been specified in the project application. *Risk – grant claims paid may relate to ineligible expenditure.*

1.4 Summary

Our review of the internal controls surrounding the Tyne Esk LEADER Programme has identified some areas with scope for improvement. Detailed recommendations and opportunities for improvement are contained in our main Audit Report.

Mala Garden
Internal Audit Manager

September 2013

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
TYNE ESK LEADER PROGRAMME**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	Management should ensure that appropriate arrangements are in place for the processing and payment of all LEADER grant claims.	Medium	Economic Development Manager	All systems reviewed, improved where appropriate and subject to ongoing review.		In Place
3.1.3	Management should ensure that grant payments are only made for items specified and approved in the project application and which are eligible for LEADER funding.	Medium	Economic Development Manager	Agreed – review of all current files almost completed (August 2013).		December 2013
3.1.4	Management should ensure that grant payments are only made where there is evidence of procurement guidance being complied with and of appropriate quotes or estimates being obtained.	Medium	Economic Development Manager	Agreed – files pertinent to current projects (payments made from October 2012) reviewed, contacted where necessary and to be followed up as required.		December 2013

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should ensure that adequate segregation of duties exist in respect of the processing and checking of all grant claims.	Medium	Economic Development Manager	Agreed – all files receiving second check from LEADER Project Officer.		In Place
3.3.1	Management should ensure that appropriate checks are carried out on the accuracy and completeness of amounts claimed from the Scottish Government.	Medium	Economic Development Manager	All systems reviewed, improved where appropriate and subject to ongoing review. Full reconciliation of income and expenditure recently undertaken with ongoing review.		In Place
3.3.2	To ensure compliance with the SLA (Service Level Agreement), all quarterly claims should be submitted to the Scottish Government within 20 working days of the end of the quarter.	Low	Economic Development Manager	Email submission within 20 working days and finalised and agreed claim form submitted thereafter. As per ELC financial framework.		In Place

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1	A review of the governance arrangements operating in respect of the Tyne Esk LEADER Programme should be undertaken – the review should ensure that appropriate Corporate Governance arrangements are in place and that conflicts of interest do not arise.	High	Economic Development Manager	All systems reviewed, improved where appropriate and subject to ongoing review. Conflicts of interest are noted in the minute of the LAG meeting and form signed, LAG member also not involved in decision-making and recorded thus. A range of protocols will be developed for new funding regime whereby LAG members will be asked to consider their position either with LAG or applicant body and to consider withdrawal from one or either of their commitments until no potential for the appearance of favouritism or bias continues.	LAG meeting planned for October 2013 will be the last assessment meeting.	Implementation for new funding programme, 2014-20.

GRADING OF RECOMMENDATIONS

To assist Management in using our reports, our recommendations are categorised according to their level of priority as follows:

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

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 September 2013

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – Statutory Performance Indicators
2012/13

13

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Statutory Performance Indicators 2012/13.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for Statutory Performance Indicators 2012/13.

3 BACKGROUND

- 3.1 In 2012/13 the Council reported on 25 Statutory Performance Indicators and as part of the audit plan we reviewed a sample of five indicators.
- 3.2 The main objective of the review was to ensure that adequate arrangements were in place for the preparation and reporting of Statutory Performance Indicators and that the information produced was accurate and complete.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

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

7 BACKGROUND PAPERS

- 7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	5 September 2013

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
STATUTORY PERFORMANCE INDICATORS – 2012/13**

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2013/14, a review was undertaken of the arrangements in place for the preparation and reporting of Statutory Performance Indicators.

1.2 Areas where expected controls were met

- The Council has adequate arrangements in place to ensure that it complies with its obligations in respect of Statutory Performance Indicators.
- Departments were issued with detailed guidance on the preparation and submission of performance information.

1.3 Areas with Scope for Improvement

- Sickness Absence – there was a failure to ensure that a consistent approach was used for calculating both Full Time Equivalent employees and Full Time Equivalent sick days. *Risk – reported figures may be inaccurate.*
- Asset Management – for the sample of cases examined, condition surveys of operational buildings had not been undertaken within the last five years, although desk top reviews had been carried out for buildings where specific work had been undertaken. *Risk – information held may be out of date.*
- Home Care/Home Helps – there was no evidence of a verification checklist being completed for this SPI to confirm that the information produced was accurate and complete. Anomalies were identified in the reports produced for this indicator – the reports were subsequently corrected and resubmitted by the department. *Risk – reported figures may be inaccurate.*
- Managing Tenancy Changes – there was a lack of checking procedures in place to ensure that the information produced was accurate and complete – an error was identified in the calculation of this SPI. *Risk – reported figures may be inaccurate.*

1.4 Summary

Our review of Statutory Performance Indicators 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**

September 2013

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
STATUTORY PERFORMANCE INDICATORS – 2012/13**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1	<p><u>Sickness Absence</u></p> <p>Management should ensure that a clear audit trail exists – all relevant reports supporting the Performance Indicator figures should be retained by the department for audit purposes.</p> <p>Management should ensure that a consistent approach is used for calculating both Full Time Equivalent employees and Full Time Equivalent sick days.</p>	Medium	Performance and Business Support Manager	<p>All reports required to produce the SPI are retained.</p> <p>Liaise with IT to determine whether further support can be provided to alter the Access database which generates the SPI.</p>	Until such times that the Access database system can be modified.	<p>In Place</p> <p>March 2014</p>
3.5.1	<p><u>Asset Management</u></p> <p>Management should ensure that assessments of operational buildings for condition are undertaken every five years.</p>	Medium	Building Surveyor	<p>The guidance is unclear regarding Condition Survey “assessments” – the guidance refers to assessments not surveys. However, a rolling programme of re-survey of assets will be implemented over a five year period.</p>		2014 - 2018

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.1	<p><u>Home Care/Home Helps</u></p> <p>Management should ensure that reports being produced for this Statutory Performance Indicator are in accordance with the SPI definition.</p> <p>Management should ensure that a verification checklist is completed and that checks are carried out by a person independent of the preparer, but sufficiently familiar with the data being presented to identify any errors.</p>	Medium	Information Systems Manager	<p>Agreed – the errors in the report design are now corrected and the revised report will be in place for future years.</p> <p>Agreed</p>		<p>In Place</p> <p>March 2014</p>
3.7.1	<p><u>Managing Tenancy Changes</u></p> <p>The SPI figures produced by Financial Services should be checked for accuracy and completeness by a person independent of the preparer.</p>	Medium	Head of Council Resources	Under discussion		Ongoing

GRADING OF RECOMMENDATIONS

To assist Management in using our reports, our recommendations are categorised according to their level of priority as follows:

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

REPORT TO: Audit and Governance Committee
MEETING DATE: 17 September 2013
BY: Depute Chief Executive – Resources & People Services
SUBJECT: Internal Audit Follow-up Reports

14

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 Pathway Residential Unit for Young People, Prestonpans Infant School, Debtors, Non-Domestic Rates – Liability, Council Tax – Refunds and How Good is Our Council (HGIOC).

3 BACKGROUND

- 3.1 As part of the audit plan for 2013/14 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.

Pathway Residential Unit for Young People

- 3.2 Internal Audit's report on Pathway Residential Unit for Young People was issued in September 2011. Our follow-up review has identified that all 16 recommendations made have been fully implemented.

Prestonpans Infant School

- 3.3 Internal Audit's report on Prestonpans Infant School was issued in September 2012. Our follow-up review has identified that all 9 recommendations made have been fully implemented.

Debtors

- 3.4 Internal Audit's report on Debtors was issued in March 2011. Our follow-up review has identified that of the 21 recommendations made, 17 have been fully implemented, 3 have been partly implemented and 1 is currently outstanding. The recommendations that are partly implemented and the recommendation which is currently outstanding are detailed in Appendix 1, together with Management's response.

Non-Domestic Rates – Liability

- 3.5 Internal Audit's report on Non-Domestic Rates – Liability was issued in June 2012. Our follow-up review has identified that of the 6 recommendations made, 4 have been fully implemented, 1 has been partly implemented and 1 is currently outstanding. The recommendation that is partly implemented and the recommendation that is currently outstanding are detailed in Appendix 1, together with Management's response.

Council Tax – Refunds

- 3.6 Internal Audit's report on Council Tax – Refunds was issued in June 2012. Our follow-up review has identified that of the 12 recommendations accepted by Management, 11 have been fully implemented and 1 has been partly implemented. The recommendation that is partly implemented is detailed in Appendix 1, together with Management's response.

How Good is Our Council (HGIOC)

- 3.7 Internal Audit's report on How Good is Our Council (HGIOC) was issued in November 2011. Our follow-up review has identified that of the 16 recommendations made, progress has been made in implementing 13 recommendations, 1 has been partly implemented and 2 have now been superseded. The recommendation that is partly implemented is detailed in Appendix 1, together with Management's response.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	5 September 2013

Appendix 1

DEBTORS

Our follow-up review has identified that of the 21 recommendations made, 17 have been fully implemented, 3 have been partly implemented and 1 is currently outstanding. The recommendations that are partly implemented and the recommendation that is currently outstanding are detailed below, together with Management's response.

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
3.7.1	Periodic reports detailing all cancellations, credit notes, write-offs and suppressions should be produced. The reports should be reviewed by a person independent of processing to ensure that all actions taken are valid.	Corporate Finance Manager	Partly implemented While reports are being produced by staff they are not being reviewed by the Manager. Sample checks will be carried out by senior staff in future.	September 2013
3.11.3	Reports of all approved write-offs below £10,000 should be submitted to the Members' Library on a quarterly basis.	Revenues Manager	Partly implemented Retrospective report required to bring Members' Library up to date. Reports to be submitted to the Members' Library on a quarterly basis, providing approvals have been done within the relevant quarter.	December 2013

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
3.11.5	VAT should be reclaimed on bad debts written off in line with HMRC guidance.	Corporate Finance Manager	Not material as most recent write offs have either not had VAT or have been outwith the timescale for reclaiming VAT. In future, write offs will be reviewed to look for opportunities to reclaim VAT.	Ongoing
3.13.1	<p>Departments should be provided with management information on debts outstanding in their area.</p> <p>Departments should be advised to review persistent bad payers – consideration should be given to withdrawing credit facilities and/or making alternative arrangements for payment e.g. payment in advance.</p>	Corporate Finance Manager	<p>Partly implemented</p> <p>Management information is provided to some departments e.g. Estates but agreed that it is not routinely provided to all.</p> <p>Intention to develop regular standard reporting but it has not yet been possible within current resources.</p>	Ongoing

NON-DOMESTIC RATES – LIABILITY

Our follow-up review has identified that of the 6 recommendations made, 4 have been fully implemented, 1 has been partly implemented and 1 is currently outstanding. The recommendation that is partly implemented and the recommendation that is currently outstanding are detailed below, together with Management's response.

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
3.4.1	Adequate monitoring arrangements should be put in place to ensure that Small Business Bonus Scheme Relief is properly applied.	Debt Management & Business Rates Team Leader	Bi-annual sample check will be carried out. Checks to be done at the end of March and the end of September.	September 2013
3.4.7	The existing procedures in place for awarding discretionary rates relief should be reviewed.	Revenues Manager	Partly implemented New policy is being drafted.	March 2014

COUNCIL TAX – REFUNDS

Our follow-up review has identified that of the 12 recommendations accepted by Management, 11 have been fully implemented and 1 has been partly implemented. The recommendation that is partly implemented is detailed below, together with Management's response.

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
3.1.1	The existing procedures in place should be updated to reflect all key stages in the Council Tax refund process.	Council Tax Team Leader	Partly implemented Additional procedure notes have been issued to staff, however Nimbus has yet to be updated.	November 2013

HOW GOOD IS OUR COUNCIL (HGIOC)

Our follow-up review has identified that of the 16 recommendations made, progress has been made in implementing 13 recommendations, 2 recommendations have been superseded and 1 has been partly implemented. The recommendation that is partly implemented is detailed below, together with Management’s response.

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
2.5.4	Management should ensure that all individual questions with a low score lead to appropriate improvement/action points. All improvement/action points should be reflected in the relevant Service or Unit Business Plans.	Board of Directors	<p>Partly implemented</p> <p>The latest review of HGIOC deals with this issue in detail and includes the following recommendations:</p> <ul style="list-style-type: none"> • Heads of Service should set expectations with Managers that improvements identified through HGIOC are included in service plans. • Heads of Service should set expectations with Managers that improvement actions are transparent; with outcomes (or otherwise) communicated widely to staff. 	March 2014

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 September 2013

BY: Depute Chief Executive – Resources & People Services

15

SUBJECT: Internal Audit Progress Report 2013/14

1 PURPOSE

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

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 The Council's external auditors, in their Interim Management report of April 2013, recommended that Internal Audit should present to the Audit and Governance Committee regular progress reports against the annual audit plan, to support the Audit and Governance Committee in their remit to evaluate Internal Audit's work and identify where reports are outstanding.
- 3.2 The progress made to date is outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

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

7 BACKGROUND PAPERS

- 7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	5 September 2013

INTERNAL AUDIT PROGRESS REPORT 2013/14

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

AUDITABLE AREAS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Schools Audit	We will examine the financial procedures in place at one school to ensure that internal controls are operating effectively.	October 2013	
Contracts Audit	We will review contracts awarded by the Council to ensure compliance with Standing Orders and Corporate Procurement Procedures.	October 2013	
Insurance and Claims	The Council's insurance arrangements will be reviewed, including the processing of and accounting for claims.	October 2013	
Housing Repairs and Maintenance	The audit will review the arrangements in place for repairs and maintenance carried out by the Council's Property Maintenance section.	October 2013	
East Lothian Investments Ltd	We will examine the internal controls and procedures operating within East Lothian Investments Ltd.	December 2013	
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.	December 2013	
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.	December 2013	

AUDITABLE AREAS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Welfare Reform	We will review the arrangements in place within the Council for the administration of the Scottish Welfare Fund.	December 2013	
National Fraud Initiative	Internal Audit participates in the National Fraud Initiative, which is coordinated for Scottish Local Authorities by Audit Scotland. This initiative seeks to identify potential frauds and overpayments by matching data held within the Council to that held by other bodies.	December 2013	
Housing Allocations	We will review the arrangements in place for Housing Allocations to ensure compliance with the Council's Policy.	February 2014	
Modernisation Programme	We will review the Modernisation/Extensions (Existing Stock) Programme which forms part of the Council's Housing Capital Investment Plan.	February 2014	
Community Care Finance Unit (CCFU)	We will examine the operating arrangements in place for the delivery of services currently undertaken by the CCFU.	February 2014	
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by management have been properly managed.	February 2014	
Creditors	The Councils spends significant sums on goods and services. We will review the ordering, receipting and payment procedures in place.	April 2014	

AUDITABLE AREAS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Housing Revenue Account	We will examine the controls in place for reconciliations undertaken in respect of the Housing Revenue Account.	April 2014	
Journal Processing	We will review the arrangements in place for the authorisation and processing of journal entries.	April 2014	
Trading Operations	The Council has a number of trading operations and we will review the arrangements in place to ensure compliance with statutory requirements.	April 2014	
Procurement – Scheme of Delegation	We will examine the scheme of delegation to ensure that all procurement activity is undertaken by relevant officers with delegated authority.	April 2014	

Audit and Governance Committee Annual Work Plan 2013/14

16

Date	Internal Audit Reports	External Audit Reports	Accounts Commission/ Audit Scotland reports	Governance	Risk
17/09/13	Electronic Document and Records Management System Gifts and Hospitality Policy Tyne Esk LEADER Programme Statutory Performance Indicators Payments to Scottish Water Follow-up Report Internal Audit Progress Report 2013/14	External Auditors Year-end Report Assurance and Improvement Plan 2013-2016 Update	Managing early departures from the Scottish public sector: Report by the Accounts Commission	Council Improvement Plan 2013/14 Enjoy Annual Report Musselburgh Joint Racing Committee Annual Report	Policy and Partnership Service Risk Register Council Resources Service Risk Register
19/11/13	Law and Licensing Schools Audit Contracts Audit Insurance and Claims Housing Repairs and Maintenance Internal Audit Progress Report 2013/14			Efficient Workforce management Update	
21/01/14	East Lothian Investments Ltd	Presentation of Audit Strategy			Council Improvement Plan 2013/14

	<p>Mobile Payment Devices Residential Units for Young People Scottish Welfare Fund National Fraud Initiative Internal Audit Progress Report 2013/14</p>	<p>and Plan: Interim report</p>			<p>monitoring report</p>
18/03/14	<p>Housing Allocations Modernisation Programme Community Care Finance Unit (CCFU) Follow-up Report Internal Audit Plan 2014/15 Internal Audit Progress Report 2013/14</p>	<p>Presentation of Audit Strategy and Plan Auditor's Interim Report</p>			
20/05/14	<p>Creditors Housing Revenue Account Journal Processing Trading Operations Procurement – Scheme of Delegation Controls Assurance Statement 2013/14 Internal Audit Progress Report 2013/14</p>			<p>2014 Corporate Governance Self-evaluation/ Annual Governance Statement</p>	<p>Corporate Risk Register</p>

15/07/14				Draft 2013/14 Annual Accounts	