



**MINUTES OF THE MEETING OF THE
AUDIT AND GOVERNANCE COMMITTEE**

**TUESDAY 21 JANUARY 2014
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

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Committee Members Present:

Councillor K McLeod (Convener)
Councillor S Brown
Councillor J Caldwell
Councillor S Currie
Councillor A Forrest
Councillor J Goodfellow
Councillor F McAllister
Councillor J Williamson

Other Councillors Present:

Councillor J McMillan

Council Officials Present:

Mr A McCrorie, Depute Chief Executive (Resources and People Services)
Mr J Lamond, Head of Council Resources
Ms S Cormack, Service Manager – HR and Payroll
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Mr A Strickland, Policy Officer

Clerk:

Miss F Currie, Committees Assistant

Visitors Present:

Mr S Reid, Engagement Director, KPMG LLP
Mr D Anderson, CIPFA (Items 1 – 8)

Apologies:

None

Declarations of Interest:

Councillor McMillan, a member of the Board of Directors of East Lothian Investments Ltd, declared an interest in item 9.

1. MINUTE OF THE MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE ON 19 NOVEMBER 2013

The minute of the meeting of the Audit & Governance Committee on 19 November 2013 was presented for approval.

Decision

The Committee approved the minute.

2. AUDIT STRATEGY REVIEW AND PLAN

KPMG submitted a report to the Committee on how they will deliver their audit of East Lothian Council for the year ended 31 March 2014.

Mr Stephen Reid, Engagement Director, KPMG LLP, presented the report summarising the main focus of the external audit and drawing Members' attention to the areas of significant risk identified within the report.

Councillor Currie raised the issue of tracking performance against planned efficiency savings and the role of the Audit & Governance Committee in this area. He also sought assurances from officers that the Council was on course to deliver its efficiency savings and, where this was not the case, appropriate action would be taken. Mr Reid stated that external auditors would always favour savings being made on a recurrent basis, rather than one-offs, as this was more likely to sustain overall improvement in the longer term. In his view, the Committee's role was to ensure that procedures were in place to adequately scrutinise financial management decisions, rather than to take those decisions themselves.

Mr Jim Lamond, Head of Council Resources, said that extension of the existing financial risk matrix to incorporate a red/amber/green efficiency rating had improved the Council's ability to track how and where savings were being made and to monitor performance against targets. Both the risk assessment and the efficiency rating were now built into the quarterly reports presented to Cabinet. He considered that the current timetable and reporting system was working well but acknowledged that the Audit & Governance Committee had a legitimate interest in this area; and he did not discount the possibility of additional reporting to the Committee and/or Cabinet should this prove necessary.

Decision

The Committee noted the report.

3. SCOTLAND'S PUBLIC SECTOR WORKFORCE

A report was submitted by the Depute Chief Executive (Resources and People Services) to provide the Committee with a summary of the Audit Scotland report, '*Scotland's Public Sector Workforce*', and the Council's actions in relation to the report's recommendations.

The Service Manager – HR and Payroll, Sue Cormack, presented the report outlining the key findings of the audit to assess if public bodies are effectively managing

changes to their workforces. The audit considered responses from 80 public bodies and covered the period April 2009 to March 2013.

In response to a question from the Convenor, Mr Lamond explained that the audit had produced mixed findings in relation to workforce planning with a variety of practices in evidence across the country. He referred Members to the sections of the report detailing examples of best practice most of which were currently evident in the practice of East Lothian Council.

Decision

The Committee noted the Audit Scotland report and the actions being taken by the Council in relation to the report's recommendations.

4. CHARGING FOR SERVICES (AUDIT SCOTLAND, OCTOBER 2013)

A report was submitted by the Depute Chief Executive (Resources and People Services) to provide the Committee with a summary of the Audit Scotland report, '*Charging for Services: are you getting it right?*', and the actions being taken by the Council in response to the report's recommendations.

Policy Officer, Andrew Strickland, presented the report and its findings in relation to current charging practices, the contribution charges make to Council income and examples of good practice. In East Lothian the proportion of council income derived from charges and fees, as a percentage of income from council tax, currently stands at 31.2% - considerably lower than neighbouring authorities.

In response to questions from Members on charging levels, Mr Strickland indicated that the Council was currently undertaking a benchmarking exercise to compare their charges with neighbouring authorities. This would look at how charges are set and why, and would allow for a more consistent approach to be developed across the Council.

Decision

The Committee noted the Audit Scotland report and the actions that East Lothian Council is taking in response to the report's recommendations.

5. ANNUAL WORK PROGRAMME 2013/14

The Committee was provided with a copy of the annual work programme for 2013/14. Mr Strickland presented the work programme for information and drew Members' attention to the reports scheduled to come before the Committee's next meeting in March 2014.

Decision

The Committee noted the annual work programme.

6. INTERNAL AUDIT REPORT – SCOTTISH WELFARE FUND

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Committee of the recently issued audit report on the Scottish Welfare Fund.

The Internal Audit Manager, Mala Garden, presented the report which was undertaken as part of the 2013/14 audit plan. The main purpose of the audit was to ensure that the internal controls in place for administering the Scottish Welfare Fund were operating effectively.

Councillor Currie commended the report and, in particular, that the action plan would be implemented by February 2014. Mr Lamond expressed his thanks to the team administering the Scottish Welfare Fund, who had performed well to meet the challenges of delivering this scheme.

Decision

The Committee noted the contents of the Executive Summary and Action Plan for the Scottish Welfare Fund.

7. INTERNAL AUDIT REPORT – NATIONAL FRAUD INITIATIVE

A report was submitted by the Depute Chief Executive (Resources and People Services) to inform the Committee of the work undertaken on the 2012/13 National Fraud Initiative (NFI).

Ms Garden presented the report outlining the outcome of investigations into NFI data matches. The NFI uses such data matches to identify possible fraud or overpayment. Reports were examined in several different categories including payroll to creditors, housing tenants to housing benefit claimants, VAT overpaid and duplicate records.

Following questions from Members, Ms Garden explained that some of the work was still ongoing and, once concluded, an action plan would be prepared identifying the areas for improvement. Ms Garden undertook to provide the Committee with a final report in due course.

Decision

The Committee noted the contents of the report.

8. INTERNAL AUDIT PROGRESS REPORT 2013/14

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

Ms Garden reported that two audits on the work plan - mobile payment devices and residential units for young people - had been delayed and these would be presented at the Committee's meeting on 20 May 2014.

The Members discussed the benefits of receiving copies of the full audit reports rather than an executive summary and action plan as is currently the case. The Convener commented that he received copies of the full reports direct from Internal Audit and did find these helpful. Ms Garden indicated that full reports could be made available on request but was happy to be guided by Members should they decide that full reports should be made available automatically. Mr Lamond agreed to give the matter further consideration and report back to the Committee.

Decision

The Committee noted the contents of the report.

SUMMARY OF PROCEEDINGS – EXEMPT INFORMATION

The Committee agreed to exclude the public from the following business containing exempt information by virtue of Paragraphs 3, 4 and 6 of Schedule 7A of the Local Government (Scotland) Act 1973.

(a) Internal Audit Report – East Lothian Investments Ltd

The Depute Chief Executive (Resources and People Services) submitted a report informing the Committee of the recently issued audit report on East Lothian Investments. The Committee agreed the recommendation.

Signed

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Councillor Kenny McLeod
Convener of the Audit and Governance Committee

Audit and Governance Committee Annual Work Plan 2013/14

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Date	Internal Audit Reports	External Audit Reports	Accounts Commission/ Audit Scotland reports	Governance	Risk
18/03/14	Contract Payments Housing Allocations Community Care Finance Unit (CCFU) Follow-up Report Internal Audit Plan 2014/15 Internal Audit Progress Report 2013/14				
20/05/14	Modernisation Programme Mobile Payment Devices Residential Units for Young People Creditors Housing Revenue Account Journal Processing Trading Operations Procurement – Scheme of Delegation Controls Assurance Statement 2013/14 Internal Audit Progress	Presentation of Audit Strategy and Plan Auditor's Interim Report	Overview of Local Government in Scotland Managing Procurement in Councils	Efficient Workforce Management Update 2014 Corporate Governance Self-evaluation/ Annual Governance Statement	Corporate Risk Register

	Report 2013/14				
15/07/14				Draft 2013/14 Annual Accounts	

REPORT TO: Audit and Governance Committee
MEETING DATE: 18 March 2014
BY: Depute Chief Executive (Resources & People Services)
SUBJECT: Internal Audit Report – Contract Payments

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1 PURPOSE

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

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A review of Contract Payments 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 suppliers 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	6 March 2014

EAST LOTHIAN COUNCIL – INTERNAL AUDIT CONTRACT PAYMENTS

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2013/14, a review was undertaken of Contract Payments. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has in place an approved Corporate Procurement Procedures Manual, which forms part of the Council's Standing Orders.

1.3 Areas with Scope for Improvement

- In two cases, the procurement option selected by officers did not meet the criteria set out in the Council's Corporate Procurement Procedures – contracts were awarded as part of a single source supply instead of being procured via a competitive process. *Risk – failure to obtain best value.*
- In some cases, there was a lack of adequate checking procedures in place to ensure that supplier invoices submitted for payment were accurate and complete – a number of errors were found in the invoices passed for payment. *Risk – errors and anomalies may occur and remain undetected.*
- In one case, there was a lack of adequate information on the Procurement Initiation Document to confirm the specific service the supplier was required to provide. *Risk – difficulties may be encountered in monitoring the service being provided.*
- In one case, there was a failure to ensure that products were purchased from the framework supplier offering the most competitive rates. *Risk – failure to obtain best value.*
- For payments made to one supplier, no bona fide invoices had been submitted – payments were based on internal memos that had been completed by the department, authorised for payment and passed to the Council's Creditors section for processing. *Risk – inappropriate payments may be made.*
- In one case, payments made to a contractor were in excess of the tender sum – the excess related to the contractor failing to price for all aspects of the job when the tender was submitted and to changes being made to the project specification after the contract had been awarded. *Risk – failure to demonstrate best value.*

1.4 Summary

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

Mala Garden
Internal Audit Manager

March 2014

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.2	Management should ensure that Procurement Initiation Documents provide sufficient details of the service that is being procured.	Medium	Service Manager – Economic Development & Strategic Investment	Agreed		March 2014
	Management should ensure that single source requests are only approved in exceptional circumstances and are in line with the Council’s Corporate Procurement Procedures.	Medium	Heads of Service (Lead Officer – Head of Council Resources)	Agreed		March 2014
3.2.1	Management should ensure that payments are only made to suppliers on receipt of bona fide invoices.	Medium	Service Manager – Economic Development & Strategic Investment	Agreed		March 2014
3.3.1	Management should ensure that payments are only made to suppliers for services provided – final payment should only be made on completion of the full contract.	Medium	Service Manager – Economic Development & Strategic Investment	Agreed		March 2014
	The process of managing change to contract specifications or scope of works, after tenders have been received or contracts awarded, should be reviewed – Management should ensure compliance with the Council’s Corporate Procurement Procedures.	Medium	Service Manager – Strategic Asset & Capital Plan Management	Agreed – guidelines in place		March 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1 (cont)	Appropriate checking procedures should be in place to ensure that the rates charged by suppliers agree to the contracted rates.	Medium	Service Manager – Engineering Services and Building Standards	Agreed		March 2014
3.4.1	Management should explore the use of products currently available as part of Scotland Excel contracts, to ensure that the best possible rates are obtained.	Medium	Service Manager – Property Maintenance	Agreed. Management to explore with approved suppliers possible like for like component alternatives that are more competitively priced through the contract but that also meet specification for service standards and ongoing maintenance requirements.		April 2014

Grading of Recommendations

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

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

REPORT TO: Audit and Governance Committee

MEETING DATE: 18 March 2014

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Report – Housing Allocations

4

1 PURPOSE

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

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A review of Housing Allocations 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 Housing Allocations 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	6 March 2014

EAST LoTHIAN COUNCIL – INTERNAL AUDIT HOUSING ALLOCATIONS

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2013/14, a review was undertaken of Housing Allocations. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has in place an approved Housing Allocations Policy.
- A record is maintained on the Orchard System of all Council housing stock including details of the house type, number of bedrooms and location.
- There is adequate separation of duties between staff responsible for housing allocations and those responsible for rent or debt collection.
- For the sample of housing allocations reviewed, a fully completed tenancy agreement was held on file.
- Adequate arrangements are in place for an annual review to be undertaken of all housing applications on the active register.

1.3 Areas with Scope for Improvement

- For each applicant a housing needs assessment had been undertaken, however the housing needs points awarded to applicants in one specific category did not clearly match the circumstances detailed in the Housing Allocations Policy. *Risk – incorrect prioritisation of applicants.*
- The checklist which forms part of the housing application form had not been completed by staff to evidence that appropriate validation checks had been carried out. *Risk – inappropriate housing allocations may be made.*
- In some cases the void matching list, which identifies applicants eligible for an offer, had not been signed or dated by the Council Officer making the allocation. *Risk – lack of consistency in the approach adopted.*
- In certain cases, key documentation including void matching lists and offer letters were not held on file. *Risk – lack of a clear audit trail.*
- The existing arrangements in place for the recording of decisions to bypass applicants for a housing allocation require review. *Risk – inappropriate housing allocations may be made.*
- In a number of cases, housing application forms had not been fully completed – applicants had failed to complete the declaration section of the form in respect of residency or anti-social behaviour. *Risk – failure to comply with relevant legislation.*

1.4 Summary

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

Mala Garden
Internal Audit Manager

March 2014

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	Management should ensure that applicants complete all relevant sections of the housing application form.	Medium	Service Manager – Community Housing	Agreed – new application forms will clearly state that all sections have to be fully completed by applicants.		April 2014
3.4.2	Management should ensure that appropriate checks are carried out to validate the information provided by applicants.	Medium	Service Manager – Community Housing	Agreed – officers registering the application will undertake the necessary checks.		April 2014
3.4.3	Management should ensure that housing needs points awarded to applicants in specific categories are consistent with the Housing Allocations Policy.	Medium	Service Manager – Community Housing	Agreed – sample checks to be carried out.		April 2014
3.6.1	Management should ensure that all void matching lists are signed and dated by the Council Officer making the allocation decision.	Medium	Service Manager – Community Housing	Agreed		April 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.1 (cont)	<p>In all cases, key documentation including void matching lists and offer letters should be held on file.</p> <p>For applicants that have been by-passed, a clear audit trail should be in place to explain the reasons for the by-pass.</p>	Medium	Service Manager – Community Housing	Agreed		April 2014
3.8.1	<p>Consideration should be given to temporary tenancy points currently awarded to homeless applicants being included in the points table of the Housing Allocations Policy.</p>	Medium	Service Manager – Community Housing	This will be considered in conjunction with monitoring the impact of the new Housing Allocations Policy.		April 2014
3.10.1	<p>Management should review the security of keys held in Area Offices.</p>	Medium	Service Manager – Community Housing	Agreed		April 2014

Grading of Recommendations

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

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

REPORT TO: Audit and Governance Committee

MEETING DATE: 18 March 2014

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Report – Community Care Finance Unit

5

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on the Community Care Finance Unit.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for the Community Care Finance Unit.

3 BACKGROUND

- 3.1 A review was undertaken as part of the audit plan for 2013/14. The main objective of the audit was to ensure that the internal controls in place for administering the services previously provided by the Community Care Finance Unit (CCFU) were operating effectively.
- 3.2 The CCFU had responsibility for providing a separate function for all Adult Wellbeing clients including carrying out financial assessments for clients in receipt of chargeable services, administering the recovery of client contributions and processing payments to service providers. During 2013 the CCFU was disbanded – responsibility for financial assessments was transferred to the Benefits Section while responsibility for recovery and invoicing moved to Adult Wellbeing.
- 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	6 March 2014

EAST LOTHIAN COUNCIL – INTERNAL AUDIT COMMUNITY CARE FINANCE UNIT

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2013/14, a review was undertaken of the internal controls surrounding the charging arrangements for services provided to Adult Wellbeing clients. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The charges set for residential and non-residential care services for 2013/14 were formally approved by Cabinet.
- For non-residential care, the assessment of service user contributions takes cognisance of the guidance issued by COSLA.
- For clients in nursing or residential care homes, the National Care Home Contract rates have been properly applied.
- Adequate procedures are in place for the completion, authorisation and procurement of new care packages and for amendments to existing packages.
- Payments to external providers for Care at Home services are in accordance with agreed contracted rates.

1.3 Areas with Scope for Improvement

- The existing arrangements in place for financial assessments being undertaken require review – in some cases, clients receiving a chargeable care service had not been properly identified for financial assessment and in other cases there were delays in financial assessments being carried out. *Risk – loss of income to the Council.*
- In some cases, there was a lack of documentation on file to validate the income and capital figures used in financial assessments – service users or their representatives had failed to provide evidence to support the financial information provided on the assessment form. *Risk – errors and irregularities may occur.*
- The arrangements for updating standing data on the Frameworki system require review. *Risk – errors and omissions may occur and remain undetected.*
- In some cases, there was a lack of contract documentation on file to support the rates being paid by the Council to external providers for specialist residential care services. *Risk – errors and irregularities may go undetected.*

1.4 Summary

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

Mala Garden
Internal Audit Manager

March 2014

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	Management should ensure that the draft Charging Policy is formally approved and made available to the public via the Council's website.	Medium	Service Manager – Resources	Agreed		March 2014
3.3.2	Management should ensure that appropriate contract documentation is in place to support all payments made for specialist residential care.	Medium	Service Manager – Resources	Agreed		September 2014
3.4.1	<p>The arrangements for updating standing data on the Frameworki system should be reviewed.</p> <p>A clear audit trail should exist for all changes to data on the Frameworki system – documentary evidence of all changes should be retained.</p> <p>A person independent of processing should check to ensure that the annual up-rating of data on the Frameworki system is accurate and complete. Evidence of this check should be retained on file.</p>	Medium	Service Manager – Resources	<p>Agreed</p> <p>A service review to be undertaken to identify efficiencies and re-align staff resources.</p>		September 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1	Appropriate monitoring arrangements should be put in place to identify all clients in receipt of a chargeable service and ensure that financial assessments are carried out.	Medium	Service Manager – Resources	Agreed A service review to be undertaken to identify efficiencies and re-align staff resources to develop monitoring capacity.		September 2014
3.5.2	Management should explore the possibility of maximising the full potential of Frameworki to enable financial assessments to be undertaken timeously.	Medium	Service Manager – Benefits	The Financial Assessment Team will work with Adult Wellbeing to establish how the Frameworki system may support a risk based approach to financial assessments.		June 2014
3.5.3	Appropriate documentation should be held on file to support the income and capital figures used in financial assessments.	Medium	Service Manager – Benefits	The Financial Assessment Team will review their processes to ensure that supporting income information is recorded for all financial assessments.		March 2014

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.4	For all financial assessments, a person independent of the assessor should verify the accuracy and completeness of the assessment carried out.	Medium	Service Manager – Benefits	Once the current round of recruitment has been completed the Financial Assessment Team will review its processes to introduce a form of accuracy checking.		April 2014

Grading of Recommendations

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

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

REPORT TO: Audit and Governance Committee

MEETING DATE: 18 March 2014

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Follow-up Report

6

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 Travel and Subsistence, Carbon Management Reduction and Purchase Cards.

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.

Travel and Subsistence

- 3.2 Internal Audit's report on Travel and Subsistence was issued in November 2012. Our follow-up review has identified that of the 5 recommendations made, 3 have been fully implemented, 1 is currently outstanding and 1 has been partly implemented. The recommendations that are currently outstanding or partly implemented are detailed in Appendix 1 together with Management's response.

Carbon Management Reduction

- 3.3 Internal Audit's report on Carbon Management Reduction was issued in September 2012. Our follow-up review has identified that of the 6 recommendations made, 5 have been fully implemented and 1 is currently outstanding. The recommendation that is currently outstanding is detailed in Appendix 1 together with Management's response.

Purchase Cards

- 3.4 Internal Audit's report on Purchase Cards was issued in March 2013. Our follow-up review has identified that of the 8 recommendations made, 5 have been fully implemented and 3 are partly implemented. The recommendations that are partly implemented are 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	6 March 2014

Appendix 1

TRAVEL AND SUBSISTENCE

Our follow-up review has identified that of the 5 recommendations made, 3 have been fully implemented, 1 is currently outstanding and 1 has been partly implemented. The recommendations that are currently outstanding or partly implemented are detailed below together with Management's response.

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
3.2.3	<p><u>Currently Outstanding</u></p> <p>An authorised signatory list should be established and distributed to all members of the Payroll Section who have responsibility for checking payroll documents.</p>	Payroll Manager	<p>A new add on to the Human Resource System (HR21) will resolve the need for a manual authorisation list.</p> <p>The new facility will enable the appropriate managers to authorise staff data electronically i.e. travel expenses, sickness absence.</p>	December 2014
3.2.6	<p><u>Partly Implemented</u></p> <p>Management should ensure that appropriate guidance is in place to allow a consistent approach to be applied to subsistence payments.</p>	Depute Chief Executive – Resources and People Services	Draft Travel and Subsistence Guidance has been developed and is awaiting final approval.	March 2014

CARBON MANAGEMENT REDUCTION

Our follow-up review has identified that of the 6 recommendations made, 5 have been fully implemented and 1 is currently outstanding. The recommendation that is currently outstanding is detailed below together with Management's response.

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
3.5.1	Management should ensure that appropriate segregation of duties exist in the collection, recording and compiling of CRC Energy Efficiency Scheme data.	Service Manager – Engineering Services & Building Standards	Agreed	March 2014

PURCHASE CARDS

Our follow-up review has identified that of the 8 recommendations made, 5 have been fully implemented and 3 are partly implemented. The recommendations that are partly implemented are detailed below together with Management's response.

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
3.3.3	Management should ensure that the existing guidance in place is being complied with and that purchase cards are only being used where alternative procurement routes are not available. Purchase cards should not be used to pay supplier invoices or for large items. These should be purchased via the Council's normal procurement processes.	Heads of Service (Council wide)	Both Property Maintenance and Amenity Services are to review current use and affirm instruction to individual purchase card holders.	March 2014

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
3.3.3 (cont)	Where an existing contract is in place, the Council's contracted suppliers should be used.		As above	
3.5.1	Cardplus Supervisors should review all cardholders' transactions on the Cardplus system on a monthly basis to ensure that they are valid.	Cardplus Supervisors (Council wide)	Agreed	March 2014
3.6.1	Management should ensure that all purchase card transactions are supported by an appropriate invoice or receipt.	Cardplus Supervisors (Council wide)	Property Maintenance Service Management to affirm instruction to individual purchase card holders and ensure governance checks are in place.	March 2014

REPORT TO: Audit and Governance Committee

MEETING DATE: 18 March 2014

BY: Depute Chief Executive (Resources and People Services)

SUBJECT: Audit Plan 2014/15

7

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of Internal Audit's operational plan for 2014/15.

2 RECOMMENDATION

- 2.1 The Audit and Governance Committee is asked to approve the Audit Plan for 2014/15.

3 BACKGROUND

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

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

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

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

- Achievement of the Council's strategic objectives.
 - Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations and programmes.
 - Safeguarding of assets.
 - Compliance with laws, regulations, policies, procedures and contracts.
- 3.4 The Internal Audit Manager is required to give an opinion on the Council's control environment in the annual Controls Assurance Statement and the audit work carried out will contribute to this opinion.
- 3.5 The provision of the Internal Audit service is on an in-house basis by the Council's Internal Audit Unit, which is comprised of the Internal Audit Manager, three Senior Auditors and one Senior Audit Assistant.
- 3.6 The resources available have been applied to individual audits and a detailed operational plan has been produced for 2014/15 (see Appendix A).
- 3.7 Internal Audit will adopt a risk based approach to audit assignments as the principal means of providing assurance on the adequacy, reliability and effectiveness of internal controls. Testing of controls will be carried out on a sample basis. A standard sample size basis is used for financial systems audits and the samples are selected to provide coverage for the full financial year.
- 3.8 For each individual audit, a detailed audit report is prepared for the relevant Depute Chief Executive. Copies of the audit report are provided to the Chief Executive, External Audit and to the Chair of the Audit and Governance Committee. In addition, the Executive Summary and Action Plan are also presented to the Audit and Governance Committee.
- 3.9 For planned audits undertaken in 2014/15, copies of the full audit reports will be available to members of the Audit and Governance Committee, should they wish to receive a copy.
- 3.10 All audit reports will highlight areas where expected controls have been met and areas where there is scope for improvement. A detailed action plan will be attached to each report listing all recommendations made and recording management responses to the recommendations.
- 3.11 Follow-up audits will be carried out to review the implementation of the recommendations made.

AUDIT COVERAGE

Financial and Non-Financial Audits

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

Statutory Audits

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

Best Value Audit

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

Investigations

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

INTERNAL AUDIT PERFORMANCE INDICATORS

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

OTHER FACTORS

- 3.17 The Committee should note that reactive work may impact heavily on the Internal Audit Unit's ability to complete the audit plan. Contingency days are built in for 2014/15 in the investigations section, but by its nature reactive work is difficult to predict.
- 3.18 The plan and its completion have added importance, given its contribution to the annual Controls Assurance Statement to be prepared at the end of 2014/15.

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	6 March 2014

INTERNAL AUDIT PLAN

2014/15

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AUDIT PLAN 2014/15

AUDITABLE AREAS	SCOPE OF THE AUDIT	WEEKS
FINANCIAL AND NON-FINANCIAL AUDITS		
Borrowings	We will examine the systems and controls in place in respect of borrowings – the audit will focus on the draw down and repayment of loans and the associated authorisation and monitoring procedures in place.	6
Pensions	We will review the systems and controls in place in respect of pensions – the audit will focus on the accuracy and completeness of pension data sent to the Lothian Pension Fund.	6
Payroll Overtime	A review of the internal controls in place for the authorisation, processing and monitoring of Payroll Overtime will be carried out.	6
Cash Handling and Banking	We will examine the cash handling and banking arrangements in operation throughout the Council.	6
Fees and Charges	For a range of Council services we will review the arrangements in place for the setting up, reviewing and updating of fees and charges.	6
Non-Domestic Rates	We will examine the internal controls surrounding the administration of Non-Domestic Rates.	6
Frameworki – Payments on Schedule	We will examine the adequacy and effectiveness of the internal controls in place for payments made to suppliers via Frameworki.	6

AUDITABLE AREAS	SCOPE OF THE AUDIT	WEEKS
Fleet Management	We will review the adequacy and effectiveness of the Council's fleet management.	6
Self Directed Support	We will report on the progress being made by the Council in implementing Self Directed Support.	6
Bathroom Adaptations	We will examine the adequacy and effectiveness of the Council's Framework Agreement for bathroom adaptations.	8
Public Records (Scotland) Act 2011	We will examine the adequacy of the existing arrangements in place within the Council for meeting the requirements of the Public Records (Scotland) Act 2011 – the audit will focus on how the Council uses, stores, makes secure, shares and destroys information.	5
Schools Audit	We will examine the internal controls operating within one secondary school and one primary school in East Lothian.	10
Fostering and Kinship Care Allowances	We will review the arrangements in place for the payment of fostering and kinship care allowances and fees.	6
Partnership Funding	We will examine the arrangements in place for partnership funding provided by the Council.	6
Residential Homes for Older People	A review of the financial arrangements operating at the Council's residential homes for older people will be undertaken.	6

AUDITABLE AREAS	SCOPE OF THE AUDIT	WEEKS
Gifts and Hospitality – Members	We will review the arrangements in place for the recording and acceptance of offers of gifts and hospitality by Members.	5
Contracts Audit	We will examine payments made to suppliers in respect of specific contracts.	6
IT Disaster Recovery	We will review the IT disaster recovery arrangements for the Council’s main data centres (John Muir House and Penston House).	6
Mandatory and Discretionary Financial Assistance	We will review the adequacy and effectiveness of the arrangements in place for the processing of mandatory and discretionary housing grants.	5
Special Projects	Internal Audit will review specific areas that are identified by Senior Officers.	6
STATUTORY AUDITS		
Miscellaneous Grants	For grants awarded to the Council by the Scottish Government, Internal Audit is required to provide a statement of compliance with grant conditions on an annual basis.	4
Tyne Esk LEADER Programme	We will examine the adequacy and effectiveness of the internal controls in place for the Tyne Esk LEADER Programme.	4
Fisheries Local Action Group (FLAG)	We will examine the arrangements in place for the payment of grants by East Lothian Fisheries Local Action Group (FLAG).	3

AUDITABLE AREAS	SCOPE OF THE AUDIT	WEEKS
BEST VALUE AUDIT		
Review of Performance Indicators	Internal Audit will review the systems in place for the preparation and reporting of Performance Indicators.	6
INVESTIGATIONS		
National Fraud Initiative	We will continue to follow-up work identified by the 2012/13 NFI data matching exercise.	4
Fraud and Irregularity	Internal Audit will investigate all instances of suspected fraud or irregularity.	10
Fraud and Corruption	We will examine the policies and procedures in place within the Council for the prevention and detection of fraud and corruption.	4
OTHER AUDIT WORK		
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by management have been properly managed.	6
Attendance at Stocktakes	Internal Audit will attend the year-end stocktakes at Property Maintenance, Road Services and Waste Services. We will review the final stock sheets.	1
Community Councils and Management Committees	Community Councils – Internal Audit provide advice and support to Community Councils. Management Committees – Internal Audit will audit the annual accounts of Management Committees where applicable.	4

AUDITABLE AREAS	SCOPE OF THE AUDIT	WEEKS
Standards and Policies	<p>Internal Audit will report to the Audit and Governance Committee on the following:</p> <ul style="list-style-type: none"> • The outcome of Internal Audit's assessment against Public Sector Internal Audit Standards (PSIAS) • The updated Internal Audit Charter • The Council's updated Whistleblowing Policy 	6
Advice and Consultancy	<p>Consultation on New Systems – for all new systems implemented, Internal Audit will provide advice on internal control matters.</p> <p>Tender Evaluations – attendance at tender openings and evaluations when requested by departments.</p> <p>Returned Cheques – investigating and recording the reasons for returned cheques.</p> <p>Financial Reports – providing departments with financial information about companies and offering advice where applicable.</p> <p>Consultancy – providing advice and consultancy on a range of internal control issues.</p>	6
TRAINING		
Training	<p>An adequate allocation of budget resources and time will be given to maintaining and improving the knowledge base and quality of the staff resource. This includes time for staff to undertake continuous professional development (CPD) and to acquire skills and knowledge required to undertake specialist audit assignments.</p>	6

REPORT TO: Audit and Governance Committee

MEETING DATE: 18 March 2014

BY: Depute Chief Executive (Resources & People Services)

8

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 This report is prepared to assist the Committee in their remit to evaluate Internal Audit's work and monitor progress against the annual audit plan.
- 3.2 The progress made to date is outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	6 March 2014

INTERNAL AUDIT PROGRESS REPORT 2013/14

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

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

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

AUDITABLE AREAS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Trading Operations	The Council has a number of trading operations and we will review the arrangements in place to ensure compliance with statutory requirements.	April 2014	
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	
Mobile Payment Devices	We will review the internal controls in place for the use of mobile chip and PIN payment devices recently introduced by the Council’s Revenues section.	April 2014	
Residential Units for Young People	We will examine the IT arrangements operating within the Council’s Residential Units for Young People to ensure compliance with Council policies and procedures.	April 2014	