



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

**TUESDAY 15 SEPTEMBER 2015
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

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Committee Members Present:

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

Council Officials Present:

Mr A McCrorie, Depute Chief Executive - Resources and People Services
Ms M Patterson Depute Chief Executive - Partnerships and Community Services
Mr R Montgomery, Head of Infrastructure
Mr J Lamond, Head of Council Resources
Mr D Nightingale, Head of Education (Item 7)
Mr P Vestri, Service Manager – Corporate Policy and Improvement
Ms S Fortune, Service Manager – Business Finance
Mr R Parker Service Manager – Education (Item 7)
Mr M Murphy, Senior Operational Manager (item 5)
Mr R Campbell, Service Improvement Officer (Item 6)
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor

Clerk:

Ms A Smith

Visitors Present:

Mr A Shaw, KPMG
Ms S Burden, KPMG

Apologies:

Councillor S Currie
Councillor A Forrest

Declarations of Interest:

None

1. MINUTE OF THE AUDIT & GOVERNANCE COMMITTEE MEETING HELD ON 23 JUNE 2015 FOR APPROVAL

The minute of the Committee's meeting on 23 June 2015 was approved.

2. DRAFT ANNUAL AUDIT REPORT TO THE MEMBERS OF EAST LoTHIAN COUNCIL (KPMG)

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

KPMG Director, Andy Shaw, presented the report, summarising the key features of the audit and drawing Members' attention to the audit conclusions, significant risks and areas of audit focus. He stated that in KPMG's opinion the Council had progressed well in managing the challenges facing local authorities. The Council had reported a statutory surplus of £9.3 million in 2014-15. He informed the Committee that there were no significant control reports. He drew attention to the Action Plan, which contained 3 minor findings.

Mr Shaw responded to questions from Members. He clarified that the £3.5 million transfer enabled capital to be funded for revenue; the contribution to reserves was welcomed overall. Regarding pensions liability, he advised that this reflected the position across the market regarding funding of the scheme; there was an element of pressure for all local authorities.

Responding to the Convener regarding workforce management plans, Jim Lamond, Head of Council Resources, advised that there was a programme of activity set out in efficient workforce planning, this piece of work continued and featured in budgetary and financial planning.

In response to questions about managing bad debt provision, Mr Shaw clarified that in previous years reports had indicated that the Council's methodology in this regard had been prudent. Mr Lamond confirmed that the Council had reviewed its methodology, the Finance team was in agreement with KPMG that the previous approach had perhaps been overly cautious; a new approach had now been adopted.

The Convener thanked KPMG and the Council's Finance team.

Decision

The Committee agreed to note the contents of the report.

3. STATUTORY PERFORMANCE INDICATORS (KPMG)

A report was submitted by KPMG outlining the findings of the review of East Lothian Council's approach to Statutory Performance Indicators (SPIs).

KPMG Manager, Sarah Burden, presented the report, outlining KPMG's audit approach, which had involved a review of policies and procedures in operation at the Council as well as information gathering in respect of SPI monitoring and reporting. This report had been structured to answer specific questions identified in the stage

one pro-forma from Audit Scotland and focused on two key areas; planning arrangements and systems assessment. She informed Members that no recommendations had been raised; the arrangements the Council had in place were adequate. The report would now go forward to Audit Scotland.

Decision

The Committee agreed to note the contents of the report.

4. EAST LOTHIAN COUNCIL ANNUAL ACCOUNTS 2014-15 (AUDITED)

A report was presented by the Depute Chief Executive, Resources and People Services, providing the Committee with the audited 2014-15 annual accounts.

Mr Lamond presented the report. He reminded Members that the draft 2014-15 annual accounts had been presented to the Committee on 23 June and had been submitted for audit on 26 June. Members had been issued with a copy of the full detailed annual accounts. He indicated that KPMG had confirmed that they intended to issue an unqualified audit opinion.

In response to a question from Councillor Goodfellow, Mr Lamond clarified that KPMG's full report would now go forward to Council.

Decision

The Committee agreed to:

- note the 2014-15 audited final accounts, taking into consideration the External Auditors Annual Audit report; and
- note the intention to submit the audited final accounts in accordance with the statutory timetable.

5. ADULT WELLBEING RISK REGISTER

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

The Service Manager for Corporate Policy and Improvement, Paolo Vestri, presented the report. He advised Members that the Adult Wellbeing Local Risk Working Group had compiled the risk register. He drew attention to the risk matrix used for evaluating the risks and also to the Council's response in relation to adverse risk. He reported that the current Adult Wellbeing Risk Register included 1 very high risk, 6 high risks and 6 medium risks. A copy of the risk matrix used to calculate the level of risk was attached at Appendix 2.

The Senior Operational Manager for Adult Wellbeing, Michael Murphy, responded to questions from Members. Councillor McAllister queried total care home bed capacity in East Lothian. Mr Murphy replied that he did not have the figures to hand but would check and respond. Regarding questions about the third sector, Mr Murphy advised that work was ongoing in preparing a framework for a structured way forward; he added that from a service area viewpoint there was strong recognition of the value of services these organisations provided. In response to further questions about vacant

land and potential usage, the Depute Chief Executive, Alex McCrorie, stated this would be taken off-line for response.

Responding to questions from the Convener regarding re-tendering for the Help to Live at Home framework, Mr Murphy stated the current contract expired in 2017; work and discussions regarding the re-tender were ongoing. The Convener also asked about new initiatives. Mr Murphy advised that the service was trying to enhance the ability of the independent sector to provide services and also to provide these on a more local basis; to co-ordinate more effectively. There was also more work being carried out with the NHS to match different work and different agencies.

In relation to the situation regarding care home beds, raised by Councillor Caldwell, Mr Murphy indicated that there were pressures on the system; he would check the exact position and respond.

Councillor Brown asked about the potential impact of the living wage; Mr Murphy advised that this would increase the costs of provision; the key question would be the impact on the budget of that increase.

Mr Murphy added that he could arrange a separate briefing for Members if desired.

Decision

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

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

6. CHILDREN'S WELLBEING RISK REGISTER

A report was submitted by the Chief Executive presenting the Committee with the Children's Wellbeing Risk Register for discussion, comment and noting.

Mr Vestri presented the report, advising that the risk register had been compiled by the Children's Wellbeing Local Risk Working Group. The current Children's Wellbeing Risk Register included 4 high risks, 1 medium risk and 1 low risk. A copy of the risk matrix was attached at Appendix 2.

The Convener thanked officers for this comprehensive report, which provided a detailed breakdown and explanation of control measures and potential impacts.

Decision

The Committee agreed to note the Children's Wellbeing Risk Register and, in doing so, that:

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

7. EDUCATION RISK REGISTER

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

Mr Vestri presented the report. He advised Members that the Education Local Risk Working Group had compiled the risk register. The current Education Risk Register included 5 high risks, 6 medium risk and 2 low risks. Appendix 2 contained the risk matrix.

Decision

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

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

8. ANNUAL WORK PLAN 2015/16

Mr Vestri presented the Annual Work Plan 2015/16 to the Committee inviting them to note the reports proposed for future meetings and to suggest any additional items that they may wish to add to the plan.

Decision

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

9. INTERNAL AUDIT REPORT – FUEL MANAGEMENT

A report was submitted by the Depute Chief Executive, Resources and People Services, to inform the Committee of the recently issued audit report on Fuel Management.

The Internal Audit Manager, Mala Garden, presented the report, summarising the main findings and Action Plan. She confirmed that all of the recommendations had been accepted by Management.

In response to questions from Members about monitoring fuel usage, the Head of Infrastructure, Ray Montgomery, gave details of the current situation regarding fuel cards and also the operation of local garage accounts. Ms Garden responded to a question about addressing the issue of fuel consumption. She referred to the improvement actions, advising that the correct information was not currently being provided; there was also an issue about monitoring, in that reports were not going to the correct service area.

Mr Montgomery responded to questions from Councillor Brown about tracking vehicles for mileage checking purposes. He confirmed that vehicles were tracked but highlighted some difficulties in relation to checking mileage. He stressed that the correct procedure had to be implemented for employees. He made reference to the many different types of fuel cards, adding that not all garages accepted every card. He also referred to the various recommendations that had to be taken forward.

Councillor Williamson referred to the lengthy list of recommendations detailed in the Action Plan and welcomed that all the recommendations had been accepted by management and that actions proposed would be implemented.

Decision

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

10. INTERNAL AUDIT REPORT – EXCEPTIONAL NEEDS FUNDING

A report was submitted by the Depute Chief Executive, Resources and People Services, informing the Committee of the recently issued audit report on Exceptional Needs Funding.

Ms Garden presented the report, which had been undertaken as part of the 2015/16 audit plan. She summarised the main findings and Action Plan, confirming that all of the recommendations had been accepted by Management.

In response to questions regarding Cluster Moderation Panels, Ms Garden advised Members that administering exceptional needs funding was a 2 stage process. Stage 1 was the Cluster Moderation Panels, which assessed individual pupils' eligibility; stage 2 was the Authority Moderation Panel, which dealt with the allocation of funding. She reiterated that management had agreed all recommendations.

Decision

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

11. INTERNAL AUDIT REPORT – FISHERIES LOCAL ACTION GROUP (FLAG)

A report was submitted by the Depute Chief Executive, Resources and People Services, informing the Committee of the recently issued audit report on the Fisheries Local Action Group (FLAG).

Ms Garden presented the report, outlining the background in relation to the European Fisheries Fund (EFF), the creation of Fisheries Local Action Groups (FLAG) and the

requirements for accessing funds. She drew attention to the main findings and the Action Plan. She reported that the review of the internal controls surrounding the FLAG Programme had identified areas with scope for improvement. She advised Members that the Council would not be administering the 2015-2020 FLAG Programme, however to ensure compliance with the EFF Axis 4 guidance and the Council's obligations under the Service Level Agreement in place, management should ensure that the weaknesses identified from Internal Audit's review were fully addressed. The sole recommendation had been agreed by management.

Ms Garden responded to questions. Musselburgh Members queried why Fisherrow had not been included in the FLAG programme. Ms Garden advised that there were specific areas allocated to this programme, with specific criteria for inclusion of fishing communities and fishing activities. Referring to areas with scope for improvement, Members welcomed that issues regarding the tendering process would be addressed.

Decision

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

12. INTERNAL AUDIT PROGRESS REPORT 2015/16

A report was submitted by the Depute Chief Executive, Resources and People Services, informing the Committee of Internal Audit's progress against the annual audit plan for 2015/16.

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

The Convener welcomed this report, which gave Members an overview of the work carried out by Internal Audit.

Councillor McAllister commented on the range and depth of areas to be looked at in the various audit reports due to come forward.

Decision

The Committee agreed to note the contents of Internal Audit's progress report 2015/16.

Signed

Councillor Kenny McLeod
Convener of the Audit and Governance Committee

REPORT TO: Audit and Governance Committee

MEETING DATE: 1 December 2015

BY: Depute Chief Executive - Resources and Peoples Services

SUBJECT: Treasury Management Strategy Statement and Annual Investment Strategy – Mid Year Review 2015/16

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1 PURPOSE

- 1.1 To update the Committee on Treasury Management activity during the first half of 2015/16.

2 RECOMMENDATIONS

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

3 BACKGROUND

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

Head of Council Resources and after considering the advice provided by Capita Asset Services.

3.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the 2015/16 financial year to 30 September 2015;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy approved by the Council on 24th February 2015;
- A review of the Council's borrowing for 2015/16;
- A review of the Council's investment activity for 2015/16;

Economic update from Capita Asset Services

U.K.

3.5 UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y). Growth is expected to weaken to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May Budget. Despite these headwinds, the Bank of England August Inflation Report had included a forecast for growth to remain around 2.4 – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero over the last quarter. Investment expenditure is also expected to support growth. However, since the report was issued, the Purchasing Manager's Index, (PMI), for services on 5 October would indicate a further decline in the growth rate to only +0.3% in Q4, which would be the lowest rate since the end of 2012. In addition, worldwide economic statistics and UK consumer and business confidence have distinctly weakened so it would therefore not be a surprise if the next Inflation Report in November were to cut those forecasts in August.

- 3.6 The August Bank of England Inflation Report forecast was notably subdued in respect of inflation which was forecast to barely get back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.
- 3.7 There are therefore considerable risks around whether inflation will rise in the near future as strongly as had previously been expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.
- 3.8 GDP growth in 2014 of 2.4% was followed by first quarter 2015 growth depressed by exceptionally bad winter weather at only +0.6% (annualised). However, growth rebounded very strongly in Q2 to 3.9% (annualised) and strong growth was initially expected going forward. Until the turmoil in financial markets in August caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. might start to increase rates in September. However, the Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, and due to a 20% appreciation of the dollar which has caused the Fed to lower its growth forecasts. Since then the nonfarm payrolls figures for September and revised August, issued on 2 October, were disappointingly weak and confirmed concerns that US growth is likely to significantly weaken. This has pushed back expectations of the first rate increase from 2015 into 2016.

Eurozone

- 3.9 The ECB announced a massive €1.1 trillion programme of quantitative easing in January 2015 to buy up high credit quality government debt of selected EZ countries. This programme started in March and will run to September 2016. This seems to have already had a beneficial impact in improving confidence and sentiment. There has also been a continuing trend of marginal increases in the GDP growth rate which hit 0.4% in quarter 1 2015 (1.0% y/y) and +0.4%, (1.5% y/y) in Q2 GDP. The ECB has also stated it would extend its QE programme if inflation failed to return to its target of 2% within this initial time period.

Greece

- 3.10 During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

China and Japan

- 3.11 Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth. In Q2 2015 growth was -1.6% (annualised) after a short burst of strong growth of 4.5% in Q1. During 2015, Japan has been hit hard by the downturn in China. This does not bode well for Japan as the Abe government has already fired its first two arrows to try to stimulate recovery and a rise in inflation from near zero, but has dithered about firing the third, deregulation of protected and inefficient areas of the economy, due to political lobbies which have traditionally been supporters of Abe's party.
- 3.12 As for China, the Government has been very active during 2015 in implementing several stimulus measures to try to ensure the economy hits the growth target of 7% for the current year and to bring some stability after the major fall in the onshore Chinese stock market. Many commentators are concerned that recent growth figures around that figure, could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much bank lending to corporates and local government during the post 2008 credit expansion period and whether the bursting of a bubble in housing prices is drawing nearer. Overall, China is still expected to achieve a growth figure that the EU would be envious of. However, concerns about whether the Chinese cooling of the economy could be heading for a hard landing, and the volatility of the Chinese stock market, have caused major volatility in financial markets in August and September such that confidence is, at best, fragile.

Emerging countries

- 3.13 There are considerable concerns about the vulnerability of some emerging countries and their corporates which are getting caught in a perfect storm. Having borrowed massively in western currency denominated debt since the financial crisis, caused by western investors

searching for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields (due to QE), and near zero interest rates, into emerging countries, there is now a strong current flowing to reverse that flow back to those western economies with strong growth and an imminent rise in interest rates and bond yields. This change in investors' strategy and the massive reverse cash flow, has depressed emerging country currencies and, together with a rise in expectations of a start to central interest rate increases in the US and UK, has helped to cause the dollar and sterling to appreciate. In turn, this has made it much more costly for emerging countries to service their western currency denominated debt at a time when their earnings from commodities are depressed. There are also going to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates, if available at all.

- 3.14 Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by sovereign wealth funds of countries highly exposed to falls in commodity prices which, therefore, may have to liquidate investments in order to cover national budget deficits.

Economic Outlook for the next six months of 2015/16

- 3.15 Capita Asset Services undertook its last review of interest rate forecasts on 11 August shortly after the quarterly Bank of England Inflation Report. Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts and so caused PWLB rates to fall below the above forecasts for quarter 4 2015. However, there is much volatility in rates as news ebbs and flows in negative or positive ways and news in September in respect of Volkswagen, and other corporates, has compounded downward pressure on equity prices. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.
- 3.16 Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend in the longer term will be for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.
- 3.17 The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.
- 3.18 The disappointing US nonfarm payrolls figures and UK PMI services figures at the beginning of October have served to reinforce a trend of increasing concerns that growth is likely to be significantly weaker than

had previously been expected. This, therefore, has markedly increased concerns, both in the US and UK, that growth is only being achieved by monetary policy being highly aggressive with central rates at near zero and huge QE in place. In turn, this is also causing an increasing debate as to how realistic it will be for central banks to start on reversing such aggressive monetary policy until such time as strong growth rates are more firmly established and confidence increases that inflation is going to get back to around 2% within a 2-3 year time horizon. Market expectations in October for the first Bank Rate increase have therefore shifted back sharply into the second half of 2016.

3.19 Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

3.20 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU.
- The ECB severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the EZ.
- The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

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

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

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

3.22 There are no policy changes to the Treasury Management Strategy Statement (TMSS) approved by the Council on 24th February 2015. No changes are required to the prudential indicators approved in the TMSS and approved prudential indicators have been complied with during the first six months of 2015/16.

BORROWING UPDATE

3.23 The Council's capital financing requirement (CFR) for 2015/16 is £448m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

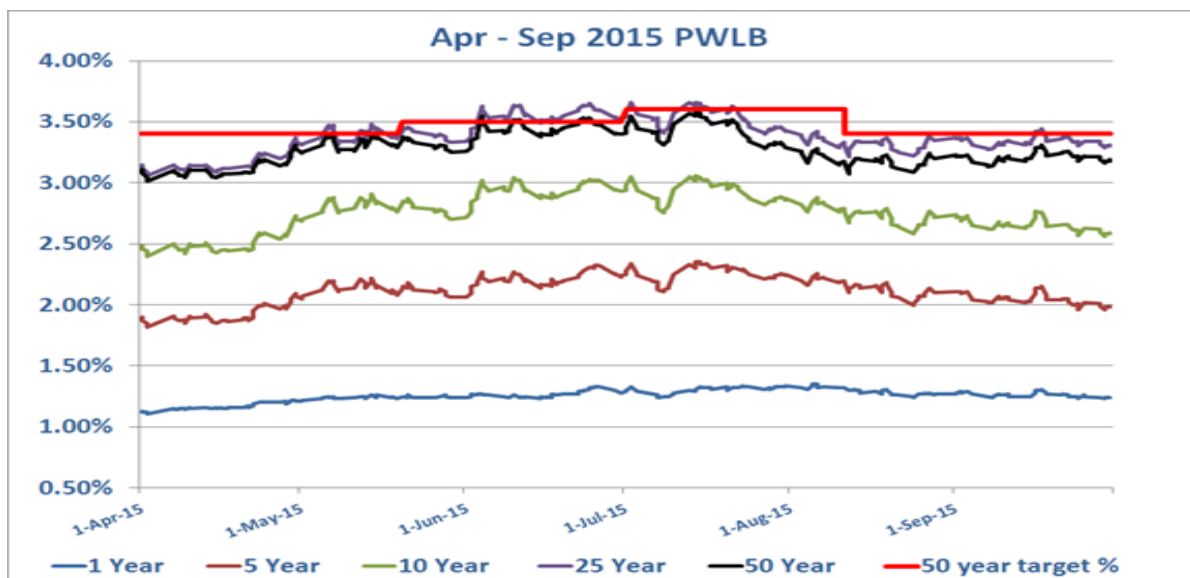
3.24 Due to the overall financial position and the underlying need to borrow for capital purposes (the capital financing requirement - CFR), new external borrowing of £9.896m was undertaken from the PWLB

Date of Borrowing	Principal	Maturity	Interest Rate
03/09/15	£2.896m	47 years	3.01%
29/09/15	£3.5m	14 years	2.94%
29/09/15	£3.5m	44 years	3.21%

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

PWLB Certainty Rates

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.11%	1.82%	2.40%	3.06%	3.01%
Date	02/04/2015	02/04/2015	02/04/2015	02/04/2015	02/04/2015
High	1.35%	2.35%	3.06%	3.66%	3.58%
Date	05/08/2015	14/07/2015	14/07/2015	02/07/2015	14/07/2015
Average	1.26%	2.12%	2.76%	3.39%	3.29%



3.26 As shown, the general trend has been an increase in interest rates during the first quarter but then a fall during the second quarter.

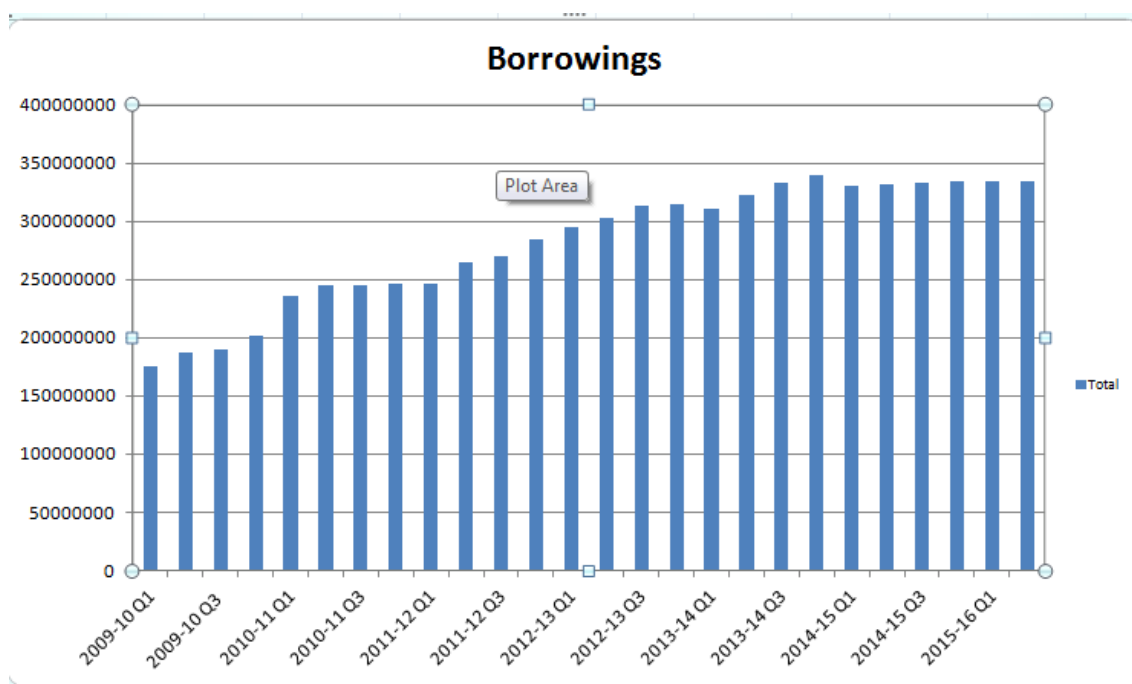
One PWLB loan matured during the first six months and was repaid:

Date repaid	Principal	Maturity	Interest rate
24/9/15	£6m	6 years	3.12%

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

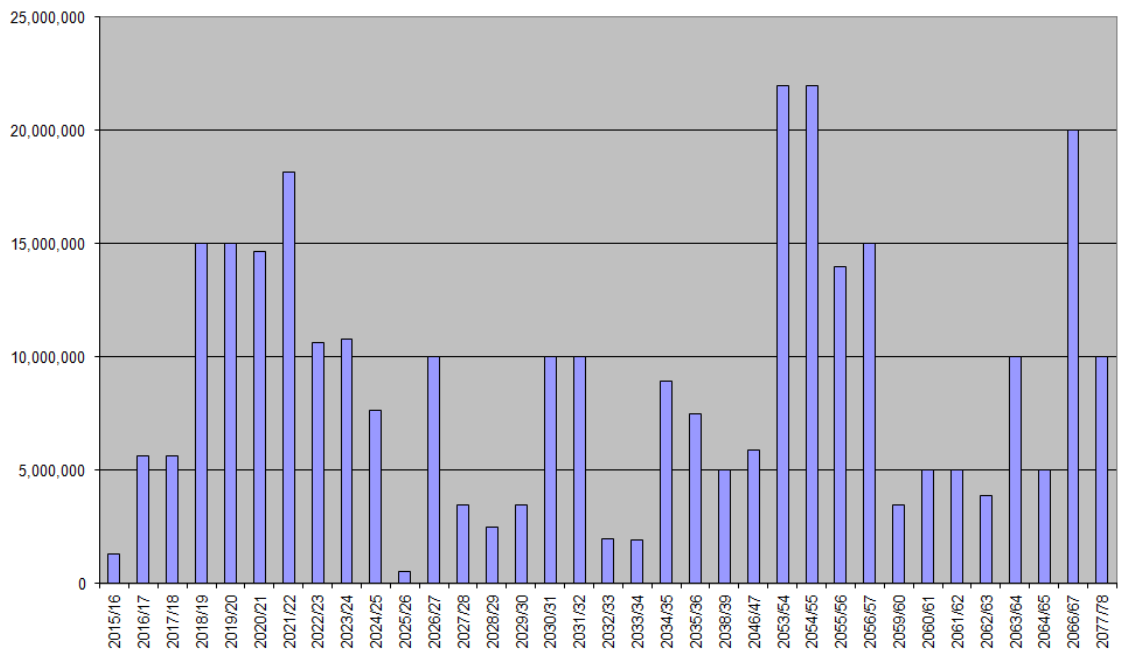
Date of borrowing	Lender	Amount	Interest rate	Date repaid
30/09/14	Northamptonshire CC	£3m	0.70%	30/09/15

3.28 Due to this the Council's overall external borrowing is relatively unchanged with external borrowings of £334.32m at 30th September.



3.29 There is a further maturity of £1.3m in October.

Current Maturity Profile



- 3.30 It is anticipated that further borrowing will be undertaken during this financial year

Debt Rescheduling

- 3.31 No debt rescheduling was undertaken during the first six months of 2015/16 as debt rescheduling opportunities have been limited in the current economic climate, with the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010.

Investment Update

- 3.32 Investment decisions during the first 6 months of 2015/16 were taken in accordance with the approved strategy. There were no new investments during the period and surplus cash balances were held in the Council's bank account, East Lothian Council Common Good funds and Charitable Trust funds are managed in two separate portfolios by an external investment management company, Investec. At 30th September 2015, the East Lothian Charitable Trust portfolio was valued at £2.736m, which represents a decrease of £0.249m over the 6 month period. The Common Good portfolio was valued at £2.786m which represents a decrease of £0.267m over the 6 month period.

4.0 POLICY IMPLICATIONS

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

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

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

6.2 Personnel – None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 Treasury Management Strategy 2015/16 to 2017/18 – East Lothian Council 24 February 2015

AUTHOR'S NAME	Liz Shaw
DESIGNATION	Corporate Finance Manager
CONTACT INFO	lshaw@eastlothian.gov.uk
DATE	16 November 2015

Report	East Lothian Council Audit and Governance Committee
Author	Bill Axon
Date	1 st December 2015
Action	To note

1. Background

3

1. In October 2009, Enjoy East Lothian was established to manage, under contract, sport and leisure facilities and services on behalf of East Lothian Council.
2. The management of the leisure services contract, which covers five major sites owned by East Lothian Council namely:
 - Aubigny Sport Centre, Haddington.
 - Loch Centre, Tranent.
 - Meadowmill Sport Centre by Tranent
 - Musselburgh Sport Centre
 - North Berwick Sport Centre

With a sixth facility owned wholly by Enjoy East Lothian Ltd:

- Dunbar Leisure Pool

There a significant number of other managed satellite facilities throughout the County, which include:

- Grass Pitches and Pavilions.
- Synthetic Pitches both 2g and 3g.
- Seasonal Facilities (putting, pitch and putt, Bowling etc.).
- Various Tennis Courts.
- Golf Courses (Musselburgh Old Course and Winterfield, Dunbar).

Bill Axon, General Manager
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www.enjoyleisure.com

Delivering services for East Lothian Council. Enjoy East Lothian Ltd, also known as 'enjoy' and 'enjoyleisure'. Scottish Registered Charity Number: SC040527



3. Enjoy is a charitable organisation limited by guarantee. Its specific objects are contained within its Memorandum and Articles of Association.
4. The objectives are expressly established “for the benefit of East Lothian”.
5. In order to secure charitable status, it had to be demonstrated that Enjoy was entirely independent of East Lothian Council and that the relationship between the two parties was genuinely at “arm’s length”. Anything that might be perceived to be a degree of control by the Council over Enjoys business activities would have led and or could lead to a failure to be registered as a Charitable Trust and a consequent inability to secure acknowledged community benefits.
6. The Council does, however, exercise contractual control over Enjoys management of the agreed leisure sites. Thus a contract between the Council and Enjoy whereby Enjoy provides the Council with leisure services as specified in the contract at the named facilities in return for payment of a management fee.
7. Accordingly the various services are to be provided to an adequate quality and there is a default mechanism, common with most leisure management contracts, applying should service levels fail to meet required standards.
8. The leisure sites are leased to Enjoy (with the exception of Dunbar Leisure Pool), for a peppercorn rent. In general Enjoy is responsible for the day-to-day upkeep of the premises, and the Council is responsible for the structure.
9. All of the employees engaged in the provision of the services are directly employed by Enjoy.

Headline Achievements

Enjoy has like all other services within the Local Government framework has been challenged by the economic downturn and the current positioning of service funding. However, Enjoy has seen continuing growth in our membership numbers, which are paid by direct debit on a monthly basis. This has allowed Enjoy to more readily cope with the reduction in the contract payment made by East Lothian Council, which between 2009 and 2015 is in the region of 13% (£360,000). This is a significant saving for the Council and Council Tax payers, however, with a positive outcome of increased, accessibility, business activity and users.

During this stage of our business development, the contract income as a % of total income has reduced year-on-year to 36.80% for the financial year 2015/2016. This is a reduction from the previous year of 38.35%. The same applies to contract income as a % of total costs, which is currently 39.35% from the previous year of 40.72%.



The following are a number of initiatives worth highlighting, which evidence the practical support Enjoy provides in meeting some Council aims:

COUNCIL OBJECTIVE: INCLUSION

Disability Activities

Across East Lothian, enjoyleisure actively supports and encourages the participation of all ages and abilities within our Sports facilities. Through specialist websites: www.disabledgo.com and www.euansguide.com we provide detailed descriptions of the access and facilities available within our Sports Centres for disabled users visiting us on a casual basis.

The disability coached activity programme provided by enjoyleisure and local clubs, offers customers access to athletics, badminton, archery, bowling, multi-sports, fitness classes, swimming lessons (for both infants and children) and a dedicated swimming club which has members that compete at a national level.

enjoyleisure also most recently supported local disability athletics club, Lothian Leopards and Scottish Disability Sport with the purchase of 4 running bikes, to assist individuals with disabilities affecting mobility, balance and coordination.

Administering the Council’s Access to Leisure Scheme

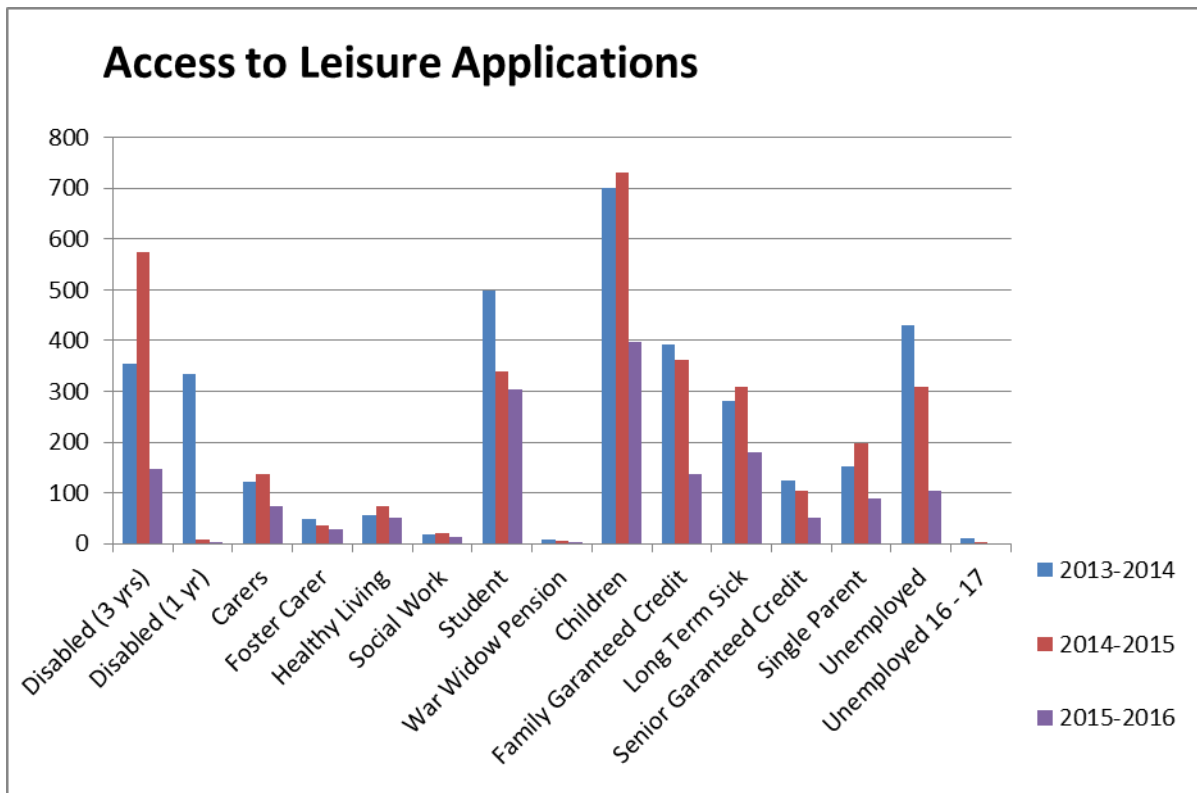
enjoyleisure manages all of the Access to Leisure Applications on behalf of East Lothian Council.

The Access to Leisure Scheme provides entry to enjoyleisure facilities for £1 per activity between 9:30am – 4:30pm Monday - Friday and discounted entry at all other times for individuals who qualify for the scheme.

Applications for the last 3 years are as follows:

Applications to date	2013-2014	2014-2015	2015-2016 (YTD September 2015)
Total	3527	3207	1579

In October 2013, the “Access to Leisure” Scheme, replaced the previous Leisure Pass Plus initiative. The new scheme amended the validity of the ‘Disabled Criteria’ from 1 year to 3 years. This subsequently is reflected in the number of applications received for this category decreasing significantly in 2015-2016.



Access to Leisure Admissions

	2013-2014	2014-2015	2015-2016 (YTD September 2015)
Access to Leisure	63,273	57,108	33,369
Bodyworks Gym	12,584	10602	5896
Crèche Activities	1978	1952	858
Dry Activities	828	1636	911
Dry Coached Activities	3578	3586	2886
Free Weights Room	3013	1646	653
Grass Pitch & Pav Income	56		
Hall Hire	4630	2797	1319
Health Suite	5189	4114	2274
Keep Fit Classes	6587	6625	3501
Room Hire	20	20	55
Soft Play	411	269	182
Swimming	17034	16172	9489
Swimming Lessons	6562	7034	5024
Wet Coached Activities	803	655	321

Female Only Sessions

The number of female only swimming sessions has decreased over the years, as more focus has been made to provide evening swim sessions to accommodate both our male and female customer base. This change has been welcomed by our customers and with increased pressure to provide access to swimming pools for clubs; adult only sessions appeal to both our male and female customers.

We do however continue to offer Ladies only nights at Aubigny (Tuesday evening 8:30pm – 9:30pm) and at North Berwick Sports Centre (Monday evening 7:30pm – 9:30pm).

Senior Activities

In conjunction with our partners within East Lothian Council and NHS via the HALP group, the enjoyleisure fitness class timetable actively highlights and promotes the “Low Impact” fitness classes available within our sports centres across the county. Indicated with a ❤️ these low-impact classes have been identified as being suitable for those individuals who are looking to improve their health or activity levels.

These classes include: Aqua Circuits | AquaFit | Ballet Stretches | Functional Fitness | Funky 50s | Pilates | Seats & Beats | Stretch & Strength | Swimming | Yoga | Yoga-lates | Zumba Gold.

In total there are 62 ‘Low Impact’ Classes on the Fitness Class Programme: over 22% of the classes on offer.

In addition we offer dedicated Senior Gym Sessions at Dunbar Leisure Pool and Senior Only Swim Sessions at North Berwick Sports Centre.

COUNCIL OBJECTIVE: HEALTH & WELLBEING

Free Swims

enjoyleisure has continued to support the East Lothian Council initiative to award Free Child Swim sessions to under 18s throughout the 6 week summer holiday period.

Total Free Swim Attendances

	2013	2014	2015
Aubigny Sports Centre	3,675	3,035	3,679
Dunbar Leisure Pool	15,625	15,252	14,628
Loch Centre	1,587	2,161	1,583
Musselburgh Sports Centre	4,711	5,375	3,820
North Berwick S C	2,478	1,882	1,642
Grand Total	28,076	27,705	25,352

Sports Centre User Numbers

enjoyleisure's overall user numbers continue to grow year on year. Between 2013-14 significant growth was seen following the launch of the new 3G Synthetic Pitch Facilities; Birthday Party Bookings; Athletics Development; Wet Coached Activities (non-swimming lesson coached activities including aqua fit classes and NPLQ courses); Fitness Classes and Swimming Lessons.

Year to Date, we have already seen a 7% increase in Soft Play use against last year's total, following the opening of Wiggles Soft Play at the Loch Centre on 28 Feb 2015.

	2013-14	2014-15	2015-16 (YTD September 2015)
3g Synthetic Pitch	4,966	42,549	23,503
Birthday Party Activities	832	1,160	592
Bodyworks Gym	104,931	102,267	64,130
Crèche Activities	6,111	5,764	2,974
Dry Activities	265,592	261,113	143,756
Dry Coached Activities	29,652	29,950	22,617
Free Weights Room	19,920	16,936	9,509
Grass Pitch & Pavilion	51,497	52,483	26,067
Hall Hire	60,815	55,134	27,899
Health Suite	25,040	24,319	13,323
Keep Fit Classes	128,853	145,527	82,984
Phys/Sport Treatment	275	173	117
Room Hire	10,069	16,261	11,268
Soft Play	15,547	15,816	16,895
Swimming	316,092	318,026	197,388
Swimming Lessons	58,815	63,102	47,637
Synthetic Pitch	35,894	26,901	4,421
Track And Field Income	14,623	17,564	10,004
Wet Coached Activities	8,012	9,512	5,443
Grand Total	1,157,536	1,204,557	710,527

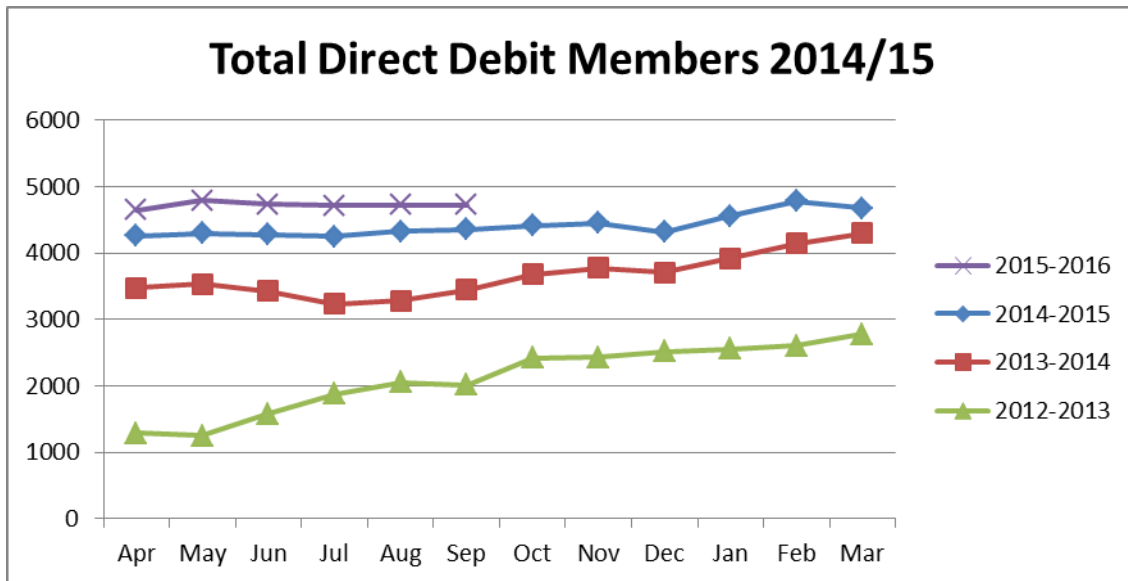
Membership Scheme

In April 2012, enjoyleisure revised its membership scheme, introducing an all-inclusive membership package offering access to the Gyms, Swimming Pools, Fitness Classes and Health Suites at all 7 East Lothian Sports Centres.

Since its initial launch, the membership scheme has grown from strength to strength. Monthly income from membership payments now amounts to on average £115,000 compared to £29,461 on April 2012.

The total number of direct debit paying members as of September 2015 was **4718**, compared to **1289** in April 2012.

The below graph indicates a levelling off of membership base. This is both a strategic and a reflection of the current capacity issues. The focus for memberships now is retention. Many of the Sports Centres are close to approaching their membership base capacity. To increase further in these centres would actually be a detriment to the business as members become unable to gain access to the facilities.



Fitness Classes

Fitness classes are by far the biggest draw for membership applications. It's therefore not surprising to see that consistently more than 80% of fitness class attendees come from our membership base.

Keep Fit Classes	2013-14	2014-15	2015-16 (YTD)
Access to Leisure	6,587	6,625	3,501
Casual Customers	10,697	9,421	4,809
Discounted Customers	701	730	337
Leisure Pass	2,073	1,769	830
Membership Inclusive	108,795	126,982	73,507
Grand Total	128,853	145,527	82,984
Member Attendance	84%	87%	89%

With a strategic focus in driving membership sales over the last few years; we made a conscientious effort to improve the membership offering both in response to customer demand and to ensure customer retention, which is reflected in the increase in fitness classes offered:



	April 2012	April 2013	April 2014	April 2015
Total Number of classes	158	229	261	288

The fitness class programme gets reviewed quarterly. At that point we revise the class timetable; introducing new classes in response to fitness trends and customer interest and popularity. At all times, we strive for a balance between cardio, endurance, low impact and strength and conditioning classes to appeal to as large a customer base as possible.

Service Level Agreements with ELC

These are reviewed annually, with agreement being reached to continue a partnership with HR (including payroll) and IT. These are viewed by all concerned as being positive arrangements at present, however, the overriding factor for future arrangements will be the continuance of meeting Enjoys future business needs.

Health and Safety

There are no major incidents to report. It should be noted that a revamped Health and Safety Policy was developed during 2014/2015, which received full Board approval and was introduced into the business during this year

Institute of Qualified Lifeguard Approved Training Centre Status

Enjoy maintained this status, which allows our professionally trained staff to maintain their qualifications through in-house training. It also allows for the public to access Enjoy managed courses and achieve the National Pool Lifeguard Qualification.

Community Economic Investment

A significant investment by Enjoy during 2015 is the ongoing upgrading of Dunbar Leisure Pool, which is in the region of £1.9 Million pounds. This is being fully funded by Enjoy and will dramatically extend the continued existence of one of East Lothians most visited attractions. This will also ensure that the extremely significant contribution that Dunbar Leisure Pool makes to the local economy will be sustained for years to come.

Work commenced on Monday 26th October for an 8 week works programme. Major works include the replacement of the air handling units which regulate the air temperature through the centre; electrical rewiring throughout; and the installation of a new switch board. Refurbishments to the flume; including relining of the flume itself and structural repairs to the supporting staircase and a drain down of the pool to allow a deep clean and re-grouting are also planned. This work, although commissioned by the Board of Enjoy could not have been undertaken without the professional support of our partners East Lothian Council, and more specifically Property Colleagues led by Paul Iannetta and his team.

Financial Performance

An annual audit of Enjoy was undertaken by an external auditor (Scott-Moncreiff), which highlighted no real areas of concern. It also provided considerable reassurance to both the Executive Management team and the Board of Directors in terms of financial good practice and governance.

A section of the financial element of the audited accounts, are attached for your information.



ENJOY EAST LOTHIAN LIMITED

Consolidated Statement of Financial Activities (incorporating the Income and Expenditure Account)

For the year ended 31 March 2015

	Notes	Unrestricted Funds £	Restricted Funds £	Year to 31 March 2015 £	Year to 31 March 2014 £
Incoming resources					
Incoming resources from generated funds:					
- Voluntary income	3	3,229	47,025	50,254	11,654
- Management service fee	4	2,519,917	-	2,519,917	2,619,600
- Investment income	5	83,459	-	83,459	38,807
		<hr/>	<hr/>	<hr/>	<hr/>
		2,606,605	47,025	2,653,630	2,670,061
Incoming resources from charitable activities:					
- Membership fees	4	1,338,916	-	1,338,916	1,123,471
- Services	4	2,553,822	-	2,553,822	2,485,789
		<hr/>	<hr/>	<hr/>	<hr/>
		3,892,737	-	3,892,737	3,609,260
		<hr/>	<hr/>	<hr/>	<hr/>
Total incoming resources		<hr/>	<hr/>	<hr/>	<hr/>
		6,499,342	47,025	6,546,367	6,279,321
Resources expended					
Charitable expenditure:					
- Membership services	6	6,535,407	19,287	6,554,694	6,162,900
Governance costs	7	23,225	-	23,225	16,806
		<hr/>	<hr/>	<hr/>	<hr/>
Total resources expended		<hr/>	<hr/>	<hr/>	<hr/>
		6,558,632	19,287	6,577,919	6,179,706
		<hr/>	<hr/>	<hr/>	<hr/>
Net incoming/(outgoing) resources before transfers		(59,290)	27,738	(31,552)	99,615



Gross transfers between funds		30,000	(30,000)	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
Net incoming/(outgoing) resources before other recognised gains and losses		(29,290)	(2,262)	(31,552)	99,615
Gain on revaluation of fixed assets		-	-	-	458,938
Actuarial (loss)/gain on retirement benefit scheme	10	(609,000)	-	(609,000)	(626,000)
		<hr/>	<hr/>	<hr/>	<hr/>
Net movement in funds		(638,290)	(2,262)	(640,552)	(67,447)
Total funds brought forward		5,176,815	18,117	5,194,932	5,262,379
		<hr/>	<hr/>	<hr/>	<hr/>
Fund balances carried forward		4,538,525	15,855	4,554,380	5,194,932
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

All activities of the charity relate to continuing activities.



ENJOY EAST LOTHIAN LIMITED

Balance Sheet

As at 31 March 2015

	Notes	Group		Company	
		2015	2014	2015	2014
		£	£	£	£
Fixed Assets					
Tangible fixed assets	11	4,644,987	4,789,374	4,644,987	4,789,374
Current assets					
Stock	12	52,390	58,448	37,989	43,638
Debtors	13	113,398	273,987	282,055	519,516
Cash at bank and in hand		2,688,379	2,054,144	2,468,222	1,801,805
		<u>2,854,167</u>	<u>2,386,579</u>	<u>2,788,266</u>	<u>2,364,958</u>
Creditors: Amounts falling due within one year					
	14	<u>(799,774)</u>	<u>(651,021)</u>	<u>(733,875)</u>	<u>(629,401)</u>
Net current assets		<u>2,054,393</u>	<u>1,735,558</u>	<u>2,054,392</u>	<u>1,735,557</u>
Total assets less current liabilities excluding retirement benefit scheme					
		6,699,380	6,524,932	6,699,379	6,524,931
Retirement benefit scheme (deficit)/asset	10	<u>(2,145,000)</u>	<u>(1,330,000)</u>	<u>(2,145,000)</u>	<u>(1,330,000)</u>
Net assets including retirement benefit scheme asset/(deficit)		<u>4,554,380</u>	<u>5,194,932</u>	<u>4,554,379</u>	<u>5,194,931</u>
Funds					
	16				



Unrestricted funds	4,538,525	5,176,815	4,538,524	5,176,814
Restricted funds	15,855	18,117	15,855	18,117
	-----	-----	-----	-----
Total funds	4,554,380	5,194,932	4,554,379	5,194,931
	=====	=====	=====	=====

The financial statements were authorised for issue by the Board on 28 September 2015

Chair

Gordon Wales

Secretary

Bill Axon

As any other organisation we remain under pressure to gain efficiencies and improve services by investigating alternative ways of working and being more innovative, especially in terms of financial transparency, reporting, rationalisation of processes and ensuring consolidation of information etc. To help achieve this Enjoy has invested significantly in a new financial and reporting system, which help us achieve this strategic objective. The new system will be in operation from 1st April 2016.

It is also our intention to integrate this with our management information system, which will assist with business planning, performance planning, business intelligence and asset management.

Furthermore we will explore the opportunities to look at additional modules, to address specific organisational needs.

2. Recommendations

That the Committee notes the information contained within this report.

Date	Internal Audit Reports	External Audit Reports	Accounts Commission/ Audit Scotland reports	Governance	Risk
19/01/16	Self-Directed Support – Children’s Wellbeing Out of Authority Placements Section 75 Payments National Fraud Initiative Performance Indicators 2014/15 Internal Audit Progress Report 2015/16	ELC Audit Strategy and Plan		Council Improvement Plan Monitoring Report	Risk Management Strategy Update Service Risk Register
22/03/16	Housing Repairs – Shared Costs Universal Credit Contracts Audit Home to School Transport Internal Audit Follow-up Reports Internal Audit Progress Report 2015/16 Internal Audit Plan 2016/17		Health and Social Care Integration (due Dec 2015) Changing Models of Health and Social Care (due Jan 2016)		Service Risk Register

17/05/16	Payroll Council Tax Other Income Agency Staff Managing Capital Projects Internal Audit Progress Report 2015/16 Annual Internal Audit Report 2015/16 Controls Assurance Statement 2015/16	Interim Management Report	Overview of Scottish Local Government (Mar 2016) Major Capital Investments in Councils – Targeted Follow Up (due Jan 2016)	2016 Corporate Governance Self-evaluation/ Annual Governance Statement	Corporate Risk Register
14/06/16				Draft 2015/16 Annual Accounts	

REPORT TO: Audit and Governance Committee
MEETING DATE: 1 December 2015
BY: Depute Chief Executive – Resources & People Services
SUBJECT: Internal Audit Report – Musselburgh Burgh Primary School

5

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Musselburgh Burgh Primary School.

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A review of Musselburgh Burgh Primary School was undertaken as part of the audit plan for 2015/16.
- 3.2 The main objective of the audit was to ensure that the financial arrangements in place at the School 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	16 November 2015

EAST LOTHIAN COUNCIL – INTERNAL AUDIT MUSSELBURGH BURGH PRIMARY SCHOOL

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2015/16 a review was undertaken of the financial arrangements operating at Musselburgh Burgh Primary School. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Detailed financial procedures are in place to provide guidance to staff responsible for administering the School's finances.
- Adequate arrangements are in place for the collection and recording of income.
- Regular reconciliations are undertaken of both the Petty Cash Imprest and the School Fund.
- A clear audit trail exists of all petty cash expenditure incurred.
- Appropriate arrangements are in place for the administration of the School Fund.
- For goods ordered through the Pecos system, adequate procedures are in place for the ordering, authorising and receipting of purchases.
- The overall financial position of the School is regularly checked and reconciled to the Council's general ledger.

1.3 Areas with Scope for Improvement

- There was a lack of evidence to confirm that purchase card transactions had been regularly reviewed. *Risk – inappropriate expenditure may be incurred.*
- In some cases, purchase card transactions were not supported by a valid VAT receipt or invoice. *Risk – failure to comply with HMRC guidance.*
- The authorised signatories for the Petty Cash Imprest bank account require to be updated – at present only one member of staff is a cheque signatory. *Risk – errors and irregularities may occur and remain undetected.*
- The School's authorised signatory list requires to be updated to accurately reflect current staff members. *Risk – information held may be out of date.*

1.4 Summary

Our review of Musselburgh Burgh Primary School has identified some areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

Mala Garden
Internal Audit Manager

November 2015

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
MUSSELBURGH BURGH PRIMARY SCHOOL**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	The authorised signatories for the Petty Cash Imprest bank account require to be updated to ensure a minimum of two signatories.	Medium	Head Teacher	Both DHTs to be added as signatories along with HT.		January 2016
3.2.3	Management should review the petty cash arrangements in place at the Nursery.	Low	Head Teacher	Nursery Petty Cash to be withdrawn.		January 2016
3.2.4	Management should ensure that petty cash reconciliations are signed by the preparer and that appropriate checks are carried out by a second member of staff to ensure accuracy and completeness.	Medium	Head Teacher	Auxiliary and Admin will both sign reconciliation. Admin already carries out appropriate checks.		Already actioned
3.3.3	The School Fund reconciliations should be signed and dated by a second member of staff to evidence the checks carried out.	Medium	Head Teacher	Reconciliation will be printed out rather than viewed online. HT will check and sign.		Already actioned

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.4	Management should ensure that reimbursements from the School Fund to the DSM are actioned timeously.	Medium	Head Teacher	Will be actioned as required.		As required
3.4.5	Management should ensure that the 'Record of Money Handed in Directly to the Office' form is fully completed.	Medium	Head Teacher	Child's name added to details on sheet.		Already actioned
3.5.1	Management should ensure that the School's authorised signatory list is updated to accurately reflect current staff members.	Medium	Head Teacher	List will be updated.		January 2016
3.5.4	Management should ensure that purchase orders are fully completed and that details of the invoices passed for payment are recorded on the purchase orders.	Medium	Head Teacher	School's Order Form book will have invoice details added.		Already actioned
3.6.2	Management should ensure that the School's address is given as the delivery address for all goods ordered.	Medium	Head Teacher	A one-off arrangement to ensure delivery and payment before end of term.		

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.3	Management should ensure that purchase cards are only used by the designated cardholder.	Medium	Head Teacher	New DHT and Auxiliary will have purchase cards.		January 2016
3.6.4	Management should ensure effective monitoring of all purchase card transactions by the Cardplus Supervisor.	Medium	Head Teacher	HT will check and sign all purchase card statements.		Already actioned
3.6.5	Management should ensure that all purchase card transactions are supported by valid receipts or invoices.	Medium	Head Teacher	All purchase card transactions will be supported with sales receipts or invoices.		Already actioned
3.6.6	Management should ensure that VAT is only reclaimed where a valid VAT invoice or receipt is held.	Medium	Head Teacher	Valid VAT invoices or receipts will be obtained.		Already actioned

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: 1 December 2015
BY: Depute Chief Executive – Resources & People Services
SUBJECT: Internal Audit Report – Waste Management

6

1 PURPOSE

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

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A review of Waste Management was undertaken as part of the audit plan for 2015/16.
- 3.2 The main objective of the audit was to ensure that the arrangements 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	16 November 2015

EAST LOTHIAN COUNCIL – INTERNAL AUDIT WASTE MANAGEMENT

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of Waste Management was undertaken as part of the Audit Plan for 2015/16. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has adequate arrangements in place for the provision of waste services.
- A framework agreement is in place for the provision of services for the recovery, treatment and final disposal of waste.

1.3 Areas with Scope for Improvement

- There is a lack of an up to date waste management strategic policy clearly setting out how the Council seeks to meet its legislative, political and social waste management requirements. *Risk – failure to demonstrate planned compliance with legislative requirements and targets.*
- There was a failure to ensure that the Council's contracts register had been timeously updated to reflect current waste management contracts in place. *Risk – inappropriate payments may be made.*
- The existing arrangements in place for the awarding of work to contractors require review. *Risk – breaches of EU Procurement rules and the Council's Corporate Procurement Procedures.*
- The existing informal arrangements whereby individual rates are agreed with contractors on behalf of the Council is considered unsatisfactory. *Risk – irregularities may occur and remain undetected.*
- There was a lack of adequate documentation to support individual rates agreed with contractors. *Risk – lack of a clear audit trail.*
- There was a failure to demonstrate that the cost benefit analysis undertaken of alternative options available for service delivery had been carried out on a consistent and comparable basis. *Risk – failure to obtain best value.*
- There was a failure to ensure that information provided on alternative options was on a like for like basis, to enable a comparative assessment to be made and to support the rationale for recommending a particular option. *Risk – failure to make an informed decision.*

1.4 Summary

Our review of the Council's Waste Management arrangements identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

**Mala Garden
Internal Audit Manager**

November 2015

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
WASTE MANAGEMENT**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	<p>Management should ensure that a detailed Waste Management Strategy is developed to ensure the Council meets its legislative requirements and targets.</p> <p>Management should ensure that the Waste Management Strategy is included in the Council Plan as one of the Council's key strategies and plans.</p>	Medium	Service Manager – Waste	Agreed		June 2016
3.2.1	Management should ensure that the Council's contracts register is updated to accurately reflect the current waste management contracts in place.	Medium	Procurement Team Leader	Agreed		Ongoing
3.2.2	Management should ensure that the Council fully complies with EU Procurement rules, Standing Orders and Corporate Procurement Procedures – appropriate action should be taken to ensure that all work is properly tendered.	High	Service Manager – Waste	Agreed		March 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.3	<p>Management should ensure that the cost benefit analysis undertaken of alternative options for service delivery is carried out on a consistent and comparable basis.</p> <p>Information provided on alternative options should be on a like for like basis to enable a comparative assessment to be made and to support the rationale for recommending a particular option.</p>	Medium	Service Manager – Waste	Agreed		November 2015
3.3.1	<p>The existing informal arrangements in place for agreeing rates with contractors should cease.</p> <p>Management should ensure compliance with EU Procurement rules and Corporate Procurement Procedures.</p>	High	Service Manager – Waste	To be confirmed		
3.4.1	Management should ensure that the Landfill Tax charge is separately disclosed from the cost of waste disposal.	Medium	Service Manager – Waste	Agreed		April 2016

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: 1 December 2015
BY: Depute Chief Executive – Resources & People Services
SUBJECT: Internal Audit Report – Travel and Subsistence

7

1 PURPOSE

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

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A review of Travel and Subsistence was undertaken as part of the audit plan for 2015/16.
- 3.2 The main objective of the audit was to ensure that all payments made in respect of travel and subsistence claims were valid.
- 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	16 November 2015

EAST LOTHIAN COUNCIL – INTERNAL AUDIT TRAVEL AND SUBSISTENCE

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the management and administration of travel and subsistence claims was undertaken as part of the Audit Plan for 2015/16. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Detailed guidance is available to employees claiming travel expenses on the Council's intranet.
- For the sample of travel and subsistence claims examined, we found that all claims had been signed by the employee to confirm that expenses incurred were for legitimate business purposes.

1.3 Areas with Scope for Improvement

- The Payroll Section does not maintain an up to date list of authorised signatories and specimen signatures – in some cases, we were unable to verify the validity of the authorised signatories on travel and subsistence claims. *Risk – fraud and irregularity may occur and remain undetected.*
- There is a lack of appropriate guidance in place to assist staff claiming subsistence. *Risk – errors or inconsistencies may occur.*
- In some cases there was a failure to ensure that the information submitted on travel claims was accurate and complete prior to being approved and passed to the Payroll Section for processing. *Risk – over or under payments may occur.*
- For employees claiming excess mileage expenses, we found that in some cases an assessment form had not been fully completed and authorised by an appropriate officer to confirm the employee's entitlement to excess mileage payments. *Risk – fraud and irregularity may occur and remain undetected.*
- The existing checking procedures within the Payroll Section require review – in some cases travel claims had been processed although the claims had not been authorised by a designated officer. In other cases the checking procedures in place had failed to identify input errors on the CHRIS payroll system. *Risk – errors and irregularities may occur and remain undetected.*
- For employees using their own vehicle for Council business, there was a failure to ensure that a valid and appropriate motor insurance certificate was held. *Risk – failure to comply with guidance.*

1.4 Summary

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

Mala Garden
Internal Audit Manager

November 2015

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should ensure that all travel claims are submitted to the Payroll Section on the appropriate pro-forma documentation available on the Council's intranet.	Medium	Service Manager – HR and Payroll	Agreed		December 2015
	The Motorcycle Rates form should be made available on the Council's intranet for completeness.	Low	Payroll Manager	Agreed		November 2015
3.2.3	Management should ensure that all travel claims are signed by an appropriate authorised signatory prior to being submitted to the Payroll Section for processing.	Medium	Service Manager – HR and Payroll	Agreed		December 2015
	Unauthorised travel claims should not be processed by the Payroll Section.		Payroll Manager	Agreed		November 2015
	An authorised signatory list should be established and distributed to all members of the Payroll Section who have responsibility for checking payroll documents.			Agreed		February 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.3 (cont)	All claims paid at the higher HMRC rate for travel outwith the Lothians should be authorised by the Head of Service prior to being passed to the Payroll Section for processing.	Medium	Service Manager – HR and Payroll	Agreed		December 2015
3.2.4	Management should ensure that all sections of the travel and subsistence claim forms are fully completed prior to being submitted to the Payroll Section for processing.	Medium	Service Manager – HR and Payroll	Agreed		December 2015
3.2.6	<p>Service areas should ensure that appropriate checks are carried out on all travel and subsistence claims, prior to being authorised and submitted to the Payroll Section for processing.</p> <p>The existing checking arrangements in place within the Payroll Section require review to ensure the accuracy and completeness of all travel and subsistence claims input to the CHRIS payroll system.</p> <p>For over or under payments identified, Management should ensure that the appropriate amounts are either paid to or recovered from the employee.</p>	Medium	<p>Service Manager – HR and Payroll</p> <p>Payroll Manager</p>	<p>Agreed</p> <p>Agreed – to be reviewed.</p> <p>Agreed</p>		<p>December 2015</p> <p>December 2015</p> <p>November 2015</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.7	Management should ensure that employees using their own vehicle for Council business submit a valid and appropriate motor insurance certificate to the Payroll Section on an annual basis.	Medium	Payroll Manager/ Service Manager – Transport	Agreed		April 2016
3.2.8	<p>Management should ensure that adequate documentation is held to support entitlement to excess mileage payments – an assessment form should be fully completed and authorised by an appropriate officer.</p> <p>Service areas should ensure that all appropriate checks are carried out on excess mileage claims, prior to being authorised and submitted to the Payroll Section for processing.</p> <p>The existing checking arrangements in place within the Payroll Section require review to ensure the accuracy and completeness of all excess mileage claims input to the CHRIS payroll system.</p>	Medium	<p>Payroll Manager</p> <p>Service Manager – HR and Payroll</p> <p>Payroll Manager</p>	<p>Agreed</p> <p>Agreed</p> <p>Agreed – to be reviewed.</p>		<p>December 2015</p> <p>December 2015</p> <p>December 2015</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.8 (cont)	For over or under payments identified, Management should ensure that the appropriate amounts are either paid to or recovered from the employee.	Medium	Payroll Manager	Agreed		November 2015
3.2.9	Management should ensure that appropriate guidance is in place to allow a consistent approach to be applied to subsistence payments. Management should review the existing arrangements in place for subsistence claims to ensure compliance with HMRC guidance in respect of tax and National Insurance.	Medium	Service Manager – HR and Payroll/ Payroll Manager	Agreed Agreed		February 2016 January 2016

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: 1 December 2015
BY: Depute Chief Executive – Resources & People Services
SUBJECT: Internal Audit Report – Bad Debt Write-offs

8

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Bad Debt Write-offs.

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A review of Bad Debt Write-offs was undertaken as part of the audit plan for 2015/16.
- 3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 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	16 November 2015

EAST LOTHIAN COUNCIL – INTERNAL AUDIT BAD DEBT WRITE-OFFS

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of Bad Debt Write-offs was undertaken as part of the Audit Plan for 2015/16. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Adequate arrangements are in place for the write-off of debts – for debts less than £10,000 that were written off in 2014/15, appropriate approval had been given.
- Appropriate documentation was held on file to support the reasons for the debts being written off.

1.3 Areas with Scope for Improvement

- The revised draft Bad Debt & Credit Balance Write-off Policy was updated in February 2014, however the Policy has yet to be formally approved. *Risk – an inconsistent approach may be adopted.*
- For debts under £10,000 that had been written off, there was a failure to submit regular reports to the Members' Library in line with the existing Policy. *Risk – non-compliance with policy.*
- Debts greater than £10,000 had been identified for write-off in 2014/15, however the write-off list was not submitted to Cabinet for approval – these debts have yet to be written off. *Risk – failure to write-off debts timeously.*
- In some cases, service areas had failed to retain sufficient back-up documentation to substantiate the original invoices raised, resulting in the Council being unable to pursue these debts successfully. *Risk – loss of income to the Council.*
- There was a failure to ensure that a consistent approach had been adopted by staff recommending prescribed debts for write-off. *Risk – inconsistent treatment of prescribed debts.*
- For Council Tax, Non-Domestic Rates and Housing Rents, there was a lack of reconciliation between the approved write-off list and the debts written off in the main systems. *Risk – errors and irregularities may occur and remain undetected.*
- The existing arrangements in place for dealing with multiple debts (i.e. individuals with debts in more than one service area) require review – in some cases the individual's Council Tax debt had been identified and written off, however other debts due to the Council (e.g. Housing Rents) had remained outstanding. *Risk – failure to adopt a consistent approach.*

1.4 Summary

Our review of Bad Debt Write-offs identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

November 2015

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
BAD DEBT WRITE-OFFS**

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 Bad Debt & Credit Balance Write-off Policy is finalised and formally approved.	Medium	Service Manager – Revenues	Agreed		April 2016
3.2.1	Management should ensure that debts over £10,000 recommended for write-off are submitted timeously to Cabinet for approval.	Medium	Service Manager – Revenues	Agreed		April 2016
3.2.2	Management should ensure that details of all debts below £10,000 that have been written off are submitted to the Members' Library in line with the current Policy.	Medium	Service Manager – Revenues	Agreed – details to be provided to Elected Members via Members' Library.		April 2016
3.3.1	Management should ensure that the 'Write Off Recommendation' form is updated to accurately reflect the main systems that are currently checked, prior to recommending a debt for write-off.	Medium	Service Manager – Revenues	Agreed – a new electronic form is to be devised and used across all services.		April 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1 (cont)	Management should ensure that the 'Write Off Recommendation' form is fully completed to evidence that checks have been carried out to identify other debts owed to the Council by the individual or business.	Medium	Service Manager – Revenues	Agreed – other debts will be identified, but may not always be included as a write-off recommendation.		April 2016
3.3.2	Management should ensure that for all invoices raised key documentation is held by the service area to enable the Council to pursue the debt in the event of a dispute.	Medium	All Service Managers	Agreed – all managers to be advised of requirements.		December 2015
3.4.1	Management should ensure that a consistent approach is adopted for identifying prescribed debts recommended for write-off.	Medium	Service Manager – Revenues	Agreed – management to provide training for relevant staff.		February 2016
3.5.1	For Council Tax, Non-Domestic Rates and Housing Rents, a reconciliation should be undertaken between the approved write-off list and the total amounts written off in the main systems.	Medium	Service Manager – Revenues	Systems routines have been developed to reconcile the write-off list to debts written off on the systems.		April 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1 (cont)	<p>All differences identified should be fully investigated and appropriate action taken.</p> <p>Management should ensure that a reconciliation is undertaken between the write-off list and the amounts posted to the Council's General Ledger.</p>	<p>Medium</p> <p>Medium</p>	<p>Service Manager – Business Finance</p>	<p>Any differences will be identified as part of this work. Testing of these routines still to take place.</p> <p>Agreed</p>		<p>June 2016</p>

Grading of Recommendations

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

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

REPORT TO: Audit and Governance Committee

MEETING DATE: 1 December 2015

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Follow-up Reports

9

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 Records Management (Public Records (Scotland) Act 2011), Cash Handling and Banking, Knox Academy and Members' Gifts and Hospitality.

3 BACKGROUND

- 3.1 As part of the audit plan for 2015/16 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.

Records Management (Public Records (Scotland) Act 2011)

- 3.2 Internal Audit's report on Records Management was issued in November 2014. Our follow-up review has identified that the one recommendation made has been fully implemented.

Cash Handling and Banking

- 3.3 Internal Audit's report on Cash Handling and Banking was issued in January 2015. Our follow-up review has highlighted that of the ten recommendations made one recommendation is currently outstanding. Details of Management's response and the revised date of completion are attached as Appendix A.

Knox Academy

- 3.4 Internal Audit's report on Knox Academy was issued in March 2015. Our follow-up review has identified that all three recommendations made have been fully implemented.

Members' Gifts and Hospitality

- 3.5 Internal Audit's report on Members' Gifts and Hospitality was issued in March 2015. Our follow-up review has identified that all three recommendations made have been fully implemented.

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	16 November 2015

Appendix A

Cash Handling and Banking

Our follow-up review has identified that of the 10 recommendations made, 9 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	GRADE	RESPONSIBLE OFFICER	MANAGEMENT RESPONSE	REVISED DATE OF COMPLETION
3.2.2	Consideration should be given to enhancing the existing audit trail by ensuring that receipts issued to customers include details of the cash tendered and the change given.	Medium	Service Manager – Customer Services	Capita system provider has confirmed that this functionality is not possible on the current system.	N/A

REPORT TO: Audit and Governance Committee
MEETING DATE: 1 December 2015
BY: Depute Chief Executive – Resources & People Services
SUBJECT: Internal Audit Progress Report 2015/16

10

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of Internal Audit's progress against the annual audit plan for 2015/16.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Internal Audit Progress Report 2015/16.

3 BACKGROUND

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

4 POLICY IMPLICATIONS

- 4.1 None

5 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	16 November 2015

INTERNAL AUDIT PROGRESS REPORT 2015/16

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Fuel Management	We will review the adequacy and effectiveness of the controls operating in respect of Fuel Management.	September 2015	Completed
Exceptional Needs Funding	We will review the arrangements in place for the allocation of Exceptional Needs Funding to Schools.	September 2015	Completed
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).	September 2015	Completed
Schools Audit	We will examine the internal controls operating within one primary school in East Lothian.	November 2015	Completed
Waste Management	We will review the Council's waste collection arrangements, focusing on whether value for money is being obtained and how efficiency savings are being achieved and will be achieved in the future.	November 2015	Completed
Employee Expenses (Travel & Subsistence)	We will examine the internal controls in place for employee travel and subsistence claims.	November 2015	Completed

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by Management have been properly managed.	November 2015	Completed
Bad Debt Write-offs	We will examine the systems in place for the write-off of Bad Debts and Credit Balances.	November 2015	Completed
Funding – Third Sector Organisations	We will review the partnership arrangements in place with Third Sector Organisations and assess if the Council is getting value for money from grants awarded to Third Sector Organisations.	November 2015	In progress
Risk Management	We will evaluate the effectiveness of the Council's risk management processes in place including risk appetite, risk identification and the mitigation of risks.	September 2015	In progress
Self-Directed Support – Children's Wellbeing	We will continue our review of Self-Directed Support by reviewing the progress being made within Children's Wellbeing.	January 2016	
Out of Authority Placements	We will review the way the Council manages the delivery of services to children with special education needs – the audit will focus on planning, budgeting, commissioning and the monitoring of service delivery.	January 2016	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Section 75 Payments	Section 75 payments (developer contributions) bring significant funds to the Council for infrastructure projects. We will examine all aspects of the section 75 process and seek to provide management with assurances that the controls in place are operating effectively.	January 2016	
National Fraud Initiative	The 2014/15 National Fraud Initiative data matching exercise was undertaken by the Audit Commission in 2014. The results of the matches were provided to the Council in January 2015. We will investigate all recommended matches.	January 2016	
Review of Performance Indicators	Internal Audit will review the systems in place for the preparation and reporting of Performance Indicators.	January 2016	
Housing Repairs – Shared Costs	We will review the arrangements in place for charging mutual repairs and shared costs to private owners.	March 2016	
Universal Credit	We will review the Council's arrangements for dealing with the impact of Universal Credit and Direct Payments.	March 2016	
Home to School Transport	We will examine the procurement process for the provision of Home to School transport – our review will focus on the tendering, evaluation and awarding of contracts to operators.	March 2016	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Contracts Audit	We will examine payments made to suppliers in respect of specific contracts.	March 2016	
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by Management have been properly managed.	March 2016	
Internal Audit Plan 2016/17	Internal Audit will present the detailed operational Audit Plan for 2016/17 for approval by the Audit and Governance Committee.	March 2016	
Payroll	We will undertake a risk based review of the Payroll system, examining in particular controls relating to starters and leavers.	May 2016	
Council Tax	We will review the internal control arrangements in place for Council Tax income – our audit will focus on Council Tax collection.	May 2016	
Other Income	Our audit will focus on the internal controls in place for sundry income received by the Council.	May 2016	
Agency Staff	We will examine the arrangements in place for the engaging and use of agency staff – the review will include the monitoring and payment arrangements in place.	May 2016	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Managing Capital Projects	We will review the Council's management of significant capital projects that are underway. The review will also examine the whole approach that the Council takes to property management.	May 2016	
Annual Internal Audit Report 2015/16	We will present the Annual Internal Audit Report based on Internal Audit activity undertaken for financial year 2015/16, as required by the Public Sector Internal Audit Standards.	May 2016	
Controls Assurance Statement 2015/16	Internal Audit will provide an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for the financial year 1 April 2015 to 31 March 2016.	May 2016	