



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

**TUESDAY 1 DECEMBER 2015
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

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Committee Members Present:

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

Council Officials Present:

Mr A McCrorie, Depute Chief Executive - Resources and People Services
Ms M Patterson, Depute Chief Executive – Communities and Partnerships
Mr J Lamond, Head of Council Resources
Mr R Montgomery, Head of Infrastructure
Mr T Reid, Service Manager - Waste
Mr P Vestri, Service Manager – Corporate Policy and Improvement
Ms L Shaw, Corporate Finance Manager
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Mr L Ritchie, Payroll Manager
Mr H Mark, Debt Management & Business Rates Team Leader
Mr E John, Service Manager – Sport, Countryside & Leisure
Mr B Axon, General Manager – enjoyleisure
Ms J McCartney, Financial Controller - enjoyleisure

Clerk:

Ms F Currie

Apologies:

None

Declarations of Interest:

None

1. MINUTES OF THE AUDIT & GOVERNANCE COMMITTEE MEETING HELD ON 15 SEPTEMBER 2015 FOR APPROVAL

The minutes of the Committee's meeting on 15 September 2015 were approved.

2. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY – MID YEAR REVIEW 2015/16

A report was submitted by the Depute Chief Executive – Resources and People Services to update the Committee on Treasury Management activity during the first half of 2015/16.

Liz Shaw, Corporate Finance Manager, presented the report which covered the period to 30 September 2015. She summarised the contents, drawing Members' attention to the key themes and overall financial position and she invited comments on the level of detail required for future reports.

In response to questions from Councillor Currie, Ms Shaw confirmed that, despite the current favourable interest rates, to bring forward borrowing for capital projects would result in additional costs as the borrowing would be over a longer period.

Jim Lamond, Head of Council Resources, concurred pointing out that borrowing earlier had its own element of risk and the interest rate would have to be quite preferential to make it worthwhile also adding that there were constraints about borrowing in advance of need. He said that the Council was currently in a position of under borrowing drawing instead from cash reserves and, if market rates were likely to go up, he would wish to address this first before considering any additional borrowing. He added that managing cash flows through short-term borrowing at existing lower rates currently resulted in better value for the Council but he agreed to consider Councillor Currie's point and provide a response.

Ms Shaw agreed to provide additional information to Councillor Caldwell on the Common Good Committees portfolio. She also responded to questions from the Convenor, clarifying the wording in the report and confirming that the Council was at liberty to refuse the financial advice provided by CAPITA should it wish to do so.

Decision

The Committee agreed to note the contents of the report.

3. ENJOYLEISURE ANNUAL PERFORMANCE REPORT

A report was submitted by enjoyleisure to provide the Committee with a summary of performance since September 2013.

The General Manager of enjoyleisure, Bill Axon, presented the report and drew Members' attention to the planned renovation of Dunbar Leisure Pool.

Jennifer McCartney, Financial Controller at enjoyleisure, responded to a number of questions relating to figures for profit and loss and cash reserves, the level of management fee paid by the Council and the use of cash reserves rather than

borrowing to fund capital works. Mr Lamond added that the Council did not have the option to on-lend to other bodies, such as enjoyleisure.

Members raised questions on other issues and Mr Axon provided responses in relation to whether the free swim programme had delivered benefits for communities, how enjoyleisure had managed to compete against the private sector and increase its membership numbers during the economic downturn and increasing access to facilities and activities for disabled users.

Councillor Currie commented on the importance of receiving this report from enjoyleisure. He referred to the role of the Audit & Governance Committee in considering the level of the management fee paid by the Council and the effect of any reduction in funding on the organisation's ability to continue investing in facilities and competing against the private sector.

Mr Axon accepted the comments and advised Members that, in future, more information would be made available to Councillors to inform budget-setting.

Decision

The Committee agreed to note the contents of the report.

4. ANNUAL WORK PLAN 2015/16

The Annual Work Plan 2015/16 was submitted to the Committee for information.

Paolo Vestri, Service Manager – Corporate Policy and Improvement, presented the Work Plan inviting them to note the reports proposed for future meetings. Referring to the Audit Scotland reports scheduled for the March meeting, he advised Members that the timing of these would be dependent on their publication dates.

In response to questions from Members, Mala Garden, Internal Audit Manager, confirmed that the timing of the Internal Audit report on Universal Credit, scheduled for presentation at the March meeting, could be changed if required.

Mr Lamond advised members that a report on Universal Credit, focussing on the work of the Welfare Reform Taskforce would be presented to the January Cabinet meeting. Mr Vestri added that a report on this issue would also be presented to the Policy and Performance Review Committee in the New Year.

Decision

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

5. INTERNAL AUDIT REPORT – MUSSELBURGH BURGH PRIMARY SCHOOL

A report was submitted by the Depute Chief Executive, Resources and People Services, to inform the Committee of the recently issued audit report on Musselburgh Burgh Primary School.

Ms 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 a question from the Convenor, Ms Garden advised that HMRC guidance required that purchase card transactions should be supported by valid VAT receipts when claiming input VAT.

Councillor Currie welcomed the inclusion of early dates for completion of the Action Plan and commented that staff turnover within schools may have had an impact on the signatories not being up to date.

Decision

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

6. INTERNAL AUDIT REPORT – WASTE 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 Waste Management.

Ms Garden presented the report, advising Members of the main purpose and scope of the audit and outlining the findings and Action Plan.

Members raised a number of questions around the grading and completion times for recommendations in the Action Plan, procurement procedures and how to ensure that the service was meeting its targets.

Ms Garden explained that where recommendations were graded 'high' it was expected that these would be completed within three months and that one of the recommendations within the Action Plan had yet to be agreed by Management. Referring to the targets for reducing waste going to Landfill, she said that a written policy should be put in place and should form part of the Council Plan.

Ray Montgomery, Head of Infrastructure, said that the service had been very busy operationally but he agreed to take forward work on the policy.

Mr Lamond advised that formal procurement procedures would be required for any tender with a value of £5000 or more. Mr Montgomery added that the next tendering process would take place in early 2016.

Councillor McAllister commended the high quality work carried out by the service and said he had no concerns about the gaps in paperwork.

Councillor Williamson made a general comment about the findings contained in some of the audit reports. He queried the number of areas with scope for improvement and whether self-assessment by managers, prior to the formal audit, may help to reduce these. Ms Garden stated that Waste Management had not previously been reviewed by Internal Audit, and there tended to be more issues to pick up during a first audit. With reference to the audit of bad debts Ms Garden stated that bad debts had previously been reviewed as part of a Sundry Debtors audit.

Decision

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

7. INTERNAL AUDIT REPORT – TRAVEL AND SUBSISTENCE

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

Ms Garden presented the report, summarising the areas where controls were met, those with scope for improvement and the recommendations contained in the Action Plan, all of which had been approved by Management.

In response to questions from Members, Ms Garden said that a list of authorised signatories should be maintained by Payroll and in respect of business travel stated that arrangements were in place to ensure that all staff using their own vehicles for business travel had the appropriate documentation and insurance.

Les Ritchie, Payroll Manager, confirmed that these issues were covered by the Safe Driving At Work policy.

Decision

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

8. INTERNAL AUDIT REPORT – BAD DEBT WRITE-OFFS

A report was submitted by the Depute Chief Executive, Resources and People Services, to inform the Committee of the recently issued audit report on Bad Debt Write-offs.

Ms Garden presented the report, advising Members that the audit had been carried out as part of the 2015/16 audit plan and its main objective was to ensure that the internal controls were operating effectively. She summarised the findings and the recommendations contained in the Action Plan.

Members raised a number of questions around the number and timing for completion of recommendations, further reporting to Members, the type of debts, the period during which they could be pursued and how the Council intended to address this issue and the impact of welfare reforms.

Mr Lamond acknowledged that the poor record keeping and inconsistent practices were of concern but gave assurances that these would be addressed and that officers would lodge any outstanding reports as soon as possible.

Stuart Allan, Senior Auditor, provided further information on the number and type of debts and Ms Garden confirmed that a private report containing a breakdown of bad debt write-offs would be made available through the Members' Library Service.

Harry Mark, Debt Management & Business Rates Team Leader, explained that debtors could be pursued for up to five years but this extended to twenty years for Council Tax and business rates debts and, in all cases, the limits were taken from the date of last contact by the debtor. He confirmed that arrangements could be made to arrest earnings, including welfare benefits, and that the Council was working on providing additional information and help to people in serious arrears.

Mr Lamond added that, based on figures from areas where changes had already been made, he expected the level of bad debt to rise following the introduction of welfare reforms.

Decision

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

9. INTERNAL AUDIT FOLLOW-UP REPORTS

A report was submitted by the Depute Chief Executive, Resources and People Services, informing the Committee of the recent follow-up work undertaken by Internal Audit.

Ms Garden presented the report, outlining the findings and drawing Members' attention to the fact that, out of four reports, there was only one recommendation for action still outstanding.

Councillor Currie commended the report as showing very positive progress and he thanked Ms Garden and her team for their diligence.

Decision

The Committee agreed to 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.

10. 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.

In response to a question from Councillor McAllister, Ms Garden confirmed that external auditors, KPMG, review all of the reports from Internal Audit. Mr Lamond added that KPMG had always given a positive opinion of Internal Audit's work as part of their Annual Report to the Council.

Councillor Currie said that the report showed the impressive amount of work being undertaken by Internal Audit and that this should give Members a huge amount of reassurance. He suggested that a report on this work be included in the Cabinet work plan.

Decision

The Committee agreed to note the contents of the Internal Audit Progress Report 2015/16.

DRAFT

Signed

Councillor Kenny McLeod
Convener of the Audit and Governance Committee



cutting through complexity

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East Lothian Council

Audit strategy review and plan

Year ending 31 March 2016

6 January 2016

For audit and governance committee consideration on
19 January 2016

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APPENDICES

About this report

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

This report is for the benefit of East Lothian Council (“the Council”) and is made available to Audit Scotland and the Controller of Audit (together “the Beneficiaries”). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

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

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

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary’s Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to the Council, telephone 0131 527 6673 email: andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

SIGNIFICANT RISKS AND OTHER MATTERS



From discussions with management, from our knowledge of the organisation and review of risk registers, we have considered areas of risk and audit focus. We have identified significant risks as:

- fraud risk from income recognition;
- fraud risk from management override of controls;
- operational assets valuation; and
- financial position.

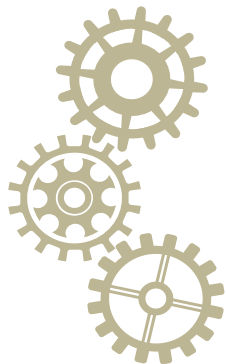
Other audit focus areas are transport infrastructure assets, provisions and retirement benefits.

MATERIALITY

MATERIALITY
£5.74 million
 2% EXPENDITURE

REPORTING THRESHOLD
£250,000
 4% MATERIALITY

WIDER SCOPE REQUIREMENTS



The audit will consider other areas:

- Audit Scotland's Code of Audit Practice ("the Code") and the audit dimensions set out in the 2016 code (in consultation)
- National Fraud Initiative
- Code of Practice on Local Authority Accounting in the United Kingdom disclosure
- Best Value
- Targeted follow up

KPMG TEAM



The leadership team continues to benefit from strong continuity at all levels:

- Andy Shaw – engagement director
- Sarah Burden – engagement manager
- Laura Nelson – audit in-charge

We will harness the expertise of our valuation and pension specialists to support our audit work where necessary.

Scope definition

The Accounts Commission has appointed KPMG LLP as auditor of East Lothian Council (“the Council”) under the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2011-12 to 2015-16, inclusive. For the 2015-16 audit our appointment includes the audit of the East Lothian Integrated Joint Board.

Purpose

This document summarises our responsibilities as external auditor for the year ending 31 March 2016 and our intended approach to issues impacting the Council’s activities in the year.

KPMG’s planned audit work in 2015-16 will include:

- an audit of the financial statements and provision of an opinion on whether the financial statements:
 - give a true and fair view in accordance with applicable law and the 2015-16 Code of the state of the affairs of the group and of the local authority as at 31 March 2016 and of the income and expenditure of the group and the authority for the year then ended;
 - have been prepared in accordance with IFRS as adopted by the European Union, as interpreted and adapted by the 2015-16 Code, the requirements of the Local Government (Scotland) act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government Scotland Act 2003.
- a review and assessment of the Council’s governance arrangements including: a review of the adequacy of internal audit and review of the governance statement;
- a review of National Fraud Initiative arrangements; and
- a review of arrangements for preparing and publishing statutory performance information.

Auditors and audited bodies’ responsibilities are set out in Audit Scotland’s Code of Audit Practice (“the Code”). This Code states the responsibilities in relation to:

- the financial statements;
- corporate governance and systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- arrangements for preparing and publishing statutory performance information;
- financial position; and
- Best Value, uses of resources and performance.

These responsibilities are outlined in appendix four.

Risk assessment

In an environment of public sector reform and continued financial pressures, Councils are faced with real term funding decreases combined with increasing demand for services.

The shared risk assessment process forms a local scrutiny plan for Councils each year. The local scrutiny plan for 2015-16 outlines a range of scrutiny activities, including:

- Audit Scotland housing benefit risk assessment;
- national programmes of work by the Care Inspectorate, Scottish Housing Regulator, Her Majesty's Inspectorate of Constabulary and Education Scotland; and
- continued focus on financial position by KPMG.

Financial position

The 2015-16 to 2017-18 budget was approved in February 2015. The Council budgeted for a transfer to reserves of £350,000 in 2015-16, and £1.6 million in 2016-17. The Council had useable reserves of £24.7 million at 31 March 2015. Of this, £1.95 million has been earmarked to support future budgets.

The quarter two financial review identified a year to date underspend of £3.9 million against the approved budget. Around £1.7 million of the underspend relates to staff savings, reflecting tighter control on staff turnover and recruitment. The housing revenue account reported an underspend of £490,000 to the end of quarter two.

Capital expenditure was £15.4 million, representing 52.3% of the approved capital budget. Management forecasts capital underspend of approximately £2.4 million in 2015-16, with £2 million of slippage carried into 2016-17.

Key developments

Key developments to be considered during the 2015-16 audit and included within our annual audit report include:

- the establishment of the East Lothian Health and Social Care Integration Joint Board;
- progress against efficiency savings;
- Audit Scotland's new best value approach for 2015-16 onwards;
- any emerging service or staffing impact as a result of the voluntary early release scheme;
- progress against the Council plan; and
- the impact of the results of the Scottish Parliamentary elections in May 2016.

Audit dimensions – as they develop we will consider the wider scope Audit Dimensions as set out in the Code of Audit Practice 2016 (in consultation). The audit dimensions put Best Value at the core.

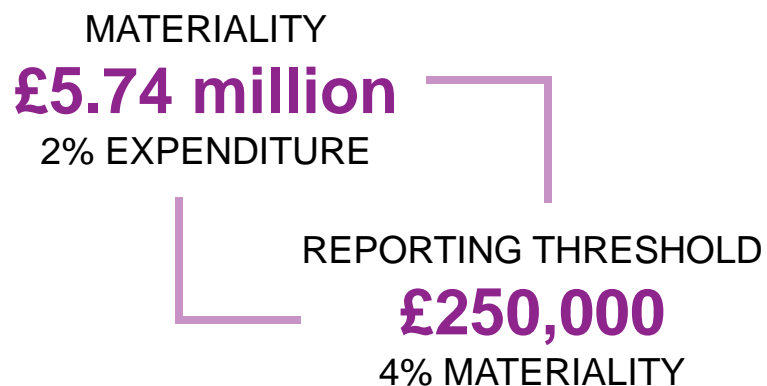
Financial sustainability	Financial management	Governance and transparency	Value for money
Financial sustainability looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.	Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	Value for money is concerned with using resources effectively and continually improving services.

We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures.

Audit differences will be presented to the Audit and Governance Committee if they are material in size or material in nature. For 2015-16 we consider individual or aggregated financial statement errors of over £5.74 million (2014-15: £5.76 million) to be material.

To the extent that we identify misstatements above £250,000 (2014-15: £250,000) we report them to the Audit and Governance Committee and assess whether the misstatement is indicative of a significantly deficient or materially weak control environment.

We recognise that matters can be important because of their nature regardless of their size, for example misstatements to key disclosures such as remuneration and related parties, and we will also report these to Audit and Governance Committee.



DETERMINING MATERIALITY

We consider materiality by reference to the Council's total expenditure, which was £287.2 million in 2014-15.

Audit Scotland guidance typically puts this percentage at not higher than 2% of the chosen gross metric (total expenditure).

We consider the Council's total expenditure of 2014-15 along with the expectation for 2015-16 and consider the use of a materiality of £5.74 million, representing 2% of 2014-15 total expenditure to be appropriate.

International Standard on Auditing (UK and Ireland) 315: *Identifying and assessing risks of material misstatement through understanding the entity and its environment* requires the auditor to determine whether any of the risks identified as part of risk assessment are significant risks and therefore requiring specific audit consideration.

In determining whether a risk is significant, judgement is applied in respect of the whether, for example, the risk is associated with the complexity of transactions, the degree of subjectivity involved in the measurement of financial information, whether the associated transactions are outside the normal course of business or whether there is an associated risk of fraud. We have set out our assessment of significant risks, along with other audit focus areas, in terms of the comprehensive income and expenditure statement and the balance sheet.

COMPREHENSIVE INCOME AND EXPENDITURE	
CAPTION	14-15 £'000
Gross income	(77,820)
Gross expenditure	287,206
Other operating income	(1,425)
Financing and investment income and expenditure	20,921
Taxation and non-specific grant income	(235,154)
Other comprehensive income and expenditure	(27,906)
Total comprehensive income and expenditure	(21,634)

Key

Significant audit risk

Other focus area

Fraud risk from income recognition

Operational assets valuation

Transport infrastructure assets

Provisions

Retirement benefits

Financial position

BALANCE SHEET	
CAPTION	14-15 £'000
Property, plant and equipment	785,423
Other long term assets	11,849
Short term debtors	15,443
Cash and cash equivalents	8,650
Other current assets	2,794
Short term borrowing	(16,052)
Short term creditors	(23,026)
Provisions	(3,957)
Long term liabilities	(378,505)
Pension asset/ liability	(172,028)
Useable reserves	(24,678)
Unusable reserves	(205,913)

RISK	WHY	AUDIT APPROACH
Fraud risk from management override of controls	Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	<ul style="list-style-type: none"> ■ Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the Council. ■ Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls. ■ In line with our methodology, we will carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the organisation's normal course of business, or are otherwise unusual.
Fraud risk from income recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.	<ul style="list-style-type: none"> ■ Part of the Council's income is received from non ring-fenced government grants. As government grants are agreed in advance of the year, with adjustments requiring Government approval, we do not regard the risk of fraud from this revenue recognition as significant. ■ The other major sources of income are from annual local taxes and rental income (council tax, non-domestic rates and housing revenues). These revenues are prescribed by law and other specific regulations, which prescribe the period in which annual local taxes and rental income is recognised as revenue. This minimises the level of judgement required in revenue recognition by management and we do not regard the risk of fraud from this revenue recognition as significant. ■ We consider the fraud risk from recognition of other income to be significant. Other income relates primarily to sales or service income, and therefore we consider there to be potential judgement in recognising this income. ■ The potential for revenue to be incorrectly recognised will be addressed through controls testing and substantive procedures. We will consider each source of income and analyse results against budgets and forecasts, performing substantive analytical procedures and tests of details.

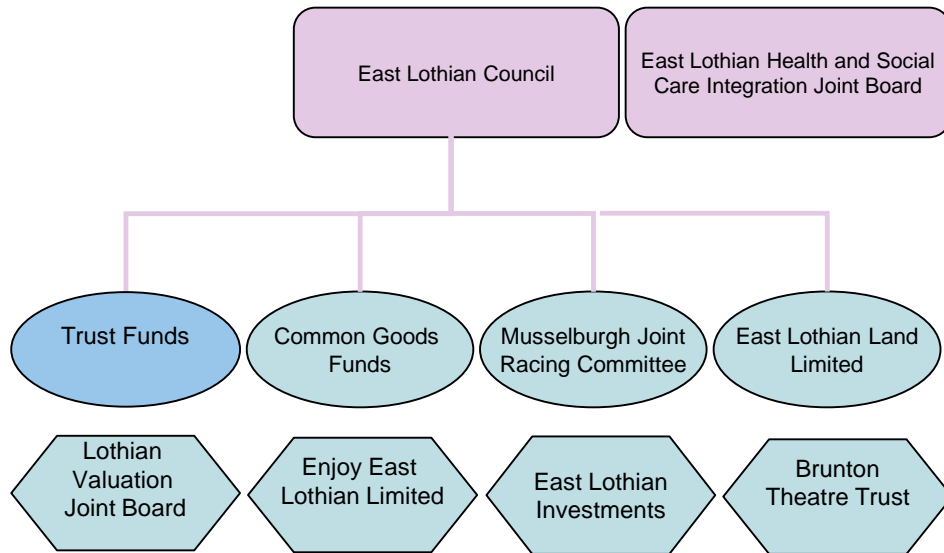
RISK	WHY	AUDIT APPROACH
Operational assets valuation	<p>Under the Code and IFRS, property, plant and equipment (“PPE”) is required to be held on the balance sheet at fair value. In order to comply with these accounting requirements, Council assets are subject to rolling valuations, with operational assets being subject to valuation in 2015-16. The value of operational assets as at 31 March 2015 was approximately £342 million, therefore the revaluation is likely to be significant.</p>	<ul style="list-style-type: none"> ■ We will audit the valuations, integrating a KPMG valuation specialist to challenge the valuation assumptions. ■ We will review the accounting treatment of the valuations to verify appropriate recognition and disclosure in the financial statements. ■ We will review the fixed asset register and consider the completeness of assets revalued.
Financial position	<p>Delivering services in the environment of continued financial pressures and funding uncertainty remains a challenge for the sector.</p> <p>We noted tight budgetary controls in our 2014-15 audit and the Council has underspent against budget in recent financial years. In 2014-15 the Council recorded a statutory surplus of £9.3 million, with £5.7 million higher than budgeted transferred to the general fund.</p> <p>As at 31 March 2015, the Council had total useable reserves of £24.7 million. The Council is budgeting for a transfer from reserves of £350,000 in 2015-16 and of £1.6 million in 2016-17; these have been earmarked within the £24.7 million useable reserves. In 2017-18 the Council is budgeting for a break-even position. Whilst the Council undertakes robust financial planning, financial sustainability is a key risk due to the inherent risk in the sector environment.</p>	<ul style="list-style-type: none"> ■ We will update our understanding of the Council’s financial position and year end outturn position through review of quarterly reports and other management information. We will assess management’s progress with implementation of efficiency savings. Commentary and analysis on these areas will be provided within the annual audit report. ■ We will consider management’s capital monitoring reports and provide commentary on the progress of the capital budget and impact on the capital limits and associated borrowing during the year. ■ We will perform controls testing over the budgeting process including the monitoring of budgets throughout the year. We will perform substantive procedures, including substantive analytical procedures, over income and expenditure comparing the final position to budget.

FOCUS AREA	WHY	AUDIT APPROACH
<p>Transport infrastructure assets</p>	<p>The 2016-17 Code will adopt requirements of the Code on transport infrastructure assets (“the transport code”), which requires measurement of these assets on a depreciated replacement cost basis.</p> <p>This will represent a change in accounting policy from 1 April 2016 and require retrospective restatement. Local authorities are advised to have implemented a robust project plan through 2015-16 to ensure preparedness for the requirements of the 2016-17 code.</p>	<p>We will consider the Council’s plan to meet the requirements of the transport code, including assessing the completeness of information for an opening balance sheet. We will evaluate the extent to which the Council is prepared for the change in accounting policy.</p>
<p>Provisions</p>	<p>Whilst the Council does not operate landfill sites, coal mines or other sites which carry significant obligations for rectification, there is one Council-owned former landfill site and one present private operation. There is sector-wide consideration of such operations, including assessment of financial stability of operators, following the liquidation of a coal mine operator in another local authority area. Further analysis is required by management to identify potential exposure and ensure appropriate monitoring procedures are in place.</p> <p>Following a European Court of Justice ruling in May 2014, employers are required to pay holiday pay to staff at a rate commensurate with any commission or over time that they regularly earn, instead of at their basic pay level. Following legal advice, management implemented this process for holiday pay. Management is awaiting the outcome of recent legal proceedings to consider if there is a contingent liability that requires disclosure as at 31 March 2016.</p> <p>There are a small number of equal pay claims outstanding, which management anticipates will be settled by the year end. Management accrued £90,000 in 2014-15 to cover these claims and will need to adjust this for any amounts paid and assess any outstanding claims.</p>	<p>Under IAS 37 a provision should be recognised when:</p> <ul style="list-style-type: none"> ■ an entity has a present obligation as a result of a past event; ■ it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and ■ a reliable estimate can be made of the amount of the obligation. <p>We will remain alert to legislative changes and consider the Council’s position in relation to the criteria.</p> <p>We will challenge and assess the judgements applied as at the year end and review recognition of any provisions, or disclosures of contingent liabilities.</p>

FOCUS AREA	WHY	AUDIT APPROACH
<p>Retirement benefits</p>	<p>The Council accounts for its participation in the Lothian Pension Fund in accordance with IAS 19 Retirement benefits, using a valuation report prepared by actuarial consultants.</p> <p>The Council's actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases.</p> <p>IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The calculation of the pension liability is inherently judgemental.</p>	<p>Our audit approach to IAS19 includes:</p> <ul style="list-style-type: none"> ■ review by KPMG specialists of the financial assumptions underlying actuarial calculations and comparison to our central benchmarks; ■ testing of scheme assets and rolled-forward liabilities; ■ testing of the level of contributions used by the actuary to those actually paid during the year; ■ testing of membership data used by the actuary to data from the Council; and ■ agreeing actuarial reports to financial statement disclosures.

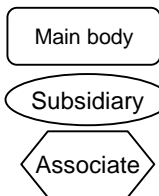
<p>Code of practice on Local Authority Accounting in the United Kingdom 2015-16 (“the Code”)</p>	<p>The 2015-16 financial statements will be prepared in accordance with the <i>Code of practice on local authority accounting in the United Kingdom 2015-16</i> which is based on International Financial Reporting Standards (“IFRS”).</p> <p>The 2015-15 Code has a number of amendments from the 2014-15 Code and management should consider if these changes will impact the financial statements. The amendments include:</p> <ul style="list-style-type: none"> ■ adoption of IFRS 13 <i>Fair Value Measurement</i>, including consequential amendments as a result of adopting this standard; ■ amendments to underline the importance of the consideration of materiality when preparing disclosures; ■ amendments made as a result of the Local Authority Accounts (Scotland) Regulations 2014; and ■ some changes to section 4.10 on heritage assets to reflect that FRS 30 has been replaced by FRS 102. <p>We consider that the adoption of IFRS 13 may have an impact on the Council’s financial statements.</p>
<p>New Charities SORPs</p>	<p>In July 2014 the SORP Committee issued two new Charities SORPs to reflect the new UK accounting framework (‘new UK GAAP’). The new SORPs provide a comprehensive framework for charity accounting that all charities that prepare accrual accounts must follow and apply to financial years beginning on or after 1 January 2015.</p> <p>The new framework provides a SORP to support each of the accounting standards from which charities can choose, depending on their size. Due to the size of Dr Bruce, the FRSSSE SORP will be adopted. The FRSSSE standard is due to be reviewed by 2016 and a change in the FRSSSE will require a change in the FRSSSE SORP. Charities adopting the FRSSSE may face changing their accounting policies twice in succession. This will impact the preparation of financial statements for the Council’s charitable trusts, including Dr Bruce Fund.</p> <p>We will provide continued support to management in the consideration and implementation of the new Charities SORPs and how this applies to charitable entities.</p>
<p>Management commentary</p>	<p>The Council is required to prepare a management commentary in line with the Local Authority Accounts (Scotland) Regulations 2014. Whilst the management commentary for 2014-15 was compliant, it was not included in the draft financial statements, due to the late announcement of the requirement, and there is an opportunity to refine the content.</p>

Group structure



Key

- Included within scope of our audit
- Not included within scope of audit
- One charitable trust, Dr Bruce Fund, is included within the scope of our audit



Dr Bruce Fund

As the trustees of the Dr Bruce Fund are members of the authority and it is registered with the Office of the Scottish Charity Regulator, an audit is required in line with the *Local Government (Scotland) Act 1973* (section 106 charities). We will complete an external audit of the charity's accounts, and report on this within our annual audit report to the Council.

Integration of health and social care

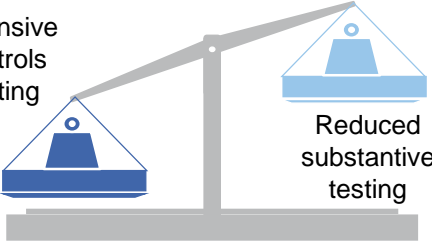
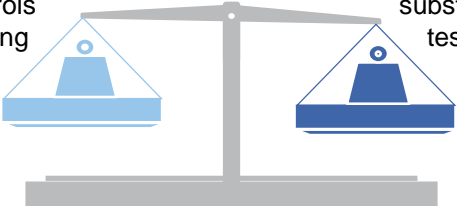
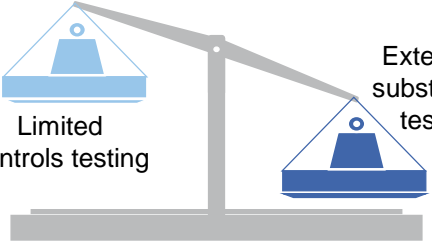
In March 2014 the Public Bodies (Joint Working) (Scotland) Act was passed by the Scottish Government. This requires all Councils and NHS Boards to formally and legally establish integration of health and social care by April 2016.

The integration scheme for East Lothian was approved by Scottish Government in May 2015. The Integration Joint Board ("IJB") was formally established in June 2015 and met for the first time on 1 July 2015. The chief officer was appointed at the first meeting of the IJB, and the chief finance officer was appointed in November 2015. A strategic planning group is in place and has drafted a strategic plan, following consultation and feedback from stakeholders, however a financial plan is yet to be embedded. The IJB is undertaking a process of financial assurance to review the financial resources proposed by NHS Lothian and the Council to support the IJB's delegated functions. An audit committee has been established, and met for the first time in November 2015 to consider financial assurance.

Auditors are required to consider the Council's progress in the integration of health and social care, and report our findings in the annual audit report. Specifically, we will consider the date that the integrated joint boards became operational, review financial plans and comment on progress towards establishing effective governance arrangements for the new partnership. We are the external auditor of the East Lothian Integration Joint Board, and will prepare a separate audit strategy document and annual audit report to the IJB.

In accordance with International Standards on Auditing (UK and Ireland) ISA 240 “The Auditor’s responsibility to consider fraud in an Audit of a Financial Report”, we will undertake specific procedures and report findings to management and the Audit and Governance Committee in respect of financial reporting fraud. The following diagram highlights the phases of our work on fraud.

Discuss fraud	Assess fraud risk	Tailor audit response
<ul style="list-style-type: none"> ■ Discussions with: <ul style="list-style-type: none"> – Audit and Governance Committee; – Chief Executive; – Head of Council Resources; – Service manager, business finance; and – Finance team members. 	<ul style="list-style-type: none"> ■ Preliminary fraud risk assessment: <ul style="list-style-type: none"> – Management oversight; – Internal control framework; – Nature of operations. 	<ul style="list-style-type: none"> ■ Our audit procedures are designed to have a reasonable chance of detecting misstatements as a result of fraud or error <ul style="list-style-type: none"> – Review and test the fraud risk assessment process, systems and controls to prevent, deter and detect fraudulent activity. – Evaluate the design of financial reporting controls during process testing to assess their effectiveness in detecting fraud. – Identify and select specific journal entries for detailed substantiation and consolidation journals for appropriate evidence and basis. – Review significant accounting estimates for management bias. ■ The audit team will review and discuss fraud related risks and controls with the Head of Council Resources and other members of senior management. ■ We will incorporate an element of unpredictability into our testing, as individuals within the Council who are familiar with our audit procedures may be able to use that knowledge to conceal fraudulent financial reporting.

What we do	Accounts/transactions suited to this testing	KPMG's approach to:
<p>Extensive controls testing</p>  <p>Reduced substantive testing</p>	<ul style="list-style-type: none"> ■ Low value transactions ■ High volume ■ Homogenous transactions ■ Little judgement 	<ul style="list-style-type: none"> ■ Payroll expenditure ■ Net cost of services
<p>Moderate controls testing</p>  <p>Moderate substantive testing</p>	<ul style="list-style-type: none"> ■ Low/medium value ■ High/medium volume ■ Some areas requiring judgement 	<ul style="list-style-type: none"> ■ Income from trading activities ■ Debtors, creditors and accruals ■ Cash
<p>Limited controls testing</p>  <p>Extensive substantive testing</p>	<ul style="list-style-type: none"> ■ High value ■ Low volume <p>or</p> <ul style="list-style-type: none"> ■ Unusual non-recurring ■ Accounting estimates ■ Significant judgments 	<ul style="list-style-type: none"> ■ Property, plant and equipment ■ Pension scheme liability ■ Journals ■ Group consolidation journals ■ Taxation and non-specific grant income ■ Borrowings

Shared risk assessment

Local area networks (“LANs”) are established for each local authority. These bring together local scrutiny representatives in a systematic way to agree a shared risk assessment. As external auditor, we are a key member of the shared risk assessment process for the Council.

A national scrutiny plan sets out how Scotland’s scrutiny agencies coordinate their work and focus on the key issues at each council. This plan is underpinned by a local scrutiny plan for individual councils.

The 2015-16 SRA identified areas of scrutiny for the Council as:

- achievement of savings targets and financial sustainability;
- progress with implementing the improvement agenda arising from the 2014 Joint Inspections of Services for Children;
- progress with health and social care integration;
- monitoring the impact of the Education Scotland’s strategic improvement planning on learners; and
- ongoing monitoring of progress of the improvement actions in relation to meeting the Scottish Housing Quality Standards and managing rent arrears.

Governance

The Council is required to prepare and disclose a governance statement to detail the purpose of the framework of internal control, along with an analysis of its effectiveness. We are required to review the governance statement against disclosure requirements and consider its content against our knowledge and understanding of the Council. We will report on findings in the annual audit report.

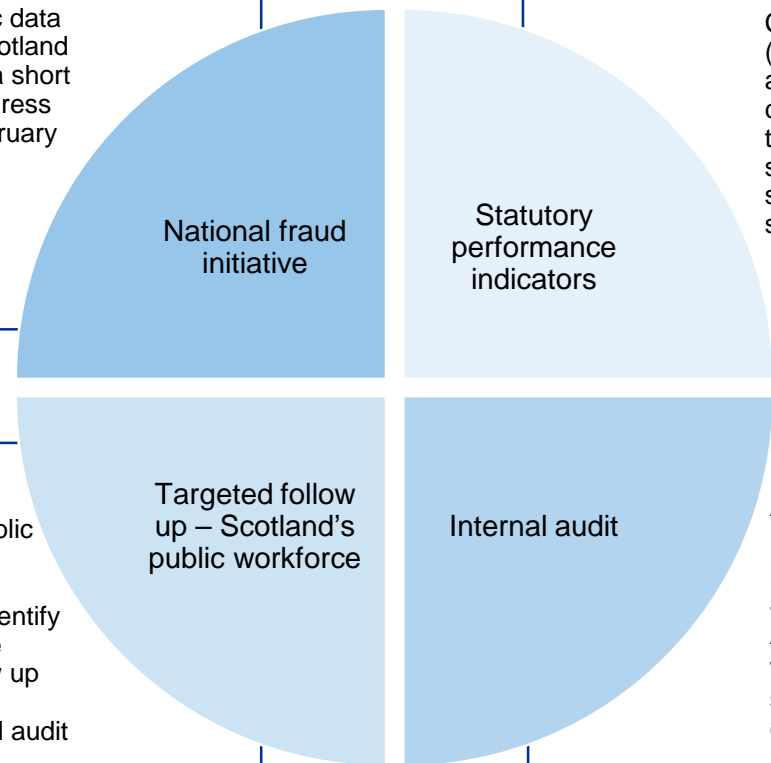
Best Value and continuous improvement

Best Value audits are carried out by central teams within Audit Scotland’s performance audit and best value (“PABV”) group in partnership with local auditors. The timing, nature and extent of these is determined as part of the SRA process.

The Accounts Commission has developed a new approach to Best Value in 2015-16, with emphasis on driving continuous improvement and providing a Best Value report for each Council at least once every five years. The new arrangements will develop a joint responsibility of best value between PABV and local auditors. Under the approach, our role will be expanded to include scoping, planning, gathering evidence and contributing to best value audit reports. The focus of our final year of appointment will be ensuring a smooth transition and preparing for the new approach. Linking in with the SRA process, we will work with other scrutiny bodies to prepare a baseline summary on best value for the Council.

Following the public pound

Local authorities have a statutory requirement to comply with the Code of Guidance on Funding External Bodies and Following the Public Pound (“the FtPP code”). As part of the audit we are required to consider the Council’s arrangements to comply with the FtPP code. We will report any matters of non-compliance within our annual audit report. In future years, auditing of compliance with the FtPP code will be part of the new integrated best value audit approach.

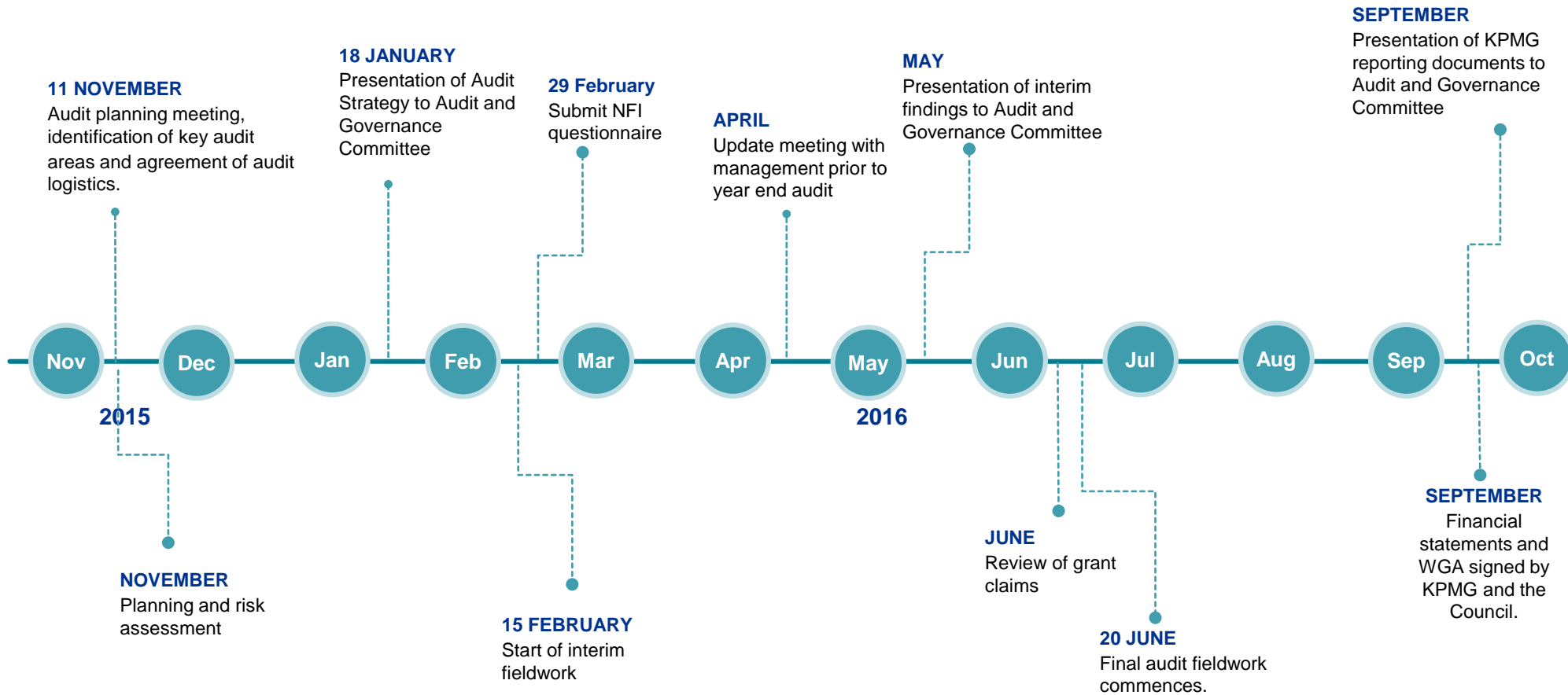


The National Fraud Initiative (“NFI”) is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. We will prepare a short return to Audit Scotland on the Council’s progress and engagement with the NFI process in February 2016.

The statutory deadline for publication by the Council of statutory performance indicators (“SPIs”) is 30 September 2016. Auditors must assess the adequacy of arrangements for collecting and publishing information in relation to SPIs. We will complete a pro-forma schedule to reflect the audit work on SPIs for submission to Audit Scotland and include a summary within our annual audit report.

In November 2013 the Accounts Commission and Auditor General for Scotland published a report on Scotland’s public sector workforce. It is our responsibility to establish the extent that the Council has implemented the recommendations to help identify any common and emerging issues across the public sector. We will perform targeted follow up work, submit a short questionnaire to Audit Scotland and report our findings in our annual audit report.

In accordance with International Standard on Auditing (UK and Ireland) 610: *Considering the work of internal audit*, we will continue liaison with internal audit and evaluate internal audit processes against Public Sector Internal Audit Standards. The general programme of work will be reviewed for significant issues to support our general work in assessing the Council’s annual governance statement. Specific internal audit reviews which will be considered include payroll and other income.



Output	Description	Report date
NFI report	<ul style="list-style-type: none"> We report on the Council's actions to investigate and follow-up NFI matches. 	<ul style="list-style-type: none"> By 29 February 2016
Audit strategy	<ul style="list-style-type: none"> Our strategy for the external audit of the Council, including significant risk and audit focus areas. 	<ul style="list-style-type: none"> By 31 January 2016
Submit fraud returns	<ul style="list-style-type: none"> We report on any frauds over £5,000. 	<ul style="list-style-type: none"> By 27 May 2016
Interim management report	<ul style="list-style-type: none"> We report our findings from our interim audit visit where we will update our planning for the year end and perform controls testing. 	<ul style="list-style-type: none"> By 31 May 2016
Statutory performance indicators	<ul style="list-style-type: none"> We will report on arrangements for preparation of the Council's statutory performance indicators; this will be included in our annual audit report. 	<ul style="list-style-type: none"> By 30 September 2016
Independent auditor's report	<ul style="list-style-type: none"> Our opinion on the Council's financial statements. 	<ul style="list-style-type: none"> By 30 September 2016
Annual audit report to the Council and the Controller of Audit	<ul style="list-style-type: none"> We summarise our findings from our work during the year. 	<ul style="list-style-type: none"> By 30 September 2016
Whole of Government Accounts	<ul style="list-style-type: none"> We report on the pack prepared for consolidation and preparation of the Whole of Government Accounts. 	<ul style="list-style-type: none"> By 30 September 2016
Audit reports on grant claims and other returns	<ul style="list-style-type: none"> We will report on the following returns: <ul style="list-style-type: none"> Education Maintenance Allowance return; Criminal Justice Authority return; Non Domestic Rate return; and Housing Benefit Count return. 	<ul style="list-style-type: none"> To submit by: <ul style="list-style-type: none"> 31 July 2016; 30 September 2016; 9 October 2016; and 30 November 2016.

Appendices

Mandated communications with the Audit and Governance Committee

Matters to be communicated	Link to Audit Committee papers
Independence and our quality procedures ISA 260 (UK and Ireland).	<ul style="list-style-type: none"> ■ See next page
The general approach and overall scope of the audit, including levels of materiality, fraud and engagement letter ISA 260 (UK and Ireland).	<ul style="list-style-type: none"> ■ Main body of this paper
<ul style="list-style-type: none"> ■ Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report, and their resolution (AU 380). 	<ul style="list-style-type: none"> ■ In the event of such matters of significance we would expect to communicate with the Audit and Governance throughout the year.
<ul style="list-style-type: none"> ■ Significant difficulties we encountered during the audit. ■ Significant matters discussed, or subject to correspondence, with management (ISA 260). 	<ul style="list-style-type: none"> ■ Formal reporting will be included in our audit highlights memorandum for the September 2016 Audit and Governance Committee meeting, which focuses on the financial statements.
<ul style="list-style-type: none"> ■ Our views about the qualitative aspects of the entity's accounting and financial reporting. ■ The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260 and ISA 540). 	
<ul style="list-style-type: none"> ■ Audit adjustments, whether or not recorded by the entity, that have, or could have, a material effect on its financial statements. We will request you to correct uncorrected misstatements (including disclosure misstatements) (ISA 450). 	
<ul style="list-style-type: none"> ■ The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 570). 	
<ul style="list-style-type: none"> ■ Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570). 	
<ul style="list-style-type: none"> ■ Expected modifications to the auditor's report (ISA 705). 	
<ul style="list-style-type: none"> ■ Related party transactions that are not appropriately disclosed (ISA 550) 	

Professional ethical standards require us to communicate to you as part of planning all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of Andy Shaw and the audit team. This letter is intended to comply with this requirement although we will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

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

- Instilling professional values;
- Communications;
- Internal accountability;
- Risk management; and
- Independent reviews.

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

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the Finance, Risk and Audit Committee.

Confirmation of our audit independence

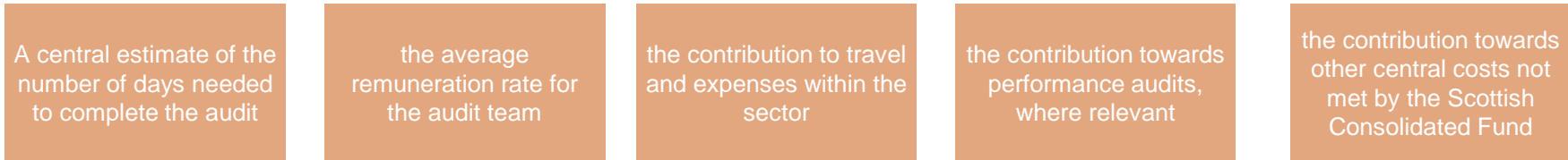
We confirm that as at 14 December 2015, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of Andy Shaw and the audit team is not impaired.

This report is intended solely for the information of the Audit and Governance Committee and should not be used for any other purposes.

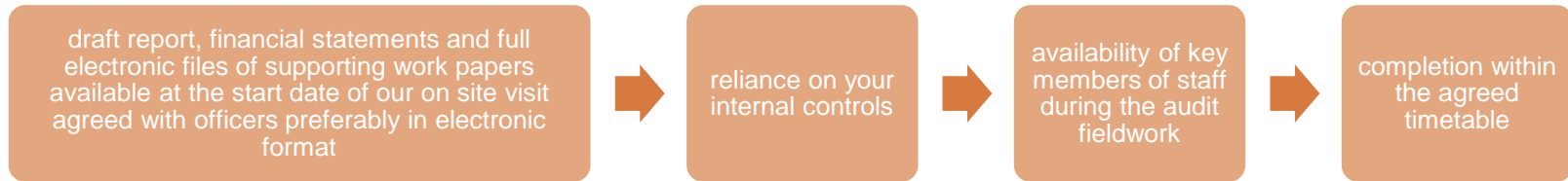
Yours faithfully

KPMG LLP

Audit Scotland requires that the fee for our work is set within an indicative range, depending on the assessment of risk and other factors facing the Council. The indicative fee range is calculated using a number of inputs:



The indicative fee ranges are based on the following assumptions to ensure an efficient audit process:



Audit Scotland has notified us that the fee range for 2015-16 is £216,770 to £264,940, in line with the 2014-15 fee. We have proposed a fee of £240,855, which represents the mid-point. Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus or other matters arise, we will discuss with management the impact of this on our proposed fee.

Charity audit

As in the prior year, we will audit Dr Bruce Fund, a charity administered by the Council. The fee for this audit is included within the Council audit fee.

Audit Scotland code of audit practice – responsibilities of auditors and management

Responsibilities of auditors	Responsibilities of management
Financial statements	
<p>Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:</p> <ul style="list-style-type: none"> whether they give a true and fair view of the financial position of audited bodies and their expenditure and income; and whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements. <p>Auditors should review and report on, as appropriate, other information published with the financial statements, including the directors' report, annual governance statement, statement on internal control or statement on internal financial control and the remuneration report.</p> <p>Where required, auditors should also review and report on the Whole of Government Accounts return.</p>	<p>Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:</p> <ul style="list-style-type: none"> ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; maintaining proper accounting records; preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice); preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.
Corporate governance arrangements	
<p>Consistent with the wider scope of public audit, the Code gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:</p> <ul style="list-style-type: none"> bodies' reviews of corporate governance and systems of internal control, including their reporting arrangements the prevention and detection of fraud and irregularity standards of conduct and arrangements for the prevention and detection of corruption; and the financial position of audited bodies. 	<p>Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.</p>

Audit Scotland code of audit practice – responsibilities of auditors and management

Responsibilities of auditors	Responsibilities of management
Systems of internal control	
<p>Auditors are required to review and report on the compliance statements given by bodies under the relevant code or framework before their publication. This is discharged by reviewing and, where appropriate, examining evidence relevant to audited bodies' arrangements in accordance with any guidance issued by Audit Scotland. Auditors are not required to consider whether the statements cover all risks and controls, or form an opinion on the effectiveness of procedures, but report where compliance statements are not consistent with their knowledge of the body.</p>	<p>Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.</p>
Prevention and detection of fraud and irregularities	
<p>Auditors should review and report on these arrangements. While auditors do not substitute for audited bodies own responsibilities, and are not responsible for preventing or detecting fraud or irregularity, they should be alert to the potential for breaches of procedures, and of fraud and irregularity. Auditors examine evidence that is relevant to these arrangements, particularly aspects of internal financial control such as segregation of duties, authorisation and approval processes and reconciliation procedures.</p>	<p>Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:</p> <ul style="list-style-type: none"> ■ developing, promoting and monitoring compliance with standing orders and financial instructions; ■ developing and implementing strategies to prevent and detect fraud and other irregularity; ■ receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and ■ participating, when required, in data matching exercises carried out by Audit Scotland.

Audit Scotland code of audit practice – responsibilities of auditors and management

Responsibilities of auditors	Responsibilities of management
Standards of conduct and arrangements for the prevention and detection of bribery and corruption	
<p>Auditors should consider whether bodies have adequate arrangements in place to maintain and promote proper standards of financial conduct and to prevent and detect bribery and corruption. Auditors review and, where appropriate, examine evidence that is relevant to these arrangements and reporting their findings.</p> <p>While auditors are not responsible for preventing or detecting failure to maintain an appropriate level of integrity and openness, they should be alert to the potential for corruption and breaches of standards of conduct in all aspects of their work. If weaknesses in arrangements are identified or notified, auditors should report them promptly to management or those charged with governance.</p>	<p>Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:</p> <ul style="list-style-type: none"> ■ implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers; ■ promoting appropriate values and standards; and ■ developing, promoting and monitoring compliance with standing orders and financial instructions.
Financial position	
<p>Auditors should consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based, where appropriate, examining evidence that is relevant to the arrangements.</p> <p>Auditors should have regard to audited bodies’:</p> <ul style="list-style-type: none"> ■ financial performance in the period under audit ■ compliance with any statutory financial requirements and financial targets ■ ability to meet known or contingent statutory and other financial obligations ■ responses to developments which may have an impact on their financial position; and ■ financial plans for future periods. 	<p>Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> ■ such financial monitoring and reporting arrangements as may be specified; ■ compliance with any statutory financial requirements and achievement of financial targets; ■ balances and reserves, including strategies about levels and future use; and ■ the impact of planned future policies and foreseeable developments on their financial position.

Audit Scotland code of audit practice – responsibilities of auditors and management

Responsibilities of auditors	Responsibilities of management
Best Value, use of resources and performance	
<p>The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning.</p> <p>Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.</p> <p>Auditors should undertake appropriate work to satisfy themselves that bodies have put in place adequate arrangements for the collection, recording and publication of statutory performance information by reviewing and examining evidence that is relevant to these arrangements in accordance with any guidance issued by Audit Scotland.</p>	<p>Local authorities have a statutory duty to make arrangements to secure Best Value; defined as the continuous improvement in the performance of functions. In securing Best Value, local authorities must maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness (or 'value for money') and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development. Local authorities also have a duty for community planning, which is to initiate, maintain and facilitate consultation among and with public bodies, community bodies and others about the provision of services in the area of the local authority and the planning of that provision.</p> <p>Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p> <p>The Local Government Act 1992 requires the Accounts Commission to specify information which local authorities must publish about their performance.</p>



cutting through complexity

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REPORT TO: Audit and Governance Committee

MEETING DATE: 19 January 2016

BY: Chief Executive

SUBJECT: Infrastructure Risk Register

3

1 PURPOSE

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

2 RECOMMENDATIONS

- 2.1 It is recommended that the Audit and Governance Committee notes the Infrastructure Risk Register and in doing so, the Committee is asked to note that:
 - the relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk
 - the total profile of the Infrastructure risk can be borne by the Council at this time in relation to the Council's appetite for risk
 - although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer term risks for Infrastructure and are likely to be a feature of the risk register over a number of years

3 BACKGROUND

- 3.1 The Risk Register has been compiled by the Infrastructure LRWG. All risks have been evaluated using the standard (5x5) risk matrix which involves multiplying the likelihood of occurrence of a risk (scored 1-5) by

its potential impact (scored 1-5). This produces an evaluation of risk as either 'low (1-4)', 'medium' (5-9), 'high' (10-19) or 'very high' (20-25).

3.2 The Council's response in relation to adverse risk or its risk appetite is such that:

- Very High risk is unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position;
- High risk may be tolerable providing the Council is assured that adequate and effective control measures are in place;
- Medium risk is tolerable with control measures that are cost effective;
- Low risk is broadly acceptable without any further action to prevent or mitigate risk.

3.3 The current Infrastructure Risk Register includes 6 High risks, 25 Medium risks and 12 Low Risks.

3.4 A copy of the risk matrix used to calculate the level of risk is attached as Appendix 2 for information.

4 POLICY IMPLICATIONS

4.1 In noting this report the Council will be ensuring that risk management principles, as detailed in the Corporate Risk Management Strategy are embedded across the Council.

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial – It is the consideration of the Infrastructure Local Risk Working Group that the recurring costs associated with the measures in place for each risk are proportionate to the level of risk. The financial requirements to support the Risk Register for the year ahead should be met within the proposed budget allocations. Any unplanned and unbudgeted costs that arise in relation to any of the corporate risks identified will be subject to review by the Corporate Management Team.

6.2 Personnel – There are no immediate implications.

6.3 Other – Effective implementation of this register will require the support and commitment of the Risk Owners identified within the register.

7 BACKGROUND PAPERS

7.1 Appendix 1 – Infrastructure Risk Register

7.2 Appendix 2 – Risk Matrix

AUTHOR'S NAME	Scott Kennedy Paolo Vestri
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DATE	7 January 2016

Infrastructure Risk Register

Date reviewed: 7 January 2016

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
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INF 1	Failing to maintain the Council's burial grounds could result in a serious injury/death to the public or ELC employees from falling headstones/memorials and a resulting financial loss due to insurance claims. There is also the risk of losing part of East Lothian's cultural heritage through the loss of family history records on headstones and memorials and failure to comply with the Equalities Act if access paths aren't maintained.	Limited action has been taken to make headstones safe. Responsibility for maintenance of facilities shared with Property Maintenance. Inspection of all headstones now complete North Berwick Cemetery extension has concrete foundation provided for headstones. A Community Pay Back scheme to repair headstones/memorials has been set up but will take time to make any significant impact. St Mary's Haddington has had emergency stability work undertaken on headstones. ELC staff now responsible for installation of foundations for all new memorial stones. Programme of winter stabilisation now in place and underway (Winter 2015) which will reduce the number of dangerous headstones over an anticipated period of 5-6 years.	4	4	16	Round 2 of Headstone Inspection programme to be completed by March 2017. Monitor progress of annual winter programme and ensure high risk sites are dealt with first.	3	4	12	Principal Amenity Officer	March 2017 March 2016	11	Risk Refreshed by Principal Amenity Officer September 2015. Risk Refreshed by Principal Amenity Officer November 2014 and by Head of Infrastructure December 2014 with Current Risk Score reduced from 20 to 16.
INF 2	Inability to provide an efficient burial service and sufficient land for burial purposes would mean that the Council is unable to undertake its statutory duties, and create distress to family and mourners. An audit highlighted there is less available burial space than indicated previously.	Burial Administration now centralised in single office and revised procedures from service review now operating. Risk Assessments and SOPs are in place, regularly updated and employees are aware of them. Training programme in place to ensure employees are qualified. Burial Strategy now adopted by ELC Communication procedure with the Registration Service has been put in place and monthly liaison meetings take place. New procedures for management of burials are now operational. Negotiation ongoing with landowners and consultation with Planning for new burial provision at priority sites – Dunbar, Prestonpans and Tranent, Representation made to MIR consultation regarding all cluster needs for new space Recruitment exercise complete meaning staffing filled to budget.	4	4	16	Complete negotiations and secure ownership of land according to priority list. Deliver induction session for all burial staff on current procedures	2	4	8	Principal Amenity Officer	December 2016 March 2016	11	Risk Refreshed by Principal Amenity Officer September 2015. Risk Refreshed by Principal Amenity Officer November 2014 and by Head of Infrastructure December 2014 with Current Risk Score reduced from 20 to 16.

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INF 3	<p>There is a risk of environmental and reputational harm (in terms of corporate social responsibility) and also the potential for significant unbudgeted costs if the Council does not develop solutions and/ or implement robust arrangements for Land Management challenges.</p> <p>The Council currently has ownership of potentially contaminated land sites (including the former Carberry landfill site, old coal mining sites etc).</p> <p>Whilst there are no current indications of significant problems, possible remediation costs to the Council could be substantial.</p>	<p>Land Management (remediation) sites in Council ownership subject to environmental monitoring to evaluate risk.</p> <p>Former Carberry Landfill site is subject to SEPA waste management licence conditions.</p> <p>Implementation of the Contaminated Land Inspection Strategy in line with the Environmental Protection Act 1990. Potential contaminated sites across East Lothian including Council development sites will be remediated as part of development plans through planning conditions.</p> <p>Data Recorder for Flow installed and being monitored for Scottish Water.</p> <p>Carberry landfill Site - Gas Pumping Trial complete.</p>	4	4	16	<p>Carberry landfill Site -</p> <p>There is now a requirement for a Gas Flaring system. WS Manager has secured verbal agreement from Scottish Government of £250,000 grant to affect the works. Awaiting written confirmation and grant allocation dates.</p> <p>Consultation and discussion with SEPA on gas management issues.</p>	2	2	4	Depute Chief Executive – Partnerships and Community Services	Gas Flaring works dependant on grant aid.	<p>Planned measures updated December 2015 and residual score further reduced from 9 to 4.</p> <p>Planned Measures updated October 2014 and planned risk score reduced to 9.</p> <p>May 2014 – Transferred from Corporate Risk Register.</p> <p>Risk reviewed and updated March 2014 – score increased from 8 to 16 due to Carberry Landfill issues.</p>		
INF 4	<p>Police Scotland has removed the Traffic Warden Service nationally since January 2014. Police Scotland is still responsible for enforcing Traffic violations. However, this reduction of resource may have impact on the enforcement of traffic regulation orders issued by ELC and the policing of other parking and traffic management issues.</p>	<p>The enforcement of parking infringement is a Police Scotland responsibility. ELC cannot enforce traffic or parking infringements. We will continue to work with Police Scotland making them aware of areas identified where there are parking violations.</p> <p>Continue to advise the public and encourage them to make Police Scotland aware of parking violations so they can take appropriate action. ELC will look at a parking strategy in the long term in the interest of public safety and economic impact on businesses.</p>	4	3	12	<p>The Council is considering options to deal with the removal of Police Traffic Warden and its impacts.</p> <p>At Council on 15th December 2015 approval was given for submission to Transport Scotland of an application to introduce Decriminalised Parking Enforcement in East Lothian.</p>	3	3	9	Head of Infrastructure	December 2016	7	Risk Refreshed December 2015 by Roads Manager.	

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INF 5	Failure to manage and maintain the Council's tree estate including a failure to monitor for the current risk from tree diseases resulting in potential damage to people and or property. Also potential negative impact on the landscape and character of East Lothian and its towns and villages, biodiversity, health & wellbeing of residents and the local economy and tourism. Failure to deliver SOA Outcome.	Some regular inspections undertaken. Monitoring for tree diseases within the tree estate. Some record kept of trees inspected. Record kept of arboriculture work undertaken. Annual programme of tree planting and record kept of trees planted. All forestry staff have appropriate qualifications, training and experience. Risk Assessments and SOPs in place and regularly updated for all arboriculture and forestry work which employees are aware of. Woodland Action Plan in the Biodiversity Action Plan. Forestry Squad currently operating at structure.	3	4	12	Survey of all Council owned trees on condition and location and set up a rolling inspection programme. Purchase of specialised Tree Management software to allow mapping and detailed recording of condition & history. Survey of trees has been started, but due to workload & without additional staff or resource progress is too slow for data to be of any relevance.	2	4	8	Tree Officer	March 2017 No completion date currently available.	11	Risk description updated by Principal Amenity Officer September 2015 to reflect possible risk to property and people. Risk refreshed by Principal Amenity Officer November 2014 and by Head of Infrastructure December 2014 with Current Risk Score reduced from 16 to 12 and residual score reduced from 10 to 8.
INF 6	Current mobile working hardware is dated and does not meet PSN requirements. Failure to implement by end March 2016 will result in return to paper-based job ticketing, placing increased pressure on administrative resources.	PSN extension agreed until end March 2016 by ELC IT, in lieu of further roll-out of mobile working hardware and software. Revised project plan agreed with suppliers to ensure system in place by deadline.	4	3	12	Implementation of phase 2 mobile working, encompassing Windows 8 tablet technology.	1	3	3	Service Manager – Property Maintenance	March 2016		Risk refreshed Nov'15 by Service Manager – Property Maintenance New risk identified 30/10/14 by Service Manager – Property Maintenance.
INF 7	Failure to comply with the statutory requirements of the Land Reform (Scotland) Act and to meet the expectations of access users, local community and land managers. There may also be a negative impact on sustainable transport, health & wellbeing of residents and access users and the local economy and tourism. Failure to deliver SOA Outcome and contribute to cross cutting SOA Outcomes.	Approved East Lothian Core Path Plan in place and available to purchase. Local Access Forum established which holds quarterly meetings. Database maintained of access complaints and action taken to resolve. Annual paths/rights of way maintenance programme in place. Voluntary Path Warden Scheme set up. Working in partnership with local interest/community groups to secure funding for core path works. Path Warden Scheme constituted as a means of securing external funding to maintain the path network.	3	3	9	Capital bid in with the Capital Asset Management Group for funding to create/improve core paths to offset loss of budget in Capital Plan.	2	3	6	Principal Countryside officer	January 2016	1,5,11,13	Risk Refreshed by Principal Countryside Officer December 2015. Head of Infrastructure reduced Current Risk Score reduced from 12 to 9 and residual score reduced from 8 to 6 – December 2014.
INF 8	An increase in the cost of raw materials, resources and commodities is impacting on the budget/expenditure of the service resulting in a reduction in the extent of all works carried out.	Use of Scotland Excel and local purchasing contracts when appropriate. Joint agreement in place with West Lothian Council for the purchase of bituminous materials. Whole-life costing in place. Continue to maintain an adequate Asset management regime.	3	3	9	Looking at other/innovative treatments on road surfaces. Improve asset management and intervene to produce measures on the roads that prevent further deterioration and therefore reduce the need for more intensive work in the future.	2	3	6	Road Services Manager	March 2016	7	Risk refreshed December 2015.

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INF 9	Extreme Weather conditions can result in the demand of rock salt exceeding supply resulting in problems with the availability and supply of rock salt.	Stockpile capacity of 9,000 tonnes as a result of new salt barn. Winter Maintenance Budget of £8-900,000. When the supply is reaching critical levels, intervention by the Government in the form of a Salt Cell which monitors stocks and generates advice to suppliers about the allocation of salt stocks.	2	4	8		2	4	8	Road Services Manager		7	Risk reviewed December 2015. Risk score reduced to 8 from 10 by Service Manager – Roads (October 2014).
INF 10	Failure to manage and maintain the designated sites resulting in the Council not fulfilling its statutory duties under the Nature Conservation (Scotland) Act and Wildlife & Countryside (Scotland) Act. This would have a negative effect on the landscape character of East Lothian, biodiversity, health & wellbeing of residents and local economy and tourism as well as failing to deliver Local SOA Outcome.	East Lothian Biodiversity Action Plan. Site management plans developed for coastal & countryside sites. Risk Assessments & SOPs developed for all operations. Employees receive appropriate training. Countryside Rangers issued with mobile phones. Emergency procedures in place. Vehicle management system installed in all vans. Sustain conservation volunteer programme.	2	4	8	Maintain staffing levels and ensure sufficient resources to deliver the service.	2	4	8	Principal Countryside Officer	March 2016	11	Risk Refreshed by Principal Countryside Officer December 2015.
INF 11	Inability to sustain the Conservation Volunteer Programme and Path Warden Scheme. This would have a negative impact on the landscape character of East Lothian, biodiversity, condition of designated sites, sustainable transport, health & wellbeing of residents and access users, the local economy and tourism, the partnership working with the community and ability to contribute to the delivery of SOA Outcomes.	Risk Assessment & SOP in place for each activity and each new activity and reviewed annually Each activity supervised by an ELC employee. Volunteers given clear instructions & training programme in place. Emergency procedures in place and supervisors aware of the procedures & their responsibility. Young Ranger Scheme now in operation.	2	4	8		2	4	8	Principal Countryside Officer		5,11,14	Risk Refreshed by Principal Countryside Officer December 2015.
INF 12	Failure to provide a sufficient grounds maintenance service would have a negative effect on the landscape and character of East Lothian and its towns and villages, biodiversity, health & wellbeing of residents and the local economy and tourism. Failure to deliver Local Outcome in SOA.	Risk Assessments & SOPs in place for all grounds maintenance operations are regularly reviewed & employees are aware of them. The Risk Assessments & SOPs Clarify roles & responsibilities of Amenity Officers. Employees have appropriate qualifications and training. BCP covers suppliers going out of business. Regular depot inspections are carried out. Vehicle management system installed in all vans & machines. Adequate staffing levels through filling of some of the fulltime vacancies and seasonal posts. Maintain staffing levels and ensure sufficient resources to deliver service. Staff resource being maintained up to budget	2	4	8		2	4	8	Principal Amenity Officer		11	Risk Refreshed by Principal Amenity Officer September 2015.

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INF 13	Failure to provide a street sweeping service resulting in the Council not being able to fulfil its statutory duties under the Environmental Protection Act. This would have a negative effect on the landscape character of East Lothian and its towns and villages, biodiversity, health & wellbeing of residents and the local economy and tourism. Failure to deliver SOA Outcome.	Risk Assessments & SOPs developed for litter collection, bin emptying, removal of dog fouling, snow clearance and gritting and are reviewed annually. Employees have appropriate qualifications and training. BCP covers suppliers going out of business. Regular depot inspections are carried out. Vehicle Management system fitted to all vans & machines. Internal & external LEAMS audits and KSB validation audit. Maintain staffing levels and ensure sufficient resources to deliver service. Amenity Operative Posts now live allowing greater service cross over	2	4	8		2	4	8	Principal Amenity Officer		11	Risk Refreshed by Principal Amenity Officer September 2015
INF 14	Failure to risk assess guided walks could result in an investigation by the HSE in the event of a serious incident occurring, financial risk to the Council through insurance claims from injured parties and also damage the Council's reputation through negative publicity.	Risk Assessments developed for each walk. Employees have appropriate training with regular updates. Safety & Good Practice in the Outdoors Guidance adhered to and emergency procedures in place.	2	4	8		2	4	8	Principal Countryside Officer		5, 14	Risk Refreshed by Principal Countryside Officer December 2015.
INF 15	Loss of Operators Licence would result in Waste Services and Road Services inability to uplift waste and carry out winter maintenance. Failing to maintain public highways free of ice and snow and uplift of household waste which is a statutory requirement and could result in Scottish Government sanctions and damage to the Councils reputation.	Regular maintenance of vehicles following VOSA best practice guides. Checks carried out on external companies work on Council fleet.	2	4	8		2	4	8	Transport Services Manager		9	Risk refreshed December 2015.
INF 16	Any disruption to our fuel supply would affect our ability to undertake our day to day work. Fuel shortages can range from very minor to very severe. A very minor shortage may result in brief shortages at a few fuel stations, with minimal impacts. A very severe fuel shortage can result in major impacts very quickly especially on our ability to carry out our statutory requirements.	Fuel supply held at our depots. Fuel sourced externally from local fuel service stations. A Council Fuel Plan is in place.	2	4	8		2	4	8	Service Managers – Roads, Waste, Transport and Property Maintenance.		3,9	Risk refreshed by all managers winter 2015/16.
INF 17	Employee human error could result in major injury or death to themselves or another employee carrying out their duties, consequently resulting in suspension of a number of services.	Risks are controlled through a health and safety policy. Relevant employee training and awareness is carried out regularly. At the VPMU all vehicle lifts have fail safe mechanisms. All drivers complete an initial driver assessment. Continual review takes place as to how we operate our business.	2	4	8		2	4	8	All managers.		N/A	Risk refreshed by all managers winter 2015/16.

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INF 18	Risks highlighted for the development of 7 target sports for sports development include injury to staff or participants, breach of Child Protection and Vulnerable Adults Act, failure to service and maintain equipment to a safe standard which could all lead to bad publicity for the Council and result in financial loss through insurance claims from the public.	Risk Assessments undertaken for venues and activities. Service Management of Coaches and Volunteer Guidelines in place. Volunteer and Coach handbook / emergency operating procedures in place and reviewed annually Volunteers and coaches are trained in procedures. Child protection training undertaken by staff / coaches and volunteers and council guidelines followed. Council Education Excursion Guidelines and Approval procedures followed. Only fully trained and qualified coached and volunteers employed. PVG checks for all coaches and volunteers and key staff undergo first aid training which is reviewed regularly. Emergency operating procedures are followed for all venues and all equipment is maintained and checked regularly. Coach and Volunteer Handbook and emergency operating training procedures are reviewed annually.	2	4	8		2	4	8	Principal Officer Sports Development			
INF 19	Failure to maintain harbours could lead to damage to the fabric of the harbour and to boats on moorings and in dinghy parks (where appropriate). Potential risk of injury to harbour users, water pollution, vessels sinking and danger from heights should people / equipment fall. Failure to warn of the dangers of the operation of the boom crane (North Berwick only) resulting in HSE / MCA (Marine and Coastguard Agency) involvement. All could lead to bad publicity for the Council and result in financial loss through insurance claims from the public.	Regular visual inspection of harbour areas by harbour masters. Lifebelts in place and regularly inspected whilst safety barriers are erected in areas of highest risk. Provision of pollution spill kit (N Berwick only). Training provided for boom operators and provision of personal protective clothing (N Berwick only). Risk Assessments and guidance in place for the boom operation and lift in/lift out of vessels.	2	4	8	Meeting to be convened by Eamon John to review required works at Fisherrow Harbour. Regular maintenance and repair programme underway for Fisherrow/Cockenzie. Pollution spill kit to be put in place for Fisherrow/Cockenzie.	2	4	8	Recreation & Physical Officer	December 2016		Risk reviewed by PRPO December 2015
INF 20	Failure to provide cleaning services within education premises out with core provision, due to staff shortages or health epidemic. This could result in schools not been cleaned to the required standard and a breakdown of infection control. This could result in schools not being able to remain open and putting the council at risk.	Utilise special clean team and specialist products when required. Senior cleaners complete cleaning schedule including daily checks that all areas have been cleaned to the appropriate standard.	2	4	8	Review job outlines to meet the needs of the service.	2	4	8	Service Manager - Facilities	March 2016	5 & 6	New risk created January 2015 by Service Manager – Facilities and refreshed December 2015
INF 21	Increasing exposure to drug related/contaminated waste materials resulting from the handling of needle sticks and/or body fluids has heightened the risk of infection from blood borne virus – HIV, Hep, B, C for all front-line employees and our Special Clean Team, Toilet Attendants, Cleaning/Domestic and Janitorial Staff,	Awareness training for all staff. Additional training for staff required to handle waste materials. Frontline staff issued with sharps kits to facilitate removal of small items of contaminated waste System in place to identify problem properties/tenants and issue warning to	2	4	8		2	4	8	All Managers		1 & 5	Risk refreshed December 2015. Risk Refreshed by Head of Infrastructure December 2014 with Current Risk Score reduced from 10 to 8.

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	which could expose the council and/or individuals to criminal charges and subsequent civil actions.	<p>staff with regards to potential exposure. Generic risk assessment have been carried out to identify significant risk and appropriate control measures that are required to be implemented.</p> <p>Special Clean Team – specialist training received from Apropos Training Ltd in relation to needle handling.</p> <p>Corporate guidance on drug-related contaminated waste developed in and in use. Disposal procedures and joined-up working strengthened.</p> <p>Special Clean Team issued with yellow disposable sacks, needle handling pack, PPE, face masks, eye goggles fit for purpose, appropriate footwear, suitable gloves and gauntlets for use for body spillage.</p>											
INF 22	<p>Carberry landfill Site – The Carberry site is a gassing landfill with the following risks associated to it:</p> <p>There is a public safety risk of an explosion if landfill gas accumulates in a building or other enclosed space. There are a number of residential and commercial properties in the vicinity of the site, although several hundred metres away.</p> <p>SEPA have intimated that they require us to install an additional gas management measurement system (flare stack/gas engine) as the simple vents that are currently in place and were originally agreed do not provide the best possible environmental solution</p> <p>Attached to this is a reputational risk should SEPA take enforcement action against the Council.</p> <p>The cost of any additional gas management systems is a significant unbudgeted expenditure.</p>	<p>Regular on-site gas monitoring has not indicated any migration of landfill gas off-site. The gassing from the landfill has not substantially changed over recent years.</p> <p>Passive venting arrangements are currently in place which SEPA have accepted up to now.</p> <p>We have carried additional monitoring in this respect and gas pumping trials have been completed.</p>	2	4	8	<p>A gas pumping trial confirmed a gas management system is required.</p> <p>There is now a requirement for a Gas Flaring system. WS Manager has secured verbal agreement from Scottish Government of £250,000 grant to affect the works. Awaiting written confirmation and grant allocation dates.</p> <p>We are against capping the stacks due to the increased risk of uncontrollable gas migration and the danger this poses to surrounding properties.</p> <p>Environmental report is being created.</p>	2	2	4	Waste Services Manager	December 2016. Gas Flaring works dependant on grant aid.	11 & 12	<p>Risk reviewed December 2015 and residual score reduced from 6 to 4.</p> <p>Risk Refreshed by Waste Services Manager October 2014 and by Head of Infrastructure December 2014 with Current Risk Score reduced from 10 to 8 and residual score reduced from 10 to 6.</p>
INF 23	<p>Work at Height remains the biggest cause of fatal injury in the workplace.</p> <p>A fatal injury could expose the council and/or individuals to criminal charges and subsequent civil actions. Any fatal injury could have a major impact on the victims' family and potentially damaging to the Council's reputation.</p>	<p>Generic risk assessments carried out to identify significant risk and appropriate control measures that require to be implemented.</p> <p>Training for specific equipment. PASMA, IPAF provided to relevant Operatives on 5 year cyclical basis.</p> <p>All staff are provided with Working at</p>	2	4	8	<p>Generic risk assessments should form the basis of a site specific risk assessment where additional hazards have been identified</p> <p>Dynamic risk assessments may also apply, to consider changing local/environment conditions (traffic/weather etc.)</p> <p>Competency frameworks to be</p>	1	4	4	Service Managers – Property Maintenance and Facilities	April 2016	1 & 5	<p>Risk refreshed and Service Manager Facilities added as risk owner December 2015.</p> <p>Risk Refreshed by Property Maintenance Manager and by Head of Infrastructure</p>

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		<p>Heights training on induction, refresher training provided every 4 years.</p> <p>Staff and workforce receive ongoing training/development to encourage a managing safety culture and the implementation of safe working practice.</p> <p>Trade based supervisors (with responsibility for ensuring safe working practices) in place following implementation of service review.</p>				identified to ensure supervisors attend training courses to ensure they have a good understanding of their role with regards to the duty of care imposed on them by current H&S Regulations.							December 2014 with Current Risk Score reduced from 20 to 8 and residual score reduced from 10 to 4.
INF 24	<p>New Construction (Design & Management) Regulations (CDM 2015) came into force as of 6 April 2015.</p> <p>This is a legal requirement and ELC could be faced with a fine or work stoppages should we not comply with the regulations.</p>	Robust H&S regime in place across Council services.	2	4	8	Operating procedures to be developed through cross-Service working group.	1	4	4	Service Managers- Community Housing Building Standards & Engineering Services Property Maintenance	April 2016		New Risk Created by Service Manager Property Maintenance December 2015
INF 25	If waste collection arrangements were inadequate due to a failure or loss of staff, vehicles, plant, equipment or buildings to provide resource availability for waste and recycling management requirements.	<p>Business continuity plan</p> <p>Operation of depot and transfer station.</p> <p>Contracts for haulage / disposal / recycling / composting.</p> <p>Operation of four Recycling Centres.</p> <p>Provision of receptacles to customers.</p> <p>Ability to suspend non critical activities.</p> <p>Adequate levels of staff and resources.</p> <p>Storage and maintenance of vehicles & equipment. Risk assessments and safe operating instructions.</p> <p>Monitoring of national and local indicators.</p> <p>Customer Feedback and Consultation.</p> <p>Waste Collection Policy.</p> <p>Strategy agreed with alterations to types and frequencies of collections</p>	2	3	6		2	3	6	Waste Services Manager			<p>Risk reviewed December 2015.</p> <p>Risk refreshed October 2014 – Both scores reduced to 6.</p>

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INF 26	<p>A failure to meet the targets agreed in our Single Outcome Agreement and to meet EU landfill targets could result in reputational harm (in terms of corporate social responsibility) but more especially the potential for significant unbudgeted costs and financial penalties.</p> <p>The Waste (Scotland) Regulations 2012 has placed additional statutory obligations upon Local Authorities. A strategy review including implementation with additional services will need to be provided if the Council is to meet these obligations. This will impact upon current service provisions and has yet to be approved.</p>	<p>Waste Strategy agreed in July 2014 was implemented April 2015 with a view to achieving a minimum 50% recycling & composting target.</p> <p>Recycling and residual collections to all domestic and commercial properties covering mixed waste, DMR, food and garden.</p> <p>Bring site provision including 4 Community Recycling Centres. Monitoring of national and local indicators.</p> <p>Waste Data Flow reporting to Waste Regulatory body.</p> <p>Monitoring of kerbside collection systems and targeted intervention to offer support to residents using these services.</p> <p>Short term disposal/treatment framework Contract. Partnership working.</p> <p>Strategy Review and Implementation.</p> <p>Procurement of a long term treatment contract which will allow for additional recovery and enable compliance with bans on waste disposal given the previous procurement exercise being halted through the preferred contractor going into liquidation.</p> <p>Waste (Scotland) Regulations met following implementation of Waste Strategy.</p> <p>Ban on bio-degradable municipal waste to landfill and recycling rate of 60% achieved.</p>				Continue to review services in line with policy changes and maintain continual analysis outlining options for consideration for each type of Waste and Recycling Collection the Council carries out.				Waste Services Manager Head of Infrastructure Depute Chief Executive – Partnerships and Community Services	Review annually.		<p>Risk refreshed November 2015 – Current score reduced from 12 to 6 and residual score reduced from 8 to 6 due to implemented measures.</p> <p>Risk reviewed May 2014 and Residual Risk Rating reduced from 12 to 8.</p>

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			L	I	L x I		L	I	L x I				
INF 27	There is the risk that staff and volunteers involved in the delivery of Sports and Activity and Promoting Increased Physical Activity sessions and those participating in said sessions could be injured due to inadequate controls or the failure to service and maintain equipment to a safe standard. This could lead to negative publicity for the Council, HSE involvement and financial loss through insurance claims from the public.	Risk Assessments undertaken for venues and activities. Service Management of Coaches and Volunteer Guidelines in place. Volunteer and Coach handbook / emergency operating procedures in place and reviewed annually Volunteers and coaches are trained in procedures. Council Education Excursion Guidelines and Approval procedures followed. Only fully trained and qualified coached and volunteers employed. Resource packs and in house training available for all volunteers as well as shadowing/buddying. Coach and Volunteer Handbook and emergency operating training procedures are reviewed annually. Emergency operating procedures are followed for all venues and all equipment is maintained and checked regularly by those responsible for the venue whilst all coaches/volunteers have a responsibility to carry out visual checks before each activity. Risk Assessments in place and regularly updated, including weather assessment while qualified/ trained staff / volunteers are used to lead sessions.	2	3	6		2	3	6	Principal Officer Sports Development Principal Officer Active Schools			Risk reviewed September 2015. 3 Former general risk entries on various risks within Sports development, physical activity opportunities and promoting increased physical activity split to show one risk on the risk of injury/maintaining of equipment and one on Child Protection POAS added.
INF 28	Failure to maintain the AALS (Adventure Activities Licence) resulting in the Council being unable to provide adventure activities for under 18 year olds, which in turn would significantly reduce the range of outdoor learning opportunities available to young people , their health and wellbeing and personal development.	Safety and Good Practice in managing Off Site Visits Guidelines in place. Educational Excursion Approval needs to be gained prior to the event taking place and is gained by the visit Leader submitting a form using the internet based EVOLVE system. Employees have appropriate up to date qualifications and experience. Only appropriately qualified and experienced Associate Instructors are employed. All Outdoor Centres that provide adventure activities outside their grounds should have a valid Adventure Activity Licence and insurance cover All Outdoor Centres that provide activities within their own grounds should use appropriately qualified staff, have Risk assessments for each activity in place and have valid insurance cover. All schools and establishments using EVOLVE.	2	3	6	Joint monitoring programme of activities takes place with Health & Safety Advisers and is inspected quarterly.	1	3	3	Principal Teacher Outdoor Education	June 2016	2,5	Risk refreshed by PTOE September 2015. Risk Refreshed by Principal TOE November 2014 and by Head of Infrastructure 2014 with Risk Score reduced from 10 to 6 and residual score from 5 to 3.

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
INF 29	Failure to comply with the statutory requirements under the Health & Safety at Work Act in relation to HAVS and Whole Body Vibration (WBV), noise exposure, lung function and suitability for employment generally would create a financial risk to the Council through staff insurance claims and open up the Council to investigation by the HSE. Enforcement notices and/or other punitive actions may also apply if illness/injury/death occurs as a direct result of non-compliance.	Suitable & sufficient risk assessments are in place for all tasks to identify hazards and implement appropriate control measures. Staff receive appropriate instruction & training to allow work tasks to be performed safely and managers should ensure work tasks are monitored for compliance with Safe Systems of Work Noise awareness training for all affected employees. Initial health screening of all new employees to establish a benchmark. Thereafter, annual health monitoring of all staff exposed to risk undertaken by the Council's Occupational Health Service provider and specific restrictions placed on any staff who display symptoms of HAVS or Carpel Tunnel. Approved HAV / WBV annual screening process now in place and annual testing and exposure controls as approved by HSE now in place All machinery and equipment has been tested and assessed for WBV and within Property Maintenance & Amenities traffic light coded to indicate the length of time they can be used for each Tier level of HAVS. All staff record on their timesheets exposure or over Exposure to vibration. Amenity Technician has undergone WBV training. Where noise, dust exposure or other risk pertains, a bespoke risk assessment should be carried out to determine exposure levels and appropriate control measures should be implemented. Service review has resulted in improvements and more clearly identifying supervisory responsibilities within Property Maintenance.	2	3	6	Competency frameworks to be identified to ensure supervisors attend training courses to ensure they have a good understanding of their role with regards to the duty of care imposed on them by current H&S Regulations. Work ongoing to renew occupational health arrangements. ELC currently procuring contract to deliver lung function monitoring. Case study risk assessments for HAVS risk exposure to be created.	1	3	3	Principal Amenity Officer Roads Services Manager Service Manager – Property Maintenance Service Manager - Facilities	April 2016 March 2016	1 & 5	Risk score reduced from 16 to 6 as all Risk Measures now in place and HSE Improvement Notice lifted March 2014 per Principal Amenity Officer and Road Services Manager, November 2014
INF 30	NICEIC audit of October 2014 identified possible failure to ensure adequate quality assurance regime for domestic electrical works in place.	ELC remain well established members of NICEIC, who undertake an annual audit of Qualifying Supervisor competency. In-house training is delivered to all front-line Operatives following any changes to Regulations and/or best practice. Administrative arrangements have been revised to allow responsive electrical supervisor to undertake greater frequency of on-site supervision. Qualifying Supervisors now in post following implementation of PM service review.	2	3	6	Regular 'tool box talks' to be conducted by new Trade Supervisors.	1	3	3	Service Manager – Property Maintenance	Annual (in line with NICEIC audit)	7 & 9	Risk refreshed November 2015 by Service Manager and current risk score reduced from 9 to 6 and residual risk score from 6 to 3. Newly created risk identified 30/10/14 following NICEIC audit.

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
INF 31	IT failure preventing use of Fleetmaster software for maintenance and repair records of vehicles within the Council fleet. Impact on vehicle history electronically recorded and therefore VOSA and Scottish Government requirements.	All information backed up daily.	2	3	6	Currently looking at external hosting of software.	2	1	2	Transport Services Manager	April 2016	13	Risk Refreshed December 2015.

Original date produced (Version 1)	9 th January 2013			Risk Score		Overall Rating	
File Name	Infrastructure Risk Register			Risk Score	20-25	Overall Rating	Very High
Original Author(s)	Scott Kennedy, Risk Officer			Risk Score	10-19	Overall Rating	High
Current Revision Author(s)	Scott Kennedy, Risk Officer			Risk Score	5-9	Overall Rating	Medium
Version	Date	Author(s)	Notes on Revisions	Risk Score	1-4	Overall Rating	Low
1	09/01/2013	S Kennedy	Environment Register updated to Infrastructure Risk register following Senior Management Restructure and updates to Risk Strategy and Corporate Risk Register.				
2	April-May 2013	S Kennedy	Updated by M Johnston and T Reid and risks combined following Working Group meeting. Dog Fouling/Dangerous Dogs risk split by M Johnston. Transport Services updated by I Dalgleish. Facilities Management updated by J Marlow. Property Maintenance updated by R Rafferty.				
3	September 2013	S Kennedy	Landscape & Countryside Risks updated by S Pryde.				
4	October 2013	S Kennedy	Waste Management Risks updated and two added by T Reid and no change to Road Services Risks (A Stubbs) or Transport Services Risks (I Dalgleish). Facilities Mgmt risks updated.				
5	December 2013	S Kennedy	Roads Network Risks Added				
6	January 2014	S Kennedy	Dangerous Dogs & Dog Fouling Risks transferred to Communities & Partnerships (Customer Services) Risk Register; Healthy Living Risks added and Print Unit Risk added to Facilities to create initial Infrastructure Risk Register following realignment process.				
7	May 2014	S Kennedy	Waste risks reviewed by Tom Reid. Land Management Risk transferred from Corporate RR at the request of CMT.				
8	November 2014	S Kennedy	Waste, Transport, Road, Facilities Services and Property Maintenance Risks all reviewed and refreshed by respective Service Managers. Amenity Risks reviewed by Principal Amenity Officer.				
9	December 2015	S Kennedy	All Infrastructure risks reviewed and refreshed by all Service Managers. Risks on postal strike and print unit deadlines removed by Head of Infrastructure. Risk on staffing levels also removed as covered in Corporate Risk Register.				

Appendix 2
East Lothian Council
Risk Matrix

Likelihood Description

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

Impact Description

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

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

Key

Risk	Low	Medium	High	Very High
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REPORT TO: Audit and Governance Committee

MEETING DATE: 19 January 2016

BY: Depute Chief Executive - Partnerships and Community Services

SUBJECT: 2015/16 Council Improvement Plan Monitoring Report

4

1 PURPOSE

- 1.1 To present the 2015/16 Council Improvement Plan six-month monitoring report to the Audit and Governance Committee.

2 RECOMMENDATIONS

- 2.1 That Audit and Governance Committee notes the progress in achieving the Council Improvement Plan as detailed in the monitoring report (Appendix 1).

3 BACKGROUND

The 2015/16 Council Improvement Plan was approved by Council on 25 August 2015. The action points in the Plan are primarily drawn from the results of the How Good is Our Council? (HGIOC) self-evaluation carried out by all services and the Corporate Governance self-evaluation (reported to Audit & Governance Committee, 19 May 2015). The results of the 2015 Employee Engagement Survey were also taken into account. Although consideration was also given to the findings and recommendations contained in Audit Scotland's Overview of Local Government in Scotland, Audit Scotland's Annual Report to Members and the Shared Risk Assessment prepared by the Local Area Network, no improvement points were identified from these reports.

- 3.1 One of the four objectives of the Council Plan 2012-2017 is: *Growing the capacity of our Council to deliver excellent services as effectively and efficiently as possible within our limited resources.* All the improvement points in the 2015/16 Improvement Plan will contribute to meeting this outcome. Also, the Plan supports the Council's improvement programme based around the following four key elements:

- Services built around people and communities
- Effective, efficient and excellent services
- Working together to achieve outcomes

- Prioritising prevention and promoting equality.

3.2 The six month monitoring report (Appendix 1) outlines progress that has been made in completing the eight actions in the Improvement Plan since the Plan was adopted in August 2015. It shows that six actions have either been completed or significant progress has been made. Work on the completing the remaining two actions will begin in early 2016.

4 POLICY IMPLICATIONS

4.1 The 2015/16 Council Improvement Plan will assist the Council in demonstrating that it is achieving Best Value. It will provide the necessary focus to improve key areas of the Council at a corporate level, thus aiding delivery of the Council Plan. Moreover, it will support East Lothian Council in its constant striving for continuous improvement, to continue improving the quality and delivery of its services and to meet the Council Plan objective: *Growing the capacity of our Council to deliver excellent services as effectively and efficiently as possible within our limited resources.*'

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial – none.

6.2 Personnel – none directly, although certain actions within the Plan are likely to require the commitment of staff resources.

6.3 Other – none.

7 BACKGROUND PAPERS

7.1 Council Improvement Plan; report to Council, 25 August 2015

7.2 Appendix 1: 2015/16 Council Improvement Plan Monitoring Report

AUTHOR'S NAME	Paolo Vestri	
DESIGNATION	Corporate Policy and Improvement Manager	
CONTACT INFO	pvestri@eastlothian.gov.uk	01620 827320
DATE	6 January 2016	

Appendix 1: 2015/16 Council Improvement Plan Monitoring Report

2015/16 Council Improvement Plan

We deliver excellent services as effectively and efficiently as possible

	ACTION	LEAD SERVICE	TIMESCALE	UPDATE
1	Review and develop elected members' training and briefings including development issues arising from Councillors' training and development needs survey based on Audit Scotland Overview of Scottish Local Government Councillors' Checklist	Democratic Services/ Communities and Partnerships	Completed	A programme of elected members briefings in 2015/16 has been established based on the results of the elected members' survey carried out in December 2014. An elected members' training and development needs survey will be carried out in early 2016 to inform the 2016/17 programme.
2	Review and revise the Improvement Framework and make more effective use of benchmarking, Best Value reviews and options appraisal	Communities and Partnerships	Completed	The Council's Improvement Framework has been reviewed and revised. The Council is involved in several benchmarking exercises which are informed by the Local Government Benchmarking Framework. A Best Value Review is being undertaken of a Council service. Options appraisal has been written into the projects and investment decision process that has been instigated for new capital projects.
3	Introduce the new Integrated Impact Assessment framework that has been prepared jointly with Midlothian Council, City of Edinburgh Council and NHS Lothian; including provision of guidance, training and support for services	Communities and Partnerships	March 2016	A new Integrated Impact Assessment template has been finalised, guidance has been updated, an on-line training module has been prepared. The new Integrated Impact Assessment will be launched in the new year.
4	Implement staff communications plan to ensure staff are fully informed and engaged; including	Communities and	March 2016	A review of staff communications is being carried out. Over 20 One Council Workshops

	identifying ways to recognise and celebrate excellent performance and employee achievement	Partnerships		(attended by c.750 staff) were held in 2015 to engage with staff in an interactive setting. Very positive feedback was received from staff who attended the workshops. Consideration is being given to rolling out further workshops in 2016.
5	Implement the Web Development strategy to provide a more responsive and effective Council website that will support more 'self-service' activity by council service users – 'Channel Shift'	Communities and Partnerships	March 2016	A business case for funding from the Cost Reduction Fund to support the development of a responsive by design website which will support greater self-service on-line services has been approved. The project will commence in early 2016. The re-development of the Council's intranet has started and will be completed in April/ May 2016.
6	Develop a process/ programme for reviewing and evaluating Council policies and strategies to ensure they are up-to-date and relevant	Communities and Partnerships	March 2016	This project will commence in early 2016.
7	Implement the revised Personal Review and Development scheme in all services	Communities and Partnerships	March 2016	The Personal Review and Development framework has been revised and a new form and procedure is being rolled out across all services.
8	Review the Council's community engagement strategy to reflect the Community Empowerment (Scotland) Act 2015	Communities and Partnerships	March 2016	This project will commence in early 2016.

Date	Internal Audit Reports	External Audit Reports	Accounts Commission/ Audit Scotland reports	Governance	Risk
22/03/16	Housing Repairs – Shared Costs Self-Directed Support – Children’s Wellbeing Section 75 Payments 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)		Council Resources Risk Register Development Risk Register Communities & Partnerships Risk Register
17/05/16	Payroll Council Tax Other Income Agency Staff Managing Capital Projects	Interim Management Report	Overview of Scottish Local Government (Mar 2016) Major Capital Investments in	2016 Corporate Governance Self-evaluation/ Annual Governance Statement	Corporate Risk Register

	Internal Audit Progress Report 2015/16 Annual Internal Audit Report 2015/16 Controls Assurance Statement 2015/16		Councils – Targeted Follow Up (due Jan 2016)		
14/06/16				Draft 2015/16 Annual Accounts	

REPORT TO: Audit and Governance Committee
MEETING DATE: 19 January 2016
BY: Depute Chief Executive – Resources & People Services
SUBJECT: Internal Audit Report – Risk Management

6

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Risk 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 Risk Management was undertaken as part of the audit plan for 2015/16. This is the first review of Risk Management by Internal Audit.
- 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	7 January 2016

EAST LOTHIAN COUNCIL – INTERNAL AUDIT RISK MANAGEMENT

1. EXECUTIVE SUMMARY

1.1 Introduction

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

1.2 Areas where Expected Controls were Met

- The Council has a Risk Management Strategy in place – the updated Strategy was approved by the Audit and Governance Committee in January 2015.
- The Corporate Risk Register is formally approved by Cabinet.
- The Audit and Governance Committee provide effective scrutiny of both the Corporate Risk Register and Service Risk Registers.
- A standardised format has been adopted for all risk registers, which sets out key risks, risk scores, existing control measures and planned risk control measures.
- Ownership and accountability for the management of risks are clearly assigned to named individuals – risk owners review risk registers on a six monthly basis.
- Risk registers are presented to the Council Management Team (CMT) for review.
- In some service areas, individual risks are linked to the Single Outcome Agreement.

1.3 Areas with Scope for Improvement

- In some cases inconsistencies were noted in the ranking and prioritisation of risks by service areas – there had been a failure to comply with the guidance issued when scoring the likelihood and impact of risks occurring. *Risk – inconsistency in the risk assessment process.*
- In some cases the planned risk control measures identified had led to a reduction in the reported residual risk score, although these measures were either unlikely to be implemented or were not new measures which would assist in mitigating the risk further. In one case, the planned risk control measure reduced the current risk score of 10 to a residual risk score of 4 even though the risk register indicated that the planned measure was unlikely to be implemented due to budget constraints. *Risk – residual risk scores may be unreliable.*

1.4 Summary

Our review of the Council's Risk Management processes has identified some areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

January 2016

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

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.2	<p>Management should ensure that a consistent approach is adopted across the Council to the assessment of risk scores.</p> <p>Management should ensure that the guidance issued on scoring the likelihood and impact of risks is adhered to.</p> <p>Management should ensure that training is provided to all managers responsible for assessing risks to ensure that the scoring accurately reflects the actual risks faced by the Council.</p>	Medium	Service Manager – Corporate Policy & Improvement	Agreed – this will be done as part of the regular review of Risk Registers.		Ongoing
3.3.3	<p>Management should ensure that the planned risk control measures identified are new measures to mitigate risks and not a continuation of the existing control measures already in place.</p> <p>Management should ensure that a reduction in the residual risk scores only occurs where the planned control measures identified will lead to a reduction in risk.</p>	Medium	Service Manager – Corporate Policy & Improvement	Agreed – this will be done as part of the regular review of Risk Registers.		Ongoing

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	Management should review the statement of risk appetite included in the Risk Management Strategy to ensure that it clearly sets out the level of risk that the Council is prepared to tolerate or accept in the pursuit of its strategic objectives.	Medium	Service Manager – Corporate Policy & Improvement	To be considered as part of the next review of the Risk Management Strategy.		December 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: 19 January 2016

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – Payments to Third Sector Organisations

7

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Payments to Third Sector Organisations.

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 Payments to Third Sector Organisations was undertaken as part of the audit plan for 2015/16. Internal Audit are undertaking a series of audits on following the public pound – in 2014/15 a review of Partnership Funding was carried out, the current review relates to payments by Adult Wellbeing and in 2016/17 we will examine payments to Third Sector Organisations by Children’s Wellbeing.
- 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	7 January 2016

EAST LOTHIAN COUNCIL – INTERNAL AUDIT PAYMENTS TO THIRD SECTOR ORGANISATIONS

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of Payments to Third Sector Organisations by Adult Wellbeing 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 approval of grant awards to Third Sector Organisations – grant awards for 2015/16 were approved by Cabinet.
- For the sample of grant payments examined, we found that the amounts paid were consistent with the amounts approved.
- Where reviews are carried out, comprehensive reports covering service delivery, performance outcomes and strategic relevance are held on file.

1.3 Areas with Scope for Improvement

- No corporate policy is in place providing a framework for funding Third Sector Organisations. *Risk – an inconsistent approach may be adopted.*
- For organisations receiving grant payments from separate funding streams within the Council there was a lack of a joined up approach for the assessment, monitoring, review and payment of grant funding. *Risk – an inconsistent approach may be adopted.*
- There was a lack of evidence to demonstrate the basis on which award recommendations had been made or how the level of grant award had been established. *Risk – lack of a clear audit trail.*
- In some cases, there was a lack of documentation in place clearly setting out the conditions of the grant award. *Risk – failure to adhere to grant conditions.*
- At present there is no requirement for organisations receiving grant funding to provide an annual report to demonstrate that the funding has delivered the desired outcomes. *Risk – failure to ensure that grants are used for their intended purpose.*
- In some cases, there was a lack of evidence of organisations being reviewed on a regular basis. *Risk – lack of assurance that desired outcomes are being achieved.*

1.4 Summary

Our review of Payments to Third Sector Organisations has identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

January 2016

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
PAYMENTS TO THIRD SECTOR ORGANISATIONS**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should ensure that detailed guidance is developed clearly setting out the systems and processes to be followed for grant funding provided and payments made to third sector organisations.	Medium	Service Manager – Resources	Procedure to be developed outlining criteria and decision-making processes. Process for authorising to be outlined.		April 2016
3.3.1	Management should ensure that all recommendations for awards to third sector organisations are included timeously in the report submitted to Cabinet for approval. Management should ensure that reports presented to Cabinet for approval clearly inform Members of those organisations where Service Level Agreements are to cover more than one year. Management should ensure that a consistent and coordinated approach is adopted for the approval and awarding of third sector grant funding.	Medium	Service Manager – Resources	Above process to include the point in the time of year when these decisions need to be made. To be clearly marked in the report in future reports. These awards will be decided at AW management team meeting and approved at the procurement board.		April 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/MANAGED	AGREED DATE OF COMPLETION
3.4.1	<p>Management should ensure that adequate documentation is held clearly outlining the conditions of the grant funding.</p> <p>Management should ensure that all agreements in place are signed by both the Council and the organisation receiving the grant funding – all agreements should be signed timeously.</p>	Medium	Service Manager – Resources	<p>Formal agreements in the same format to be developed for all organisations in receipt of a grant.</p> <p>Stipulated as part of the above process.</p>		<p>September 2016</p> <p>As above</p>
3.5.1	<p>For all new grant awards made, Management should ensure that relevant documentation is provided by the organisation to enable a detailed assessment to be carried out.</p> <p>Management should ensure that there is clear evidence to demonstrate the basis on which the award is being made and the rationale for the level of award recommended for approval.</p>	Medium	Service Manager – Resources	<p>A letter will be issued requesting the relevant information commencing now.</p> <p>Developed as part of processes and procedures above.</p>		<p>April 2016</p> <p>April 2016</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.2	<p>Management should ensure that organisations receiving grant funding provide an annual report to the Council to confirm that the desired outcomes have been delivered.</p> <p>Management should ensure that a clear programme of reviews is in place for all third sector organisations receiving funding.</p>	Medium	Service Manager – Resources	<p>This will be included in future SLAs and contractual agreements following the next renewals.</p> <p>To be developed as part of team workplan.</p>		<p>September 2016</p> <p>April 2016</p>
3.6.1	<p>Management should ensure that grant payments are only made to organisations where formal approval has been given.</p> <p>Management should ensure that new creditor accounts are not set up for existing creditors already on the system.</p> <p>Management should ensure that a review of creditor accounts is undertaken to highlight duplicate accounts – where duplicate accounts are identified these should be closed.</p>	Medium	<p>Service Manager – Resources</p> <p>Corporate Finance Manager</p>	<p>This will occur as part of monthly procurement board and annual Cabinet report.</p> <p>Agreed</p>		<p>April 2016</p> <p>February 2016</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.7.1	Consideration should be given to reviewing the current arrangements in place for grants awarded to organisations from separate funding streams.	Medium	Service Manager – Resources	Raise at regular meeting with Paolo Vestri as well as procurement board where CW are present. A one off meeting will be set up with CW to develop shared approach.		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: 19 January 2016

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – Out of Authority Placements

8

1 PURPOSE

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

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 Out of Authority Placements covering both Children's Wellbeing and Education was undertaken as part of the audit plan for 2015/16. This is the first review of Out of Authority Placements by Internal Audit.
- 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	7 January 2016

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
OUT OF AUTHORITY PLACEMENTS
(CHILDREN’S WELLBEING & EDUCATION)**

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of Out of Authority Placements for East Lothian children and young people 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 to meet its statutory obligations for the provision of care to children and young people.
- An External Provision Panel is in place for recommending placement decisions.
- The progress of all children in external placements is reviewed and monitored on a regular basis.
- Detailed forecasting and monitoring of expenditure relating to external placements is undertaken by both Children’s Wellbeing and Education.
- A Scotland Excel Framework for the Provision of Children’s Residential Care and Educational Services is in place – in a number of cases, the Council has procured residential placements from service providers listed on the Framework.

1.3 Areas with Scope for Improvement

- No detailed process guidance is in place for commissioning, managing and monitoring out of authority placements. *Risk – an inconsistent approach may be adopted.*
- In some cases, there was a lack of a formal agreement between the Council and the service provider clearly setting out the terms and conditions of the placement. *Risk – the responsibilities of each party may not be clearly defined.*
- The process in place for the final approval of all out of authority placements recommended by the External Provision Panel requires to be formalised. *Risk – lack of a clear audit trail.*
- In some cases, there was a lack of adequate documentation in place to support the fee rates being paid to providers for out of authority placements. *Risk – overpayments may occur.*
- For placements with off-framework providers, there was a lack of compliance with the Council’s Corporate Procurement Procedures. *Risk – failure to demonstrate best value.*

1.4 Summary

Our review of Out of Authority Placements has identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

**Mala Garden
Internal Audit Manager**

January 2016

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
OUT OF AUTHORITY PLACEMENTS
(CHILDREN’S WELLBEING & EDUCATION)**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should ensure that detailed process guidance is in place for commissioning, managing and monitoring out of authority placements.	Medium	Head of Children’s Wellbeing / Depute Chief Executive – Resources & People Services	Agreed – process document to be put in place.		April 2016
3.3.1	Management should ensure that the process in place for the final approval of all out of authority placements recommended by the External Provision Panel is formalised. Management should ensure that all approvals are uploaded on to the Frameworki system.	Medium	Head of Children’s Wellbeing / Depute Chief Executive – Resources & People Services	Agreed – final approval process has been operating informally for some months, through Head of Children’s Wellbeing and Head of Education; this will be formalised and a record issued and held on file.		February 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1	Management should ensure that a formal agreement is in place between the Council and the service provider clearly setting out the terms and conditions of the placement.	Medium	Head of Children's Wellbeing / Depute Chief Executive – Resources & People Services	Agreed		February 2016
3.6.1	<p>Management should ensure that the Council's Corporate Procurement Procedures are fully complied with for external placements with off-framework providers.</p> <p>In exceptional cases, where a specific provider is better suited to meet the needs of a child, a single source application form should be completed.</p>	Medium	Head of Children's Wellbeing / Depute Chief Executive – Resources & People Services	Agreed – Scot Excel Framework providers are used whenever appropriate to the needs of the child, when an 'off-framework' provision is required, a single source procurement form will be completed, although this may be retrospective in respect of some statutory circumstances or emergency situations leading to urgent placements.		February 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.7.1	Management should ensure that formal agreements are held to support the fee rates being paid to service providers for out of authority placements.	Medium	Head of Children's Wellbeing / Depute Chief Executive – Resources & People Services	Agreed		April 2016
3.8.1	Management should ensure that all invoices are authorised by an employee with the appropriate authorisation limit.	Medium	Service Manager – Education (Strategy and Operations)	Agreed		January 2016
3.9.1	Management should review the effectiveness of the existing budgetary arrangements in place for out of authority placements.	Medium	Head of Children's Wellbeing / Depute Chief Executive – Resources & People Services	Agreed		February 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: 19 January 2016
BY: Depute Chief Executive – Resources & People Services
SUBJECT: Internal Audit Report – National Fraud Initiative

9

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the work undertaken on the 2014/15 National Fraud Initiative.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the report.

3 BACKGROUND

- 3.1 The National Fraud Initiative (NFI) is a data matching exercise, which is led by Audit Scotland and runs every two years. The purpose of the exercise is to match electronic data (e.g. names, addresses, Dates of Birth, National Insurance Numbers), both within and between participating bodies, to detect fraud and overpayments.
- 3.2 East Lothian Council, along with other local authorities and public sector bodies, participates in the NFI data matching exercise. NFI seeks to help participating bodies identify possible cases of fraud and detect and correct any over or under payments. The data for NFI in Scotland is processed by the Cabinet Office on behalf of Audit Scotland.
- 3.3 As part of the 2014/15 NFI exercise, the Council submitted data for the following areas:
- Housing (Current Tenants and Right to Buy)
 - Payroll
 - Private Supported Care Home Residents
 - Transportation (Blue Badges and Residents Parking Permits)
 - Council Tax and Electoral Register
 - Direct Payments
 - Creditors (Standing Data and Payment History)
 - Licences (Street Trader, Taxi Drivers and Personal Alcohol Licences)
- 3.4 In addition, details of insurance claimants were submitted directly by the Council's insurers and Benefits details are submitted by the DWP.

- 3.5 The output of the data matching process (i.e. reports of data matches) is returned to the Council for consideration and investigation. Data matches do not in themselves indicate fraud, but rather identify cases, which may require further investigation.
- 3.6 This report outlines the outcome of the investigations undertaken in respect of NFI matches. The NFI reports identify recommended matches – matches that are most likely to indicate possible fraud or overpayments.
- 3.7 As part of the audit plan, we have reviewed the following reports. The findings from our audit work are outlined below:

Table 1

Report Number	Report Title	Total Matches	Recommended Matches	Investigations Complete
65	Payroll to Payroll	1	0	1
66	Payroll to Payroll	57	1	1
73	Payroll to UK Visas	2	2	2
80	Payroll to Creditors	3	1	3
100	Housing Tenants to Housing Tenants	10	10	7
101	Housing Tenants to Housing Tenants	11	0	-
102	Housing Tenants to Housing Tenants	9	9	4
103	Housing Tenants to Housing Tenants	11	8	-
113	Housing Tenants to Housing Benefit Claimants	12	9	5
151	Right to Buy to Housing Tenants	1	0	1
173	Private Residential Care Homes to DWP Deceased	32	3	32
180	Insurance Claimants to Insurance Claimants	11	2	8
701	Duplicate creditors by creditor name	72	0	-
702	Duplicate creditors by address detail	126	0	-
703	Duplicate creditors by bank account number	60	0	-
708	Duplicate records by amount and creditor reference	1,415	114	86
709	VAT overpaid	13	2	13
710	Duplicate records by name, invoice number and amount but different creditor reference	1	0	1
711	Duplicate records by invoice number and amount but different creditor reference and name	35	6	25
712	Duplicate records by postcode, invoice date and amount but different creditor reference and invoice number.	5	0	5
713	Duplicate records by postcode, invoice amount but different creditor reference and invoice number and date	10	0	10
Totals		1,897	167	204

Payroll to Payroll – Report 65

- 3.8 Report 65 identified one match of an employee who appeared on the Council's payroll twice. Although this was not a recommended match, we reviewed this case and found that the employee had not been paid twice – the employee's first position ended prior to the commencement of the second post.

Payroll to Payroll – Report 66

- 3.9 Report 66 identifies individuals who are employed by the Council and by another organisation and seeks to identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere. We reviewed the one recommended match and a satisfactory explanation was received.

Payroll to UK Visas – Report 73

- 3.10 This report matches employees against visas to identify any cases where there was no entitlement to reside or work in the UK.
- 3.11 We examined both cases and found that in one case the employee was a citizen of another European country and in the other case the employee held a UK passport. In both cases we found that that appropriate checks had been carried out by the Council prior to the commencement of employment and that evidence was held of the employee's entitlement to work in the UK.

Payroll to Creditors – Report 80

- 3.12 This report identifies instances where a Council employee and creditor are linked by the same bank account. The purpose of the report is to identify undeclared interests, possible procurement corruption or creditor accounts being set up to receive unauthorised payments.
- 3.13 We reviewed the three matches and found that adequate explanations were available – in two cases employees had provided services on a self-employed basis prior to being employed by the Council and in the other case the service had been provided by a family member. However in this case we found that although the invoice had been paid, it had not been properly authorised – this has been highlighted to Management.

Housing Tenants to Housing Tenants – Reports 100 to 103

- 3.14 We examined four reports in this category – the reports identify individuals who appear to be resident at two different addresses suggesting possible cases of subletting or dual tenancies.
- 3.15 Of the 27 recommended matches, we found that satisfactory explanations were obtained in 11 cases and the remaining cases are currently being reviewed.

Housing Tenants to Housing Benefit Claimants – Report 113

- 3.16 We examined the nine recommended matches and found that no further investigation was required in two cases where the National Insurance Number did not match, indicating that the matches were from different claimants. Of the remaining seven cases, we found that in three cases no National Insurance Number was available and progress is being made in respect of the other four matches.

Right to Buy to Housing Tenants – Report 151

- 3.17 This report sought to identify cases where a person appeared to have disposed of a right to buy property as they were now claiming housing benefit or were living at a different address.
- 3.18 We examined the one match in this report and found that it related to two separate individuals.

Private Residential Care Homes to DWP Deceased – Report 173

- 3.19 This report matched payments made by the Council to private residential care homes with DWP deceased records. The report sought to highlight cases where a resident had died, but the Council may have continued to make payments to the care home.
- 3.20 All 32 matches identified in this report were reviewed as part of our audit on Frameworki – Payments on Schedule. In 30 cases we found that no overpayment to the provider had occurred as the appropriate adjustment had been made in a subsequent payment run. In two cases there had been a failure by the provider to inform the Council that the resident had died. In both cases the overpayments have been recovered by the Council from the provider.

Insurance Claimants to Insurance Claimants – Report 180

- 3.21 We examined 8 matches in this category – the reports identify claimants who appear to be making multiple claims.
- 3.22 We found that in two cases an individual submitted two separate claims for separate incidents, but in both cases no payments had been made by the Council for either claim. In one case, two members of the same family submitted claims for similar incidents, however payment was only made on the first claim. In five cases, only one claim was submitted although the claim classification was changed by the Council's Insurance Section, which led to the claimants name appearing twice.

Duplicate records by amount and creditor reference – Report 708

- 3.23 This report highlights possible duplicate payments that may have arisen as a result of poor controls or fraudulent activity by suppliers and/or staff.
- 3.24 A total of 1,415 matches were identified of which 114 were recommended matches. We have completed a review of 86 matches and in each case no duplicate payments had occurred. We are currently in the process of reviewing the remaining 28 recommended matches.

Duplicate records by name, invoice number and amount but different creditor reference – Report 710

- 3.25 This report highlighted possible duplicate payments for the same goods/services but to creditors with different creditor reference numbers.
- 3.26 This report highlighted one match where a duplicate payment had been made to a supplier. The duplicate payment had been identified internally and a refund was received from the supplier. However we note that the duplicate payment arose in part due to the supplier having two separate Creditor accounts – a second creditor account had been set up to process one of the payments, even

though the supplier already had an existing Creditor account. This has been highlighted to Management.

Duplicate records by invoice number and amount but different creditor reference and name – Report 711

- 3.27 This report highlighted possible duplicate payments for the same goods/services but to creditors with different creditor reference numbers and names.
- 3.28 The report highlighted 35 matches of which six were recommended matches. We reviewed all 35 matches. In one case we found that the match related to totally separate invoices, while in eight cases we found that the same amount of grant had been paid to two separate organisations and the payments were not duplicate payments. For the remaining 26 cases, we found that:
- in seven cases, invoices had been posted to the wrong creditor account, however the error was identified prior to payments being made and no duplicate payments were made;
 - in nine cases, the invoices had been posted to the wrong creditor account and payments had been made to the wrong creditor. However refunds had been received and payments were made to the correct creditor;
 - In ten cases, the invoices had been posted to the wrong account and payments had been made to the wrong creditor. Payments were subsequently made to the correct creditor, however there was a lack of evidence of refunds being received for the payments made in error. These cases are currently being followed up by Internal Audit.

Duplicate records by postcode, invoice date and amount but different creditor reference and invoice number – Report 712

- 3.29 This report highlights possible duplicate payments for the same goods/services but to creditors with different reference numbers, which may have arisen as a result of poor controls or fraudulent activity by suppliers and/or staff.
- 3.30 Five matches were reviewed as part of this report. In two cases we found that the matches related to annual contributions being made to the same organisation by two separate areas of the Council (Sheltered Housing and Homelessness). Although no duplicate payments had been made, we found that the organisation had two separate Creditor accounts. Two other matches related to another organisation with two separate Creditor accounts – in one of the cases the NFI exercise highlighted that an invoice for £1,449 had been paid twice, once through each of the Creditor accounts. This duplicate payment is currently being pursued. In the final case the payment was a duplicate and a refund was subsequently received.

Duplicate records by postcode, invoice amount but different creditor reference and invoice number and date – Report 713

- 3.31 This report highlights possible duplicate payments for the same goods/services but to creditors with different reference numbers, which may have arisen as a result of poor controls or fraudulent activity by suppliers and/or staff.
- 3.32 We investigated all ten matches in this report and found that in nine cases the payments made were not duplicate payments (although in two cases the organisations had two separate Creditor accounts). In the final case we found

that a duplicate payment of £1,976 had been made. This duplicate payment arose in part due to the organisation having two separate Creditor accounts – this duplicate payment has now been recovered.

VAT overpaid – Report 709

- 3.33 This report identifies instances where VAT may have been overpaid. This is based on the information provided within the NFI invoice history data submission and the output includes the level and scale of overpaid VAT.
- 3.34 We reviewed all 13 matches in this category, although only two matches were recommended. In four cases there was no overpayment, in one case the overpayment identified had been picked up by the previous NFI exercise and in seven cases VAT had been incorrectly accounted for resulting in VAT being overclaimed. In the final case VAT had been incorrectly entered resulting in both VAT being overclaimed and the supplier being overpaid – this case has been referred to the service area for the recovery of the overpayment.

Blue Badge Parking Permit /Resident Parking Permit

- 3.35 The following reports relate to Blue Badge Parking Permits and Resident Parking Permits and have been matched to DWP deceased records – the reports identify cases where the permit holder has died, but the Council may not have been notified and duplicate records held within the Council’s system.

Table 2

Report Number	Report Title	Total Matches	Recommended Matches	Investigations Complete
170	Blue Badge Parking Permit to Blue Badge Parking Permit	7	5	7
172.1	Blue Badge Parking Permit to DWP Deceased	172	152	172
172.8	Blue Badge Parking Permit to Blue Badge Parking Permit – Phone Number	19	19	19
172.3	Resident Parking Permit to DWP Deceased	3	0	3
Totals		201	176	201

- 3.36 The above reports were investigated by the Council’s Transportation Section and we are informed that appropriate action was taken by the service area to update their systems.

Council Tax and Electoral Register

- 3.37 Council Tax and Electoral Register matches form part of flexible matching and were released at an earlier date – these matches are reviewed directly by the Council’s Revenues Section. A summary of the work undertaken by the Revenues Section is outlined below.
- 3.38 The report identified 2,265 matches and the following action has been taken:
- All accounts were checked including notes recorded on both the Council Tax and benefits systems.
 - Checks were undertaken on previous occupiers to eliminate those who have recently changed address.

- Letters were issued to relevant individuals – where no response was received the Single Person Discount was removed and a revised bill issued.
- In some cases Single Person Discount was withdrawn and a new bill issued based on the information gathered from the benefits system.
- Cases were recorded on the NFI system as fraud and new bills were issued. The NFI system was updated to record the amounts claimed.

3.39 The current status of the work undertaken is as follows:

- Of the 2,265 cases, eight have outstanding queries.
- 192 cases have been recorded as frauds.
- 19 cases were recorded as error, this is where the person had met the disregarded status (students or other) and an application has been received for that status.
- Revised bills amounting to £25,019 were issued to persons who had received a Single Person Discount award incorrectly.

Housing Benefits

3.40 We note that a new single Fraud Investigation Service has been set up to investigate frauds across the whole of the welfare system. The responsibility for investigating these matches now lies with the Department of Works and Pension (DWP).

3.41 We have undertaken a preliminary review of housing benefit matches and details of these will be provided to the DWP. In addition, consideration is currently being given to the possibility of systems access being provided to the former East Lothian Council fraud team who transferred to the DWP as part of the new arrangements.

4 POLICY IMPLICATIONS

4.1 None

5 EQUALITIES IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	7 January 2016

REPORT TO: Audit and Governance Committee
MEETING DATE: 19 January 2016
BY: Depute Chief Executive – Resources & People Services
SUBJECT: Internal Audit Report – Performance Indicators 2014/15

10

1 PURPOSE

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

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 the Council's 2014/15 Performance Indicators was undertaken as part of the audit plan. Performance Indicators are reviewed on an annual basis by Internal Audit.
- 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	7 January 2016

EAST LOTHIAN COUNCIL – INTERNAL AUDIT PERFORMANCE INDICATORS 2014/15

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2015/16, a review was undertaken of the systems and processes in place for the preparation and reporting of performance information for 2014/15.

1.2 Areas where Expected Controls were Met

- Detailed guidance is in place to assist officers responsible for the preparation and reporting of performance information.
- In some service areas, arrangements are in place for the external validation of performance information – for the housing performance indicators relating to rents due and rent arrears, annual validation is undertaken by the Scottish Housing Best Value Network.

1.3 Areas with Scope for Improvement

- In some cases, service areas had failed to comply with the Council's Performance Data Quality Policy. *Risk – an inconsistent approach may be adopted.*
- There was a lack of adequate documentation to support the performance information prepared and submitted – for one indicator reviewed, we were unable to verify the accuracy of the information submitted by the service area. *Risk – lack of a clear audit trail.*
- In some cases the verification checklist was inaccurate or incomplete. For one indicator, the verifier had signed off the checklist, although the information submitted was inaccurate, while for another indicator there had been a failure to submit a verification checklist. *Risk – errors and omissions may occur and remain undetected.*
- For one indicator reviewed, there was a failure to comply with the definition provided in the guidance resulting in the reported figure being inaccurate. *Risk – performance information may be inaccurate.*

1.4 Summary

Our review of performance indicators has identified some areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

January 2016

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
PERFORMANCE INDICATORS 2014/15**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1	<p>Management should ensure that officers responsible for the preparation and submission of performance information adhere to the Council's Performance Data Quality Policy.</p> <p>Management should ensure that adequate documentation is held to support the performance information figures submitted.</p>	Medium	Policy Officer	Agreed – Heads of Service to sign off indicators for their areas.		April 2016
3.5.1	Management should consider extending the external validation service provided by the Scottish Housing Best Value Network to all housing indicators.	Medium	Service Development and Support Manager	Agreed		June 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: 19 January 2016

BY: Depute Chief Executive – Resources & People Services

11

SUBJECT: Internal Audit Progress Report 2015/16

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	7 January 2016

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	Completed
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	Completed
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	Completed
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	Completed

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Review of Performance Indicators	Internal Audit will review the systems in place for the preparation and reporting of Performance Indicators.	January 2016	Completed
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	
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	
Housing Repairs – Shared Costs	We will review the arrangements in place for charging mutual repairs and shared costs to private owners.	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	
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	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
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	
Universal Credit	We will review the Council's arrangements for dealing with the impact of Universal Credit and Direct Payments.	May 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	
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	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
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	