

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

**TUESDAY 14 JUNE 2016  
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 J Goodfellow  
Councillor F McAllister  
Councillor J Williamson

**Council Officials Present:**

Mrs A Leitch, Chief Executive  
Mr A McCrorie, Depute Chief Executive - Resources and People Services  
Mrs M Patterson, Depute Chief Executive – Partnerships and Community Services  
Mr J Lamond, Head of Council Resources  
Mr R Montgomery, Head of Infrastructure  
Mr D Small, Director of Health & Social Care  
Ms S Fortune, Service Manager – Business Finance  
Ms K Duff, Treasury & Banking Officer  
Ms A Glancy, Management Accountant

**Visitors Present:**

Mr A Shaw, KPMG LLP  
Ms S Burden, KPMG LLP

**Clerk:**

Ms F Currie

**Apologies:**

Councillor A Forrest

**Declarations of Interest:**

None

## **1. MINUTES OF THE AUDIT & GOVERNANCE COMMITTEE MEETING HELD ON 17 MAY 2016 (FOR APPROVAL)**

The minutes of the Committee's meeting on 17 May 2016 were approved.

In reply to a question from the Convener relating to Item 9, the Director of Health & Social Care, David Small, confirmed that discussions were continuing between the Council and NHS Lothian around shared resources and a further update would be provided in due course.

## **2. EAST LoTHIAN COUNCIL ANNUAL STATEMENT OF ACCOUNTS (DRAFT) 2015-16**

A report was submitted by the Depute Chief Executive (Resources & People Services) to provide those Members charged with governance, the draft financial statements for 2015-16 prior to formal submission by end of June 2016.

The Head of Council Resources, Jim Lamond, presented the Council's draft unaudited Statement of Accounts 2015-16. He made one of two introductory remarks in relation to the timing and production of the accounts and indicated that Sarah Fortune, Service Manager – Business Finance, would outline key aspects of the accounts in more detail. He also advised Members that the group accounts did not currently include those for Enjoyleisure but that the accounts would be updated as soon as this information became available.

Ms Fortune began by reminding Members that they could ask questions at any point should they require clarification. She then provided a summary of the content of the annual accounts focussing on several key areas:

Usable Reserves – increased by £5.748m. This was made of increases in the Housing Revenue Account (HRA) by £0.622m and General Services by £5.126million.

Trading Operations – all 3 of the Council's Statutory Trading Operations (STOs) had delivered their targets for 2015-16.

Borrowing – increased by £2.5m to £347million.

Pension Liabilities – reduced by £57m to £150million, in line with the Council's actuarial forecast.

Councillor Currie asked whether further information would be provided on how the accounts compared to the budget set by Council as, at present, there was nothing to indicate whether these figures were good or bad.

Ms Fortune and Mr Lamond confirmed that the accounts showed only the income and expenditure for 2015/16 and a further management commentary relative to approved budgets would be provided in the year-end report to Council in August 2016. Referring to the anticipated budget surplus as a positive financial outcome, Mr Lamond added that the reasons for this would also be outlined in the report to Council.

The Convener asked why borrowing had increased overall. Mr Lamond explained that although there had been a small increase in net borrowing, to fund the capital expenditure programme, this increase was less than in previous years.

Councillors McAllister and Currie raised the question of PFI and whether there was any possibility of the Council buying out these contracts. Mr Lamond advised that in order to arrange a buy-out, the contractor had to be willing to agree and, due to the current extremely low levels of investment return, this was unlikely. He added that the cost of such a deal would be significant as the Council could not borrow to fund the buy-out of PFI contracts. However, he acknowledged the Members' ongoing interest and would keep the matter under review.

The Convener and Councillor Currie queried the figures for bad debts, the Council's policy on debt recovery and whether further information could be made available on the nature of the debts.

Ms Fortune advised that the decision to write off debt was never taken lightly and that Council staff try very hard to recover as much of the money owed as possible. She explained that this section of the accounts was new and put in to ensure transparency. However, she would be happy to provide additional information if required.

In response to questions from Members, Mr Lamond offered to provide follow up information regarding staff salary costs and severance payments.

Ms Fortune moved on to other key elements of the accounts:

Movement in Reserves – saw an increase in both usable and unusable reserves and outlined key transactions within the statement and transfers between the HRA and General Services Accounts.

Balance Sheet – showed an increase in the value of assets such as property and plant equipment, a reduction in assets held for sale and a change in the categorisation of in some loans from long to short term borrowing.

Capital Spending – a total of £49.738m comprised of General Services of £27.718m and HRA of £22.020million. This was funded by Capital Receipts of £3.5m, Capital Grants of £16.5m, Other Receipts of £4m and a Loans Fund of £26million.

HRA – once adjusted this would show an overall surplus and a positive increase in reserves of £622,000.

Common Good Funds – all of the Funds had a surplus at year end ranging from minimal amounts (Dunbar) to more significant sums (Musselburgh).

Timetable – submission of Accounts for audit by 30 June 2016, with the final Accounts to be signed by 30 September and the Annual External Audit Report to Members expected in September/October.

In response to questions from Members, Ms Fortune and Mr Lamond provided additional detail in relation to the funding of the Council's capital expenditure programme.

Councillor Currie welcomed the opportunity to go through the draft accounts but suggested that the explanatory notes be better referenced to make them easier to

follow. His main concern was that, at present, there was nothing in the draft accounts to indicate whether the overall financial position was 'good, bad or indifferent'. This would not be clear until later in the year when officers presented their year-end management report to Council. He considered that the accounting standards for production of the draft accounts were too 'broad brush' and that, in future, the document should contain more detail on areas such as the ratio of bad debt to HRA income.

Ms Fortune indicated that the notes attached to the accounts were there to enhance and tell the story. Andy Shaw, Director KPMG LLP, added that the management commentary to be included in the accounts should give some context to the figures.

Mr Lamond acknowledged these comments and suggested that in future years; bringing the draft accounts to the Committee at a later date in June should allow time for the management commentary to be added to the document.

### **Decision**

The Committee agreed to note:

- i) the presentation setting out the main elements within the financial statements presented to Members at the meeting;
- ii) that Members were asked to consider and comment on the information contained within the draft annual statement of accounts of 2015-16; and
- iii) that the draft accounts for 2015-16 will be submitted to our external auditors by end of June in line with statutory requirements.

### **3. ANNUAL TREASURY MANAGEMENT REVIEW 2015/16**

A report was submitted by the Depute Chief Executive (Resources & People Services) to update the Committee on Treasury Management activity during 2015/16.

Mr Lamond presented the report outlining the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice, summarising key sections of the report and drawing Members' attention to the overall treasury and borrowing positions for 2015/16. He explained that the Council continued to utilise cash reserves and to take advantage of cheaper short term borrowing to manage cash flows and that it had only increased its overall net borrowing position from last year by £2million.

Mr Lamond added that, should market conditions change, the Council was well placed with appropriate guidance to support any borrowing or investment activity that may arise.

Councillor Currie requested clarification on the Council's under borrowed position, whether it would be better to take advantage of cheaper borrowing rates to increase capital investment and spending in future years and on the advice being offered by financial experts regarding the possibility of the UK leaving the EU.

Mr Lamond advised that under borrowing should not be seen as a negative. He said that the Council had chosen not to borrow at present as it had no need to and had instead used its cash reserves which were earning little interest in the bank. This also reflected the advice of the Council's financial experts. He added that due to

investment market conditions, as many as 80-90% of local authorities were in an under borrowed position. Addressing the issue of additional borrowing, he reminded Members that even if rates were good any additional debt and acceleration of the capital spending programme would still have to be serviced from a revenue budget that was also under strain.

Regarding the potential of 'Brexit', Mr Lamond indicated that the Council received daily updates and despite the slight downward trend in PWLB rates, there had been no advice from CAPITA suggesting that the Council lock in certainty over the longer term.

In response to questions from the Convener, Ms Fortune provided clarification of the HRA expenditure and borrowing figures shown within the report.

Councillor Currie acknowledged the points made about the cost of borrowing but said that it was important to look forward. He said that the Council needed a 5 year Capital Plan which included a conversation about borrowing. He also wanted to see more discussion on money management, trends in the cost of borrowing and how the Council could make best use of its treasury management analysis and advice.

**Decision**

The Committee agreed to note the contents of the report.

Signed .....

Councillor Kenny McLeod  
Convener of the Audit and Governance Committee





*cutting through complexity*

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# East Lothian Council

Annual audit report to the Members of East Lothian Council  
and the Controller of Audit for the year ended 31 March 2016

5 September 2016



## 1. EXECUTIVE SUMMARY



## 2. FINANCIAL POSITION



## 3. FINANCIAL STATEMENTS AND ACCOUNTING



## 4. WIDER SCOPE



## 5. 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 of Audit Practice").

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 introduction and responsibilities 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 East Lothian Council, telephone 0131 527 6673 email: [andrew.shaw@kpmg.co.uk](mailto: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](mailto: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.



# Executive summary

### Audit conclusions

- ■ We expect to issue an unqualified audit opinion on the financial statements of East Lothian Council (“the Council”), following receipt of the management representation letter. Page 13

### Financial position

- ■ The Council reported a deficit on the provision of services of £20 million in 2015-16 (2014-15: £6.3 million surplus), primarily as a result of the impairments on the revaluation of non-operational assets. Following statutory adjustments to the general fund to remove the impairment, there was an increase in general fund reserves of £5.2 million and the housing revenue reserves of £0.6 million. Page 6 - 11
- ■ The 2015-16 capital program reported an underspend of £7.2 million compared to the approved general services and HRA capital budgets. This primarily reflects slippage; carried forward to the 2016-17 plan.
- ■ The three year budget for 2016-17 to 2018-19 was approved by Council in February 2016. It shows a significant reduction in revenue support grant in 2016-17 and no increase in 2017 to 2019. The budget shows a £3 million transfer from reserves in 2016-17, a small transfer in 2017-18 and £nil in 2018-19.

### Financial statements and related reports

- ■ Draft financial statements were received by the start of audit fieldwork and were supported by high quality working papers. This included a draft management commentary. A final management commentary was received on 5 September 2016. Page 13 - 22
- ■ We have concluded satisfactorily in respect of each of the significant risks and audit focus areas identified in the audit strategy and plan document. We concur with management’s accounting treatment and judgments.
- ■ One unadjusted audit difference is raised in respect of the bad debt provision. One adjusted audit difference was processed in respect of the classification of long and short term financial instruments. We have no matters to highlight in respect of: adjusted audit differences; independence; and changes to management representations.

### Wider scope

- ■ We considered the wider scope audit dimensions and concluded positively in respect of financial sustainability and governance and transparency. Page 24 - 32
- ■ We note risks in relation to financial management and value for money. This is in respect of the timeliness of financial reporting and compliance with procurement procedures identified by internal audit.

#### Purpose of this report

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

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

Audit Scotland’s Code of Audit Practice sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial management and sustainability, governance and transparency and value for money.

#### Accountable officer responsibilities

The Code of Audit Practice sets out the Council’s responsibilities in respect of:

- preparation of financial statements that show a true and fair view;
- 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;
- financial position; and
- Best Value.

#### Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code of Audit Practice. Appendix five sets out how we have met each of the responsibilities set out in the Code of Audit Practice.

#### Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code Audit of Practice, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

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

# Financial position

### Overview

In common with other local authorities, the Council has faced challenges over the past few years, reflecting public sector reform and continued financial pressures. Councils have faced real term funding decreases and increasing demand for services. As highlighted in Audit Scotland's report *An Overview of Local Government in Scotland*, for 2016-17 Councils' revenue funding from Scottish Government will reduce by 5% in cash terms. This takes the real term reduction in funding since 2010-11 to 11%. Funding for 2017-18 onwards has not yet been confirmed, creating challenges for long term financial planning. Councils are faced with further financial pressures, such as from demographic changes, increasing pension costs, living wage implementation and the Scottish Government policy on council tax freeze. In addition, service demand is growing due to demographic changes and transformation in respect of health and social care provision.

In response to funding reductions a number of Councils reduced their workforce and many plan further voluntary reductions. There is a challenge for Councils to ensure they maintain the knowledge and skills needed to effectively manage the local authority. A key part of this is workforce planning. We comment on the Council's approach to workforce planning on page 32.

2015-16 saw a change in the process of shared risk assessments ("SRA") and how the local area networks ("LANs") work with Local Authorities. The 2016-17 local scrutiny plan highlights the Council's progress in improving financial sustainability. The plan outlines the scrutiny activity planned for 2016-17, including the implementation of the revised Best Value approach from October 2016.

### Financial position:

Overall in respect of financial result for the year, the Council performed ahead of budget in 2015-16, with a contribution to usable reserves of £5.7 million. We set out below the financial position in terms of the comprehensive income and expenditure statement, balance sheet, reserves and future plans.

### Financial position: comprehensive income and expenditure statement

The 2015-16 deficit of £20 million (before adjustments for pensions and asset revaluations) compares to the 2014-15 surplus of £6.3 million. Whilst expenditure increased by £29.5 million in the year, £18.1 million relates to impairments as a result of the valuation of operational assets. Other movements that do not impact the general fund are pensions and depreciation of fixed assets. An extract of the comprehensive income and expenditure statement is shown below.

#### Comprehensive income and expenditure statement

	2015-16 £000	2014-15 £000	Variance £000
<b>Total income</b>	318,000	314,861	3,139
<b>Total expenditure</b>	(338,052)	(308,589)	(29,463)
<b>(Deficit) / surplus on the provision of services</b>	(20,052)	6,272	(13,780)
<b>Other comprehensive income and expenditure</b>	185,026	(27,906)	212,932
<b>Total comprehensive income and expenditure</b>	164,974	(21,634)	143,340

Source: KPMG analysis of the Council's annual accounts 2015-16.

### Financial position: balance sheet

Balance sheet			
	2015-16 £000	2014-15 £000	Variance £000
<b>Long term assets</b>	915,774	797,272	118,502
<b>Current assets</b>	22,812	26,887	(4,075)
<b>Current liabilities</b>	(42,858)	(39,078)	(3,780)
<b>Net current liabilities</b>	(20,046)	(12,191)	(7,855)
<b>Long term liabilities</b>	(500,162)	(554,490)	54,328
<b>Net assets</b>	<b>(395,566)</b>	<b>(230,591)</b>	<b>164,975</b>

Source: KPMG analysis of the Council's annual accounts 2015-16.

The Council's balance sheet was strengthened by the revaluation of operational assets as at 31 March 2016. This resulted in an uplift of £116 million, recognised in the revaluation reserve. Impairments of £18 million were recognised in the comprehensive income and expenditure statement for assets that had decreased in value. Long term liabilities decreased as a result of the lower pension liability. This is outlined further at appendix four.

### Borrowing

The Council's capital expenditure is largely funded through borrowing, in line with its strategy although additional borrowing is being minimised. In Audit Scotland's 2015-16 benchmarking of all local authorities in Scotland, the Council continues to have the highest level of net external debt when taken as a proportion of revenue expenditure, at 136%. However this decreased from 159% in 2014-15. The Council has the third highest net external debt per head of population at £4,066 per head (2014-15: third, £3,875). We recognise that the benchmarking does not differentiate between demographic differences or the split between general services and housing related borrowing. The Council's ratios

improved during 2015-16.

To reduce the requirement for borrowing, a capital reserve has been earmarked within general fund reserves to enable capital expenditure to be funded directly from revenue and defray capital charges. Debt service costs require continued focus and we are content with the Council's approach to treasury management and inclusion of interest costs within the budget.

### Capital program

Total capital expenditure in 2015-16 was £49.2 million, an underspend of £7.2 million compared to the approved general services and HRA capital budgets. £27.2 million capital spend related to general services and £20 million to HRA. This represents a 26% increase from the 2014-15 spend of £39.2 million.

The majority of the underspend relates to slippage. Within general services there was £3.3 million slippage on projects which will be carried forward into the 2016-17 plan. Slippage was primarily due to delays in commencement of projects, some of which have now begun. Significant projects include cemeteries extensions (£0.9 million underspent) and parking improvements (£0.5 million underspent). From inquiry we are not aware that the delays significantly impact service delivery, and they are included in the capital plan for 2016-17. There was an underspend of £1 million relating to the Early Years Strategy, given that the strategy is not yet fully implemented and capital improvement works are ongoing in Summer 2016.

The HRA program had a total underspend of £3.4 million. Within HRA, £10.6 million was spent on modernisation, with a small overspend of £0.1 million. Only one mortgage to rent property was purchased during 2015-16, resulting in an underspend on mortgage to rent of £0.6 million. Spend on new affordable homes was £11.1 million in the year, below the approved budget of £14.1 million. The £3 million underspend is as a result of third party contractor delays at development sites which are outwith the Council's control. Management consider that this can be brought up to date during 2016-17 as the sites progress and it will be carried forward into the 2016-17 plan.

Whilst management has understanding of capital slippage and does not consider this to be an issue in 2015-16, there is a risk that this could impact on service delivery going forward. A refreshed capital plan for 2016-17 will be presented in the quarterly finance updates.

### Financial position: reserves

A total of £5.7 million was transferred to reserves in 2015-16, compared to £9.3 million in 2014-15. Of the transfer, £5.1 million relates to general fund reserves and £0.6 million to HRA. The Council had originally budgeted for a transfer from general fund reserves of £0.4 million, although this was refined through the 2016-19 budget planning process to give a £3 million transfer to reserves. The outturn reflects both underspends against budget as well as some non-recurring items. The budgeted outturn was for a transfer from general fund reserves of £0.4 million. The outturn position compared to budget is outlined in the diagram below.

#### i.) Key variances in the year included:

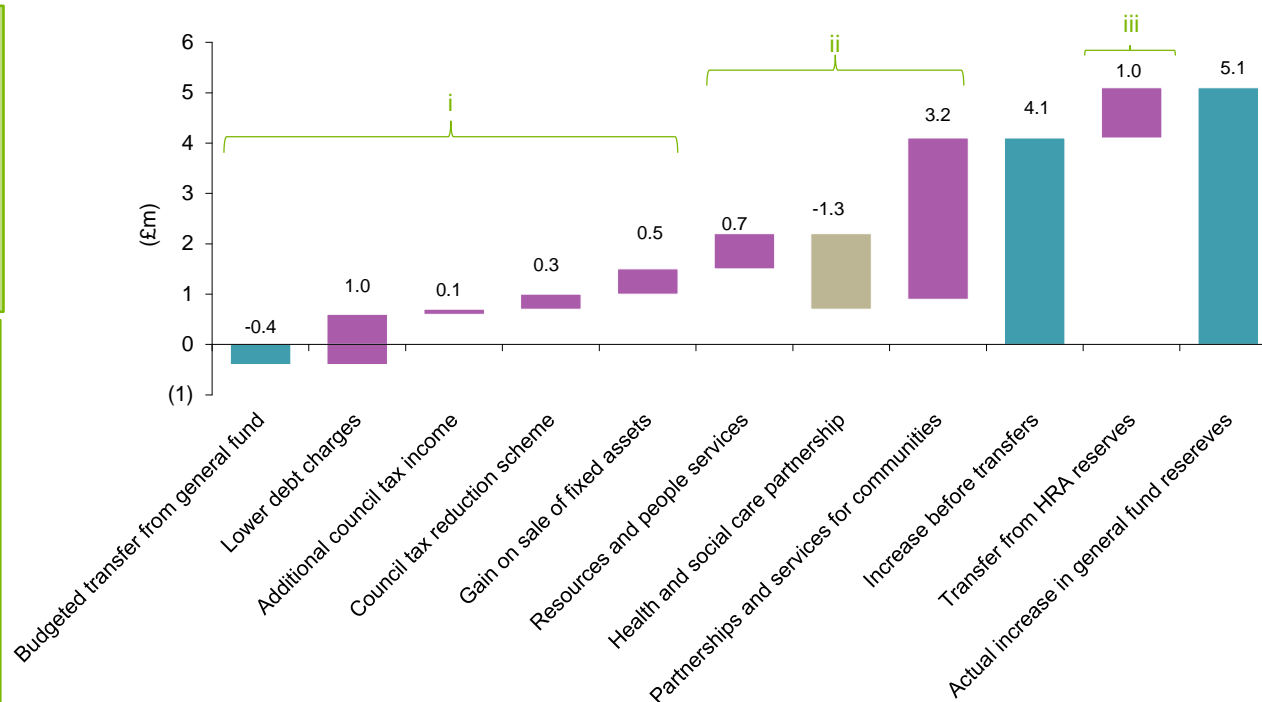
- lower debt charges of £1 million as a result of a review and reorganisation of the Council's loans fund;
- additional council tax income of £0.1 million, reflecting the increased number of households in East Lothian;
- an underspend in relation to the council tax reduction scheme of £0.3 million as a result of lower uptake; and
- a one-off gain on sale of general services fixed assets of £0.8 million.

ii.) Within services, the majority of underspends (£2.2 million) were in relation to vacancies and staff savings. Both resources and people services and partnerships and services for communities underspent in the year.

The health and social care partnership overspent in the year. £1.2 million of this relates to Adult Wellbeing, with overspends due to high demand for services and high costs of purchasing external care packages. Management is working with the service to review and enhance processes and procedures to better monitor overspends.

Embracing the one-Council approach, service overspends are absorbed by other savings. Excluding HRA, the net service underspend was £2.6 million.

iii.) In line with the budget just under £1 million was transferred from HRA to general fund reserves.



## Use of reserves

As at 31 March 2016, the Council had usable reserves of £30.4 million. The final transfer to general fund reserves of £5.1 million represents an increase of 28% on the opening balance. The composition of the Council's reserves at 31 March 2016 is outlined below.

### Composition of reserves

General fund	Insurance fund	Housing revenue account	Housing capital fund	Unusable Reserves
£21.3m	£1.7m	£4.8m	£2.6m	£365.1m

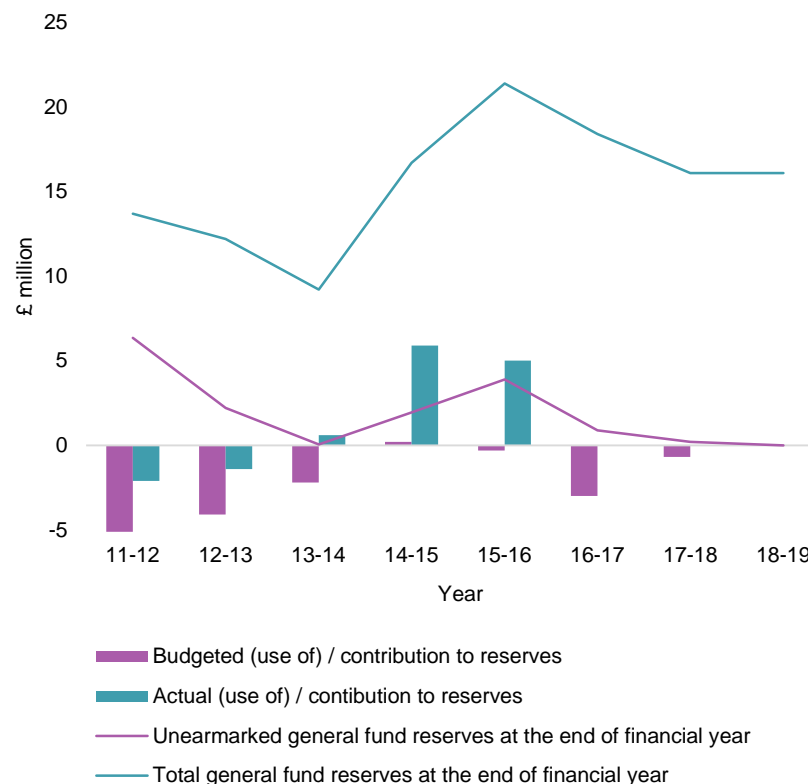
Source: KPMG analysis of the Council's annual accounts 2015-16.

The Council's financial strategy sets out that any unplanned increase in reserves should be transferred to either the general services capital fund or cost reduction fund. In 2015-16 the Council agreed to transfer any surplus reserves to the general services capital fund.

The cost reduction fund is primarily used to support investments which will deliver reductions to the Council's recurring cost base, such as employee severance and service restructures. The capital fund will be used to directly fund capital expenditure or defray capital charges. As at 31 March 2016 the Council had £3 million in the cost reduction fund and £11.6 million in the general services capital fund.

While as at 31 March 2016 the Council performed ahead of budget and management confirmed that the Council remains on track with its financial strategy, continued monitoring will be required to ensure savings are achieved. Since 2011-12 the Council achieved an underspend against budget, although we note that customer satisfaction rates remain high. Management monitors the budget throughout the year. As identified in previous years, the majority of variances to budget were presented in the final quarter.

The chart below illustrates the use of general reserves over an eight year period, in accordance with past results and the approved council budget for 2016-17 to 2018-19, against reserves available. This excludes transfers to and from HRA and earmarked reserves.

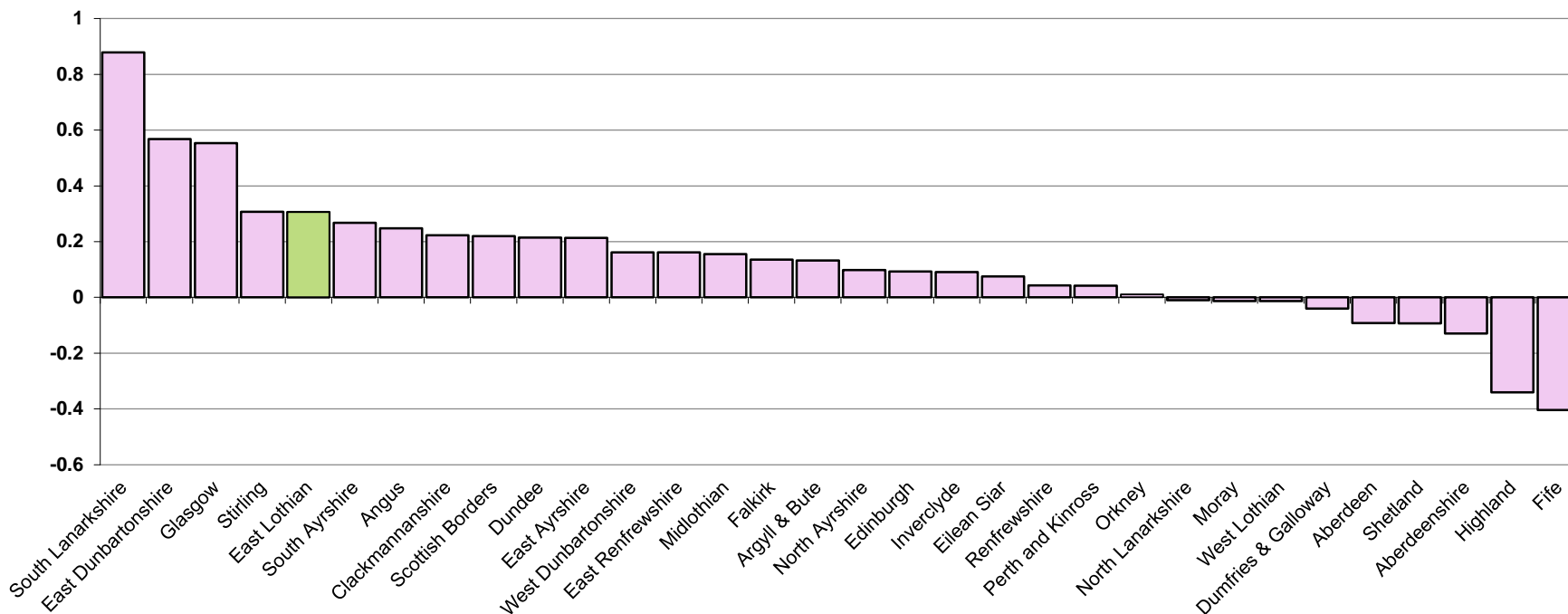




In benchmarking undertaken by Audit Scotland from analysis of the 2015-16 unaudited financial statements of Scotland's 32 local authorities, the Council had the fifth highest movement in general fund reserves as a proportion of reserves brought forward and the tenth highest increase in general fund reserves in the year. The Council has the 11<sup>th</sup> lowest general fund balance carried forward. This reflects the Council's desire to maintain financial sustainability and reduce reliance on reserves.

Although the Council has a low reserves balance, budgets and reserves are well planned and controlled. There are sufficient reserves to support future budgets. Planned use of reserves from 2016-17 to 2018-19 are shown page 11. We do not consider the low reserves balance to be indicative of significant financial sustainability risks. We discuss financial sustainability further on page 28.

### 2015-16 increase in general fund reserves as a proportion of reserves brought forward



Source: Audit Scotland analysis of local authority 2015-16 financial statements

### Financial plans 2016-17 and beyond

The three year budget for 2016-17 to 2018-19 was approved by Council in February 2016. This used the 2015-16 budget as a base and reflected changes for known items of income and expenditure for future years. The 2016-17 budget incorporates a transfer from general fund reserves of £3 million and a transfer from HRA reserves of £1 million. The budgeted use of general fund reserves is shown below.

Budgeted (use of) / transfer to general fund for 2015-16 to 2018-19			
2015-16 actual £5.1m	2016-17 budget £(3m)	2017-18 budget £(0.69m)	2018-19 budget -

The budget was set on the basis of the approved Council tax freeze for 2015-16. The Scottish Government has provided grant figures for 2016-17 only, with a reduction in revenue support grant of approximately £4.4 million from 2015-16. The budgets are therefore based on the agreed level of revenue support grant for 2016-17, assuming no increase in 2017-18 and 2018-19. This presents a challenging position for the Council with increasing demand for services and cost pressures.

Increases in costs across departments include assumed pay and pension increases and higher education costs due to an increase in pupil numbers. Significant planned capital expenditure includes £1.1 million for Dunbar Grammar School and £3.9 million for Law Primary School.

To address the reduction in funding, as well as a use of reserves, the Council has planned for efficiency savings in 2016-17; such as through the integration of health and social care (£2.3 million), efficient workforce management (£0.6 million) and BuySmart reviews (£0.4 million).

### Going concern

Due to the low level of general fund reserves, the budgeted use of reserves going forward and the reduction in government funding, we considered the potential going concern risk.

The Council had net assets of £395.6 million (2014-15 £230.6 million) as at the balance sheet date. Net assets increased on 2014-15 by £165 million, primarily in relation to the revaluation of fixed assets (£116.4 million) and decrease in the pension liability (£57 million).

Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts. Although the Council is in a net current liabilities position, it considers that the confirmed revenue support grant of £169 million is sufficient to meet debts as they fall due. The Council also has the facility to draw down more long term borrowings if required, although made a strategic decision to draw on cash balances as well as to restructure to greater short term borrowing in 2015-16 to take advantage of low interest rates.

The Council recognised a deficit on the provision of services in the year, although £4.7 million was transferred to the general fund, providing further comfort over the Council's financial position. Over the past few years there has been a reduction in the overall cost base and further efficiency savings are incorporated in budgets. Whilst the budget for 2016-17 is to use £3 million reserves, the general fund balance of £23.1 million supports this. No use of reserves is planned for 2018-19, in line with approved Financial Strategy.

### Conclusion

Although the Council reported a deficit on the provision of services, financial performance was ahead of budget in 2015-16 and there was a contribution to reserves. The Council maintained a net assets position and has available borrowing facilities.

We are content that the going concern assumption is appropriate in light of the matters set out above.

# **Financial statements and accounting**

#### Audit opinion

Our audit work is complete subject to receipt of the management representation letter and update of subsequent events. Following approval of the annual accounts by the Audit and Governance Committee we intend to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2016, and of the deficit for the year then ended. There are no matters identified on which we are required to report by exception.

#### Financial reporting framework, legislation and other reporting requirements

The Council is required to prepare its financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 ("the Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the Code and relevant legislation.

#### Statutory reports

We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.

#### Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

#### Audit misstatements

One unadjusted audit difference is raised in respect of the bad debt provision. One adjusted audit difference was processed in respect of financial instruments. These adjustments are outlined further at appendix one.

#### Written representations

There are no changes to the standard representations required for our audit from last year.

#### Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that planning materiality for 2015-16 of £5.74 million (2% of expenditure) remained appropriate. We report all misstatements greater than £250,000.

#### Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered;
- communicated with the head of internal audit and reviewed internal audit reports as issued to the Audit and Governance committee to ensure all key risk areas which may be viewed to have an impact on the annual accounts have been considered;
- reviewed estimates and accounting judgments made by management and considered for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to prevention and detection of fraud; and
- attended Audit and Governance Committee meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

#### Financial statements preparation

Management engaged with us in advance of preparing the financial statements to discuss areas of judgment upfront. Draft financial statements were provided at the start of the audit fieldwork on 20 June 2016. We noted strong ownership of the financial statements preparation in 2015-16. In line with statutory guidance, the draft financial statements were presented to the Audit and Governance Committee in June 2016. However these

accounts did not contain a fully completed management commentary or complete group accounts. These were available for members' review by 30 June 2016. Under the Local Authority Accounts (Scotland) Regulations 2014 a committee whose remit includes audit or governance functions must meet to consider the unaudited Annual Accounts as submitted to the auditor by 31 August 2016.

#### Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy document. We set out the key audit procedures to address those risks and our findings from those procedures, in order that the Audit and Governance Committee may better understand the process by which we arrived at our audit opinion.

Significant risks:

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

Other focus areas:

- provisions;
- transport infrastructure assets; and
- retirement benefits.

We identified one additional focus areas in the course of our audit in relation to financial instruments.

We have no changes to the risk or our approach to addressing the assumed ISA risk of fraud in management override of controls and we do not have findings to bring to your attention in relation to these matters. No control overrides were identified.

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Operational assets valuation</b></p> <p>In order to comply with the requirements of the Code, Council assets are subject to rolling valuations; operational assets were subject to valuation in 2015-16. Through competitive tender, management appointed an external valuer to perform the valuation. The revaluation resulted in a gain of £116 million recognised in the revaluation reserve in 2015-16, and impairment of £18 million recognised in the comprehensive income and expenditure statement.</p>	<p>Our audit work consisted of:</p> <ul style="list-style-type: none"> <li>■ engaging KPMG valuation specialists to challenge the valuation assumptions used by the valuer and review their methodology, ensuring it was in line with RICS professional standards;</li> <li>■ confirming the accounting treatment of the valuations by agreeing capital accounting journals;</li> <li>■ recalculating the impairment recognised through the comprehensive income and expenditure account and revaluation gains and losses recognised in the revaluation reserve and verifying these had been recognised in the correct place; and</li> <li>■ agreeing the values posted in the fixed asset register to those provided by the external valuer and ensuring these were correctly classified in the financial statements.</li> </ul>	<p>From the work of our valuation specialists, which included direct contact and challenge of the valuer, we consider that the revaluation is materially appropriate. We also consider that:</p> <ul style="list-style-type: none"> <li>■ the methodology and approach taken by the external valuer is appropriate and in line with KPMG expectations; and</li> <li>■ the valuation is appropriately recognised and disclosed in the financial statements.</li> </ul>
<p><b>Financial position</b></p> <p>Delivering services in the environment of continued financial pressures and funding uncertainty remains a challenge for local authorities.</p> <p>We noted tight budgetary controls in our 2015-16 audit and the Council managed an underspend overall against budget in recent financial years. In 2015-16 the Council recorded a deficit on the provision of services of £20.1 million, with a contribution to reserves of £5.7 million.</p>	<p>We updated our understanding of the Council's financial position and year end outturn position through review of quarterly reports and other management information. We commented on this on pages 6 to 11.</p> <p>We performed controls testing over the budgeting process including the monitoring of budgets throughout the year.</p> <p>We performed substantive procedures, including substantive analytical procedures, over income and expenditure comparing the final position to budget and investigating significant variances.</p>	<p>We found that management is adequately monitoring the financial position through regular internal reporting. This is communicated to members on a regular basis, however we consider it could be more timely. We have commented on financial reporting as part of the consideration of governance and transparency on page 30.</p> <p>Management applied the going concern assumption in preparing the annual accounts. We considered this assumption on page 11 and concluded it is appropriate.</p>

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Fraud risk from income recognition</b></p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk.</p> <p>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.</p> <p>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 judgment required in revenue recognition by management and we do not regard the risk of fraud from this revenue recognition as significant.</p> <p>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 judgment in recognising this income.</p>	<p>Our testing over the recognition of other income comprised:</p> <ul style="list-style-type: none"> <li>■ performing controls testing over budget monitoring and sales invoicing access. We found these controls to be operating effectively;</li> <li>■ comparing income against budget and prior year, and seeking explanations and supporting documentation for unexpected movements;</li> <li>■ due to the relatively large variance in adult wellbeing, testing a sample of adult wellbeing income and expenditure, agreeing this to supporting documentation such as invoices;</li> <li>■ performing cut-off testing to verify that income and associated debtors are recorded in the correct accounting period; and</li> <li>■ reviewing pre and post year end bank statements to ensure material items of income are recorded in the correct period.</li> </ul>	<p>We found that controls around income are operating effectively and no exceptions were noted in our testing. We are satisfied that income is recognised appropriately, in the correct financial year and in line with the Code.</p>

FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Provisions</b></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.</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 during 2014-15.</p> <p>There were a small number of equal pay claims outstanding at 31 March 2015, which were during 2015-16. Management accrued £90,000 to cover these claims.</p>	<p>We considered guidance on asset decommissioning obligations in respect of assets in the Council's boundaries and reviewed management's assessments of these assets. We reviewed the fixed asset register to verify that there were no relevant assets the Council had not considered. There is one quarry which is partly owned by the Council. The quarry is leased to a private company, which has the responsibility for rectification of the quarry. We reviewed publically available financial information of the operator to verify that it appeared financially sound. There is a completed landfill site that the Council previously controlled. The Council is working with the Scottish Environment Protection Agency ("SEPA") to monitor emissions at the site to ensure there are no further obligations and no provision was recognised as at 31 March 2016.</p> <p>We monitored legislative changes on holiday pay and considered the Council's position. 199 claims were lodged against the Council during 2014, however management is waiting on the outcome of the legal test case before acting on these cases. Management consulted legal advisors and anticipates that the majority of the cases will be time barred. As the test case is still ongoing, management does not consider that the Council has a present obligation in respect of holiday pay and therefore no provision is required,</p> <p>We challenged management's year end judgments and assessed the provision values. We met with Council employees outside of the finance function to corroborate management's assertions. We also discussed other risk areas in respect of provisions, such as equal pay, to verify no further provisions are required.</p>	<p>We found that:</p> <ul style="list-style-type: none"> <li>management has considered the obligations in respect of asset decommissioning obligations, and we concur with management's view that no significant obligation exists at 31 March 2016. Management will continue to monitor this;</li> <li>management has implemented actions to mitigate the impact of the legislation in relation to holiday pay and consider it to be unlikely that there will be a material settlement. We concur with management's assessment and a provision or contingent liability is not required as at 31 March 2016; and</li> <li>outstanding equal pay claims were settled in the year.</li> </ul>



FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Transport infrastructure assets</b></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. 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. However there is no requirement to report on transport infrastructure assets in the 2015-16 financial statements.</p>	<p>We considered the Council's plan for the requirements of the transport code, including meeting with Council staff from the asset and regulatory team and reviewing the whole of government accounts (“WGA”) submission. We evaluated the extent to which the Council is prepared for the change in accounting policy.</p>	<p>In respect of readiness for the 2016-17 Code, whilst the Council is in line with other local authorities in its preparedness, a formal project plan has not been formed. The transport infrastructure asset valuation has been completed for the 2015-16 WGA submission.</p> <p>Management is considering available guidance in respect of the measurement of carriageway widths, as there continues to be debate in the sector about an appropriate and consistent methodology.</p>
<p><b>Retirement benefits</b></p> <p>The Council accounts for its participation in the Lothian Pension Fund in accordance with IAS 19 <i>Retirement Benefits</i>, 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 work consisted of:</p> <ul style="list-style-type: none"> <li>■ KPMG specialists reviewing the financial assumptions underlying actuarial calculations and comparison to our central benchmarks, the results of which are outlined on page 39;</li> <li>■ testing of scheme assets and rolled-forward liabilities;</li> <li>■ testing of the level of contributions used by the actuary to those actually paid during the year;</li> <li>■ testing of membership data used by the actuary to data from the Council; and</li> <li>■ agreeing actuarial reports to financial statement disclosures.</li> </ul>	<p>We are satisfied that the retirement benefit obligation:</p> <ul style="list-style-type: none"> <li>■ is correctly stated in the balance sheet as at 31 March 2016;</li> <li>■ has been accounted for and disclosed correctly in line with IAS19 <i>Retirement benefits</i>; and</li> <li>■ assumptions used in calculating this estimate and management's judgements are appropriate and within the acceptable KPMG range.</li> </ul> <p>We set out further information in respect of the defined benefit obligation on page 39. The closing liability decreased by £57 million compared to 2014-15, primarily from an increase in the discount rate and a decrease in the rates of increase in pensions and salaries.</p>

EMERGING FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Financial instruments</b></p> <p>The Council has a significant financial instruments balance, including short and long term borrowing. This incorporates a number of lender option borrower option loans ("LOBOs"). The nature of these loans is such that the lender can change the interest rate at pre-determined dates, and the Council has the option of repayment at these dates. As a result of this, management reclassified a number of LOBOs that had option dates during 2015-16 and 2016-17 to short term for both the 2014-15 and 2015-16 financial years, resulting in a restatement of the 2014-15 balance sheet.</p>	<p>We recalculated the split between long and short term borrowings and agreed these to third party SECTOR reports and loan agreements. We consulted internally and with the CIPFA technical team regarding the classification of LOBOs and concluded that they should be classified as long term as the Council has no history or intention of repaying LOBOs early. We raised an audit adjustment to reclassify LOBOs to long term in both the current and prior year.</p>	<p>We found that the financial instruments disclosure was incorrect for both 2014-15 and 2015-16 in respect of the split between current and long term liabilities. An audit difference was raised with regards to this and was adjusted by management. This is outlined at appendix one, and resulted in an increase of long term and decrease of short term liabilities of £19 million in 2015-16 and £24 million in 2014-15.</p>

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<b>Management commentary</b>	<p>The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015.</p> <p>A draft management commentary was included within the unaudited financial statements. This outlines the performance overview and the future plans and developments in line with the Council Plan. A final management commentary, including performance indicators, was received on 5 September 2016.</p>	<p>We are satisfied that the information contained within the management commentary is consistent with the financial statements.</p> <p>We reviewed the contents of the management commentary against the guidance contained in the Local Government finance circular 5/2015 and are content with the proposed report.</p>
<b>Remuneration report</b>	<p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p>	<p>We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made. We noted improvements in the quality of the remuneration report from prior years.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p>
<b>Annual governance statement</b>	<p>The statement for 2015-16 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Council's governance framework, internal controls, the work of internal audit and risk management arrangements. It analyses the efficiency and effectiveness of these elements of the framework.</p>	<p>We consider the governance framework and annual governance statement to be appropriate for the Council and that it is in accordance with guidance and reflects our understanding of the Council.</p>

# Financial statements and related reports

## Qualitative aspects and future developments

### Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by the Council to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the Code. The Code adopted IFRS 13 *Fair Value Measurement* for the first time in 2015-16. This requires surplus assets to be measured at fair value. Management performed an exercise to identify and value surplus assets. This resulted in an increase in the value of surplus assets of £125,000.

Significant accounting estimates relate to the present value of defined benefit obligations and impairment of non current assets. For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Council's actuary, Hymans Robertson) using agreed financial assumptions. We found the assumptions and accounting for pensions to be appropriate, as discussed on page 39. Non current asset impairment is calculated using third party valuation reports. We used our internal valuation specialists to assess the assumptions used in these reports, as discussed on page 15. We did not identify indications of management bias.

Financial statement disclosures were considered against requirements of the Code, relevant legislation and IFRS. No departures from these requirements were identified.

### Future accounting and audit developments

From 2016-17 the 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. This is included as an audit focus area and is discussed in more detail on page 18.

The 2016-17 Code also includes a new requirement for an expenditure and funding analysis, as well as revised formats for the comprehensive income and expenditure statement and movement in reserves statement. The expenditure and funding analysis provides a reconciliation of the statutory adjustments between the financial position on a funding basis and the surplus or deficit on the provision of services. The management commentary should refer to the outturn provided in the expenditure and funding analysis. The comprehensive income and expenditure statement line items have been amended to require authorities to present the service analysis on the basis of the organisational structure under which they operate. Bodies are therefore not required to follow the service expenditure analysis in the *Service expenditure reporting code of practice (SeRCOP)*.

ISA (UK & Ireland) 700 and 720 have been revised for accounting periods beginning on or after 17 June 2016. These revise the requirements for the structure and content of the independent auditor's report. Audit Scotland is considering whether to early adopt the standards for 2016-17.

#### Group accounts

Our audit appointment of the Council extends to the audit of the East Lothian Integration Joint Board and Dr Bruce Fund. Other group entities include:

Subsidiaries	Associates
Trust funds (including Dr Bruce Fund)	Lothian Valuation Joint Board
Common Good Funds	Enjoy East Lothian Limited
Musselburgh Joint Racing Committee	East Lothian Investments
East Lothian Land Limited	Brunton Theatre Trust

We considered the other group entities as part of our audit of the group accounts, however we do not consider these entities to be significant on grounds of their size. The other group entities are audited by independent auditors.

#### Dr Bruce Fund

As the trustees of the Dr Bruce Fund are members of the Local 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). The Charities SORP (FRS 102) was effective from 1 January 2015. The charity has transitioned to this SORP for the preparation of the 2015-16 financial statements. We completed an external audit of the charity's accounts during our audit of the Council.

**Conclusion:** Some presentational adjustments were required to align the disclosures in the accounts to the new FRS 102 based SORP. No adjusted or unadjusted audit differences were raised. We anticipate issuing an unqualified audit opinion in respect of Dr Bruce Fund.

#### East Lothian Integration Joint Board

In March 2014 the Public Bodies (Joint Working) (Scotland) Act was passed by the Scottish Government. This required 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 IJB was formally established in June 2015.

Whilst there was no transfer of functions until 1 April 2016, the IJB was required to prepare financial statements for 2015-16. Guidance was issued by The Local Authority (Scotland) Accounts Advisory Committee ("LASAAC") in September 2015 on the expected content of the IJB accounts. The 2015-16 audit was carried out by KPMG and a separate annual audit report has been produced.

**Conclusion:** The audit concluded the accounts were presented in line with the required legislation as noted above alongside appropriate disclosures. We anticipate issuing an unqualified audit opinion in respect of the IJB.

**Wider scope**

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## Introduction

The Code of Audit Practice frames the wider scope of our audit in terms of four audit dimensions; financial management, financial sustainability, governance and transparency and value for money. At the centre of these dimensions is Best Value.

It remains the responsibility of the audited body to ensure that they have proper arrangements in place across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these proper arrangements.

During our work on the audit dimensions we considered the work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code of Audit Practice.

## Audit work and conclusions

We summarise over the next few pages the work we have undertaken in the year to obtain assurances over the arrangements in place for each audit dimension and our conclusions on the effectiveness and appropriateness of these arrangements.

The next page sets out those risks we identified during our audit planning stage, any emerging risks during the course of audit work and our overall conclusion on each audit dimension.

Where we have found arrangements to not be effective or are absent we have provided further narrative on the following pages and recommendations for improvement. Where we have found the arrangements to be generally effective and operating as expected we have identified this in the conclusions we have formed.



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### Financial sustainability (Page 28)

The revenue and capital budget for 2016-17 for general services and HRA was approved in February 2016, with indicative figures for 2017-18 and 2018-19.

The Council underspent against budget in 2015-16 and there are sufficient reserves to support future operations. Savings are identified on an ongoing basis to address overspends, embracing the one-Council approach.

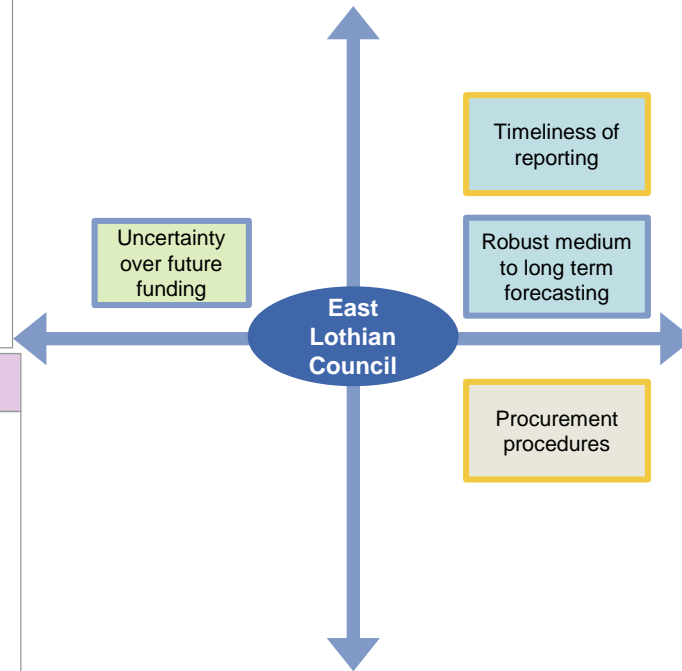
There is no longer-term financial planning, as management considers the lack of availability of long term funding commitments means that medium term planning is more relevant.

### Governance and transparency (Page 30)

The Council has sound and well-established governance arrangements that ensure effective scrutiny and challenge. Papers and agendas are available online through the Council website for transparency.

Risk registers are regularly updated and scrutinised by management and the Audit and Governance Committee.

There are appropriate arrangements for collecting, recording and publishing performance information



Risks identified during our audit planning procedures

Emerging risks identified during the course of our audit

### Financial management (Page 26)

The Council's finance department has appropriate financial capacity for current operations, however there is no formal succession planning. Sound budgetary processes are supported by a strong internal control environment and no significant control deficiencies were identified. There is regular reporting to members on financial position however we consider that it could be more timely.

Management is engaged in the NFI process and there are controls for the prevention and detection of fraud. Registers of interest were completed for members and senior officers.

### Value for money (Page 29)

The Council has corporate procurement procedures however management identified instances where they are not followed, and this resulted in the Scottish Government withdrawing a grant award in 2015-16.

The Council has a well established self improvement framework, which is completed by all departments. Value for money is considered in workforce planning, and all staff changes are required to be assessed for savings.

We consider that the Council has sufficient procedures for ensuring Best Value.



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Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Our conclusion on page 25 is derived from the following audit tests, carried out to determine the effectiveness of the financial management arrangements. This included:

- *Assessing the budget setting and monitoring processes within the Council.* We found these to be robust, with regular accurate reporting and scrutiny by senior management and the Audit and Governance Committee. A detailed presentation is given to members in June to explain the key features of the financial statements. We consider that some financial reporting could be prepared in a more timely manner. The year end report to Council will be presented in August 2016 and there is an opportunity to bring this forward in line with the draft financial statements. Management is aware of the relative delay in presenting the year end report and is already building it into the 2016-17 timetable to present it earlier.

#### **Recommendation one**

- *Consideration of the finance function and financial capacity within the Council.* We noted that the financial processes are efficient and effective, and there is adequate support from the Head of Council Resources. Finance team members have appropriate skills, capacity and capability to support the Council and effectively manage the organisation. There is no formal succession planning and if key team members were to leave there could be an impact on operations and quality. Management recently commenced a service review of the finance department and this is underway. This will consider succession planning.

We are also required to provide specific conclusions on the areas opposite, which relate to financial management and support our overall conclusion on this wider scope area.

#### **Internal controls**

Management is responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the financial statements. Details of controls tested were reported to those charged with governance in our interim audit report. We found controls to be operating effectively and noted improvements in the control environment from the prior year; being a positive trend over the last few years.. We raised one minor recommendation related to the calculation of the bad debt provision.

#### **Recommendation two**

A summary of the completion of prior year audit recommendations is provided at appendix four. Four 'grade two' (material) and three 'grade three' (minor) recommendations were raised in 2014-15; all of which are completed or ongoing.

**Conclusion:** Internal controls tested over risk management, financial, operational and compliance systems and procedures are designed, implemented and operating effectively.

#### **National Fraud Initiative**

The National Fraud Initiative ("NFI") is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. This exercise runs every two years and provides a secure website for bodies and auditors to use for uploading data and monitoring matches.

We submitted a return to Audit Scotland summarising our conclusions on the Council's participation in NFI. The questionnaire covered reporting of NFI progress and outcomes, recording of results of investigations in the NFI system, action taken for alleged fraud cases and the overall engagement of the Council with NFI.

**Conclusion:** The return concluded that the Council is engaged in the NFI process and is utilising resources appropriately to respond to the outcomes. No alleged or actual fraud was identified through NFI.

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### Arrangements for the prevention and detection of fraud and error

Testing over the processes to prevent and detect fraud and error included:

- *Review of policies against best practice guidance and examples.* The Council's policies were found to be in line with relevant guidance.
- *Consideration of the accessibility of policies to staff and members and if the policies had been implemented effectively.* The policies and processes tested are readily available to staff and had been implemented effectively.
- *Consideration of the work of internal audit in the prevention and detection of fraud.* Internal audit is responsible for the NFI exercise within the Council. We have considered NFI arrangements on page 26.

**Conclusion:** The Council has appropriate arrangements to prevent and detect fraud. Internal audit takes an active role in fraud prevention and detection.

### Standards of conduct and the prevention and detection of corruption

Testing over the processes to prevent and detect corruption included:

- *Review of policies (codes of conduct for staff and Councillors, the whistleblowing policy and registers of interests) against best practice guidance and examples.* The Council's policies were found to be in line with relevant guidance.
- *Consideration of the accessibility of policies to staff and members and if the policies had been implemented effectively.* The policies and processes tested are readily available to staff and had been implemented effectively.
- *Testing of completeness of registers of interests of senior staff and members.* Registers of interests for senior management and members were complete and up to date.

- *Review of reporting arrangements for conflicts of interests and whether these had been followed.* Conflicts of interest are a standing agenda item for committees to ensure appropriate reporting. One Councillor was suspended by the Public Standards Commissioner for Scotland in 2015-16 partially as a result of a failure to declare an interest. Training is available to Councillors on their responsibilities in relation to declaring interests, and attendance at this training would mitigate the risk of this happening in the future.

**Conclusion:** The Council has appropriate arrangements to prevent and detect inappropriate conduct and corruption.

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Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

In considering financial sustainability of the Council we performed the following work:

- *Reviewing the financial position of the Council as at 31 March 2016 and future budgets and forecasts.* The Council underspent against budget in 2015-16 and there are sufficient reserves to support future operations. Savings are identified on an ongoing basis.
- *Reviewing financial forecasting, financial strategies and key risks over financial sustainability.* The Council had a balanced budget for 2015-16, as approved by Council in February 2015. The Council follows a three year financial planning cycle, setting indicative budgets for future financial years. In February 2016, Council also approved draft budgets for 2017-18 and 2018-19 and a financial strategy for the three year period. 2016-17 and 2017-18 both include transfers from reserves, with no transfer planned for 2018-19. There is no longer term financial planning as management finds it difficult to forecast future funding levels and meaningfully use this to make long term decisions. Whilst we appreciate the difficulty in longer term budgeting in the context of funding commitments being short-term, sensitivity analysis in long term budgeting can be useful in strategic decision making.
- The financial strategy allows for the transfer of any increases reserves over the budgeted amount to the cost reduction fund. **The Council has in place a transformation program, which is supported through the cost reduction fund.**
- Budgets include efficiency savings across services. They are monitored on quarterly basis and progress is reported to members through Cabinet.

- Whilst the Council has significant borrowings, the treasury management strategy is updated each year to assess and reduce interest rates. To reduce the requirement for borrowing, a capital reserve has been earmarked within general fund reserves to enable capital expenditure to be funded directly from revenue. £3 million was transferred to the general services capital fund at the end of 2015-16.

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Value for money is concerned with using resources effectively and continually improving services.

Bodies are responsible for making arrangements to secure Best Value through the continuous improvement in the performance of their 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.

We consider value for money and Best Value throughout our testing. Some of the areas where we had a specific focus on value for money and Best Value are:

- *Reviewing the procurement policy and considering the use of procurement within the Council.* Whilst there are corporate procurement procedures in place, the Council recently had grant funding withdrawn as the Scottish Government identified that procurement procedures had not been followed during the tender process. Internal audit performed a review of the procurement arrangements for this project and found that the staff involved failed to follow the procurement procedures and failed to demonstrate openness and transparency. Internal audit has raised recommendations to management in respect of this which have been accepted and an improvement plan is being implemented.
- *Reviewing how the Council has streamlined its services.* Workforce planning was considered as part of the returns made to Audit Scotland. This is outlined further on page 32.
- *Considering the Council's process for continuous improvement.* The Council uses a self-improvement framework called How Good Is Our Council ("HGIOC"). This is completed by all departments and challenged by the Council Management Team ("CMT"). The results of HGIOC are used to inform service plans and the annual Council Improvement Plan.

- *Considering the Council's processes for ensuring Best Value.* Included within the internal audit plan each year is a review of the systems for preparation and reporting of performance indicators, to provide assurance over best value. Internal audit considers best value as part of the audit planning process to ensure that this is considered during all internal audit reviews.

With the exception of procurement, our consideration of the work of internal audit, as part of our extended control work, did not indicate high risk findings within these areas.

*Conclusion:* We consider that the Council has appropriate arrangements in place for securing best value

### Following the Public Pound

Auditors are required to consider the Council's arrangements for compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound ("the FtPP Code").

We considered management's processes to comply with the FtPP Code. Internal audit considers funding provided to external organisations on an annual basis. In 2015-16 they completed a review of funding provided to third sector organisations. This did not identify any high graded findings.

Management considers Enjoy East Lothian Limited ("Enjoy") to be the Council's only ALEO. Members receive copies of Enjoy's financial statements, management reports and business plans in order to scrutinise performance. Management attend quarterly contract meetings and all Enjoy Board meetings. One third of the Enjoy Board is appointed from Council members. Understanding of ALEOs has improved recently and a report was submitted to the Policy and Performance Review Committee in November 2015 outlining the Council's relationship with Enjoy.

*Conclusion:* We consider that the Council has appropriate arrangements for monitoring of ALEOs and following the public pound.

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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.

In considering governance and transparency we performed the following work:

- *Reviewing the organisational structure, reporting lines and level of scrutiny within the Council.* The Council demonstrates effective scrutiny, challenge and transparency on decision making through various levels of committee reporting reviewed. Decisions are transparent as actions are documented within Council and committee minutes. There is a high level of transparency through the Council's website, which includes minutes and papers for all committee meetings. Committees are balanced between administration and opposition members to ensure adequate expertise, independence and challenge.
- *Reviewing financial and performance reporting within the organisational structure.* Reporting is of high quality, accurate and transparent. Financial reporting is presented to Cabinet on a quarterly basis, including analysis of both revenue and capital. Reports are sufficiently detailed, giving narrative explanations to key movements from budget. Details of any changes to capital programmes is also given to allow these to be approved. Reports are available to the public online, however they could be reported to Cabinet in a more timely manner.
- *Reading the annual governance statement;* as discussed on page 20.
- *Consideration of scrutiny over key risks.* The corporate risk register is updated annually by management and scrutinised and approved by the Audit and Governance Committee. Service level risk registers are also maintained and approved by the Audit and Governance Committee.

We are required to provide specific conclusions on the following areas which relate to governance and transparency and support our overall conclusion on this audit dimension.

### Corporate governance

We updated our understanding of the governance framework and documented this through our overall assessment of the Council's risk and control environment. This included testing entity wide controls, including risk management, operational and compliance controls, as reported in the interim management report.

**Conclusion:** Governance controls were found to be operating effectively and we consider the governance framework to be appropriate for the Council.

### Internal audit

We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ('PSIAS'), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS. We updated the review we undertook in 2014-15, which included a review of the internal audit charter, reporting lines, independence, objectivity and proficiency and the range of work carried out by internal audit. We also considered the requirements of International Standard on Auditing 610 (*Considering the Work of Internal Audit*).

We reviewed internal audit reports and conclusions, and through discussion obtained the views of internal audit of risks of fraud within the Council.

**Conclusion:** We apply internal audit's work to inform our procedures, where relevant. The review of internal audit reports and conclusions did not indicate additional risks and there was no impact on our planned substantive testing.

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### Performance information

Authorities must prepare and publish performance information in accordance with Accounts Commission directions.

In June 2015 Audit Scotland presented a report to the Accounts Commission summarising a review of all Scottish councils' response to the Commission's Statutory Performance Information Direction (2012). The Council scored favourably on the report, with full compliance in 16 of 18 themes. Areas for improvement were identified as assets and procurement, as there is small range of indicators in these areas.

Statutory performance indicator ("SPI") information is reported in detail on the Council's website, and progress is reported to the policy and performance review committee on a quarterly basis. The website is automatically updated when Aspireview, the performance management system, is updated. Performance indicators are developed using the Council plan objectives, Single Outcome Agreement outcomes and SPI categories. Each objective, outcome and category is linked to at least one indicator during the development process.

Included within the internal audit plan each year is a review of the systems for preparation and reporting of performance indicators, to provide assurance over best value. Internal audit considers best value as part of the audit planning process to ensure that this is considered during all internal audit reviews.

Our consideration of the work of internal audit, as part of our extended control work, did not indicate high risk findings within these areas.

*Conclusion:* We consider that the Council has appropriate arrangements for collecting, recording, and publishing performance information in accordance with Accounts Commission directions.

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In November 2013 the Accounts Commission and Auditor General for Scotland published a report on Scotland's public sector workforce. The report highlighted a number of key messages on workforce changes across Scotland in the public sector and made a number of recommendations to the Scottish Government a number of recommendations to the Scottish Government, central government bodies, the NHS, COSLA and local authorities.

We performed follow up work on the report, and submitted a return to Audit Scotland summarising our findings and conclusions. This work covered the following key issues:

- **Planning:** The Council has a workforce development plan, aligned to the Council Plan 2012-17. The purpose of the plan is to ensure the workforce is skilled, motivated, flexible and well managed. Services do not produce specific workforce plans, however service level workforce planning is included within service and business plans. There is no formal succession planning in the workforce development plan. Succession planning is completed informally through business planning and through the course of general service planning. Staff number figures are reported to the Council Management Team ("CMT") on a monthly basis under the ongoing efficient workforce management program. However this only includes actual staff numbers, and does not forecast future numbers.
- **Service delivery:** Any movement in a service, for example a new post, must go through the service review process. Service reviews are ongoing and must be approved by both HR and finance. A voluntary early release scheme ("VERS") was used in 2013-14. This was regulated by the Council's redundancy policy and other key documents.
- **Partnership working:** There are a number of shared posts with Midlothian Council, including the health and safety advisor, equalities officer and environmental health team. There is shared working with Midlothian Council and NHS Lothian as a result of the integration of health and social care. There is no partnership working with any of the Council's associate companies or ALEOs.

- **Challenge and scrutiny:** The workforce development plan was developed through a joint consulting group with trade unions. It was scrutinised and approved by CMT.
- **Reporting:** The results of service reviews are published in reports in the members' library so members have the opportunity to comment and review. Under and overspends are highlighted in the quarterly Cabinet reports, and this includes savings from workforce programmes. Specific reports are prepared on any significant workforce changes, for example reports for VERS were presented to the Audit and Governance Committee.

**Conclusion:** The Council has considered workforce planning and invests time into the workforce planning process. Reporting arrangements are robust, however there is an opportunity for long term and succession planning to be strengthened.

# Appendices



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#### Adjusted and unadjusted audit differences

We are required by ISA (UK and Ireland) 260 to communicate all corrected and uncorrected misstatements, other than those which are trivial, to you. There was one unadjusted audit difference in relation to the housing rents bad debt provision and one adjusted audit difference in relation to financial instruments.

A small number of minor numerical and presentational adjustments were required to some of the financial statement notes.

CAPTION	NATURE OF ADJUSTMENT	BALANCE SHEET		INCOME AND EXPENDITURE	
		£000 DR	£000 CR	£000 DR	£000 CR
<b>Unadjusted</b>					
Balance sheet – bad debt provision	Bad debt provisions are calculated separately for each debtor category. In 2015-16 an additional amount is provided within the housing rents provision in relation to universal credit. This has taken the housing rents provision to 101% of the total debtor. An audit adjustment is raised to remove this additional provision.	226	-	-	-
Comprehensive income and expenditure statement – bad debt expense		-	-	-	226
<b>Adjusted</b>					
Balance sheet – long term borrowings	Management reclassified a number of LOBOs that had option dates during 2015-16 and 2016-17 to short term for both the 2014-15 and 2015-16 financial years, resulting in a restatement of the 2014-15 balance sheet. We consider that the LOBOs were classified correctly as long term liabilities as the Council has no intention or history of repaying LOBOs early. We raised an audit adjustment to reclassify LOBOs to long term in both the current and prior year.	-	19,000	-	-
Balance sheet – short term borrowings		19,000	-	-	-

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To Audit and Governance Committee members

#### Assessment of our objectivity and independence as auditor of East Lothian Council (“the Council”)

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

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

#### 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 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
- Independent reviews.

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

#### Independence and objectivity considerations relating to the provision of non-audit services

##### Summary of fees

We have considered the fees charged by us to the Council for professional services provided by us during the reporting period.

We have detailed the fees charged by us to the Council for significant professional services provided by us during the reporting period in the attached appendix, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2016 are:

	Current Year	Prior Year
	£000	£000
Audit of East Lothian Council	138	138
Audit of Dr Bruce Fund	1	1
<i>Total Audit</i>	<i>139</i>	<i>139</i>
<i>Total non-audit services</i>	<i>-</i>	<i>-</i>
<b>Total Fees</b>	<b>139</b>	<b>139</b>

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### Independence and objectivity considerations relating to other matters

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

### Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

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

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

**KPMG LLP**

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Return	Description	Conclusion
<b>Whole of Government Accounts</b>	<p>Whole of government accounts (WGA) is the consolidated financial statements for all components of government in the UK. Most public bodies are required to provide information for the preparation of WGA. External auditors are required to review and provide assurance on WGA returns over a prescribed threshold.</p>	<p>The deadline for submission of the WGA pack to auditors was 26 August 2016. Due to a technical matter with the WGA document, the submission was delayed beyond this date, although management had completed the required work.</p>
<b>Housing Benefit</b>	<p>The HB subsidy scheme is the means by which local authorities claim subsidy from the DWP towards the cost of paying HB in their local areas. Claimants benefit either by direct application to the authority or by applying simultaneously for income support/jobseekers allowance and HB to the DWP. Eligibility for, and the amount of, HB is determined in all cases solely by the local authority.</p> <p>Monthly instalments of subsidy are made by the DWP on the basis of authorities' estimates in March and August. Final subsidy claims are made on claim form MPF720B which requires to be certified by the external auditor.</p>	<p>One error was found in the testing that could not be proven to be an isolated error. This requires further testing (40+ testing) which is currently being carried out by the benefits team. We will review the testing in September and we will report on the claim following this.</p>
<b>Education Maintenance Allowance return</b>	<p>Education maintenance allowance ("EMA") is a means tested weekly allowance payable to young people from low income families to encourage them to remain in education beyond the compulsory school leaving age. Local authorities manage the delivery of the EMA programme in respect of schools, home education, and all other learning other than college provision.</p> <p>EMA payments comprise a weekly allowance of £30 and are made by local authorities to eligible young people. The Scottish Government reimburses the costs incurred by authorities through monthly payments of grant. An allowance for the costs of administering the programme is also paid by the Scottish Government.</p>	<p>We did not identify any exceptions in our testing and issued an unqualified opinion on the EMA return.</p> <p>Audit Scotland highlighted a potential issue regarding back payments processed in the education management information system used by the council (SEEMiS), which could have resulted in some students being underpaid by up to one week. Council officers do not consider this affected any applications in 2015-16. From our review of Council data, there may be four students who were underpaid by one week as they were paid from the Monday following receipt of their application, instead of the Monday of the week in which the application was received. In accordance with instructions from Audit Scotland, no further audit work has been performed in respect of these individuals.</p>

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Return	Description	Conclusion
<b>Criminal Justice Authority return</b>	<p>The delivery of social work services in the criminal justice system is the responsibility of the eight community justice authorities (CJAs) established under the Management of Offenders etc (Scotland) Act 2005.</p> <p>Funding is provided by Scottish Ministers and allocated to constituent authorities by CJAs. Constituent authorities are required to submit a financial return to their CJA detailing eligible expenditure incurred in the financial year to enable the CJA to produce a composite return to the Scottish Government.</p>	<ul style="list-style-type: none"> <li>No issues noted. We intend to submit the audited return by 30 September 2016.</li> </ul>
<b>Non Domestic Rates return</b>	<p>NDRI in Scotland is collected by local authorities on an agency basis and notionally placed in a national 'pool', which is then redistributed among authorities based on each authority's estimated collection levels.</p> <p>In April each year, authorities submit an estimate of their expected NDRI. Following the year end, authorities are required to submit their actual NDRI yield, known as 'the notified amount' in a final return to the Scottish Government.</p>	<ul style="list-style-type: none"> <li>No issues noted. We intend to submit the audited return by 30 September 2016.</li> </ul>

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In respect of employee benefits, each of the assumptions used to value the Council's net pension deficit are within an acceptable range of KPMG's expectations.

We are of the view that this therefore represents a reasonable and balanced approach, in accordance with the requirements of IAS 19.

We set out below the assumptions in respect of defined benefit obligations.

Defined benefit pension liability																							
2016 £000	2015 £000	KPMG comment																					
(114,995)	(172,028)	<p>In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation.</p> <p>Details of key actuarial assumptions are included in the table, along with our commentary.</p> <table border="1"> <thead> <tr> <th>Assumption</th> <th>East Lothian Council</th> <th>KPMG central</th> <th>Comment</th> </tr> </thead> <tbody> <tr> <td>Discount rate (duration dependent)</td> <td>3.5%</td> <td>3.45%</td> <td>Acceptable. The proposed discount rate is in an acceptable range of KPMG's central rates as at 31 March 2016, and is derived using methodology consistent with that used last year.</td> </tr> <tr> <td>CPI inflation</td> <td>RPI less 1.0% (2.2%)</td> <td>RPI less 1.0%</td> <td>Acceptable. The proposed assumptions are within the acceptable range.</td> </tr> <tr> <td>Net discount rate (discount rate – CPI)</td> <td>1.3%</td> <td>1.25%</td> <td>Acceptable. The proposed assumptions are within the acceptable range of +/- 0.3% from the KPMG central range.</td> </tr> <tr> <td>Salary growth</td> <td>RPI + 1% (4.2%)</td> <td>Typically 0% - 1.5% above inflation</td> <td>Acceptable. The proposed assumptions are within the acceptable range.</td> </tr> </tbody> </table> <p>The overall assumptions applied by management are considered to be reasonably balanced for a scheme with a liability duration of between 17 and 26 years. The closing deficit decreased by £57 million compared to 2014-15, primarily due to an increase in the discount rate of 0.3%, a decrease in the rate of increase in pensions of 0.2% and a decrease in the rate of increase in salaries of 0.1%.</p>		Assumption	East Lothian Council	KPMG central	Comment	Discount rate (duration dependent)	3.5%	3.45%	Acceptable. The proposed discount rate is in an acceptable range of KPMG's central rates as at 31 March 2016, and is derived using methodology consistent with that used last year.	CPI inflation	RPI less 1.0% (2.2%)	RPI less 1.0%	Acceptable. The proposed assumptions are within the acceptable range.	Net discount rate (discount rate – CPI)	1.3%	1.25%	Acceptable. The proposed assumptions are within the acceptable range of +/- 0.3% from the KPMG central range.	Salary growth	RPI + 1% (4.2%)	Typically 0% - 1.5% above inflation	Acceptable. The proposed assumptions are within the acceptable range.
Assumption	East Lothian Council	KPMG central	Comment																				
Discount rate (duration dependent)	3.5%	3.45%	Acceptable. The proposed discount rate is in an acceptable range of KPMG's central rates as at 31 March 2016, and is derived using methodology consistent with that used last year.																				
CPI inflation	RPI less 1.0% (2.2%)	RPI less 1.0%	Acceptable. The proposed assumptions are within the acceptable range.																				
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Salary growth	RPI + 1% (4.2%)	Typically 0% - 1.5% above inflation	Acceptable. The proposed assumptions are within the acceptable range.																				

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

We present the identified findings across four audit dimensions – financial sustainability, financial management, governance and transparency and value for money.

#### Priority rating for recommendations

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

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

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

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p><b>1) Timeliness of financial reporting</b> <i>Audit dimension: financial management</i></p> <p>Detailed financial reports are prepared and presented to members on quarterly basis, however these come some time after the end of the quarter, with the quarter one report presented in September. Audit and Governance Committee members receive a detailed presentation of the financial statements in the June meeting, however the year end report is not presented until August.</p> <p>There is a risk that members do not receive financial information in a sufficiently timely manner to scrutinise financial performance and make decisions based on financial results.</p>	<p>We are aware that management has recognised the delay in providing financial information and plan to accelerate this going forward. We recommend that the year end financial report is presented alongside the draft financial statements, and that management investigates the possibility of presenting the quarterly reports sooner after the quarter end.</p>	<p style="text-align: center;"><b>Grade three</b></p> <p>Agreed - management has already put in place actions to ensure the year end report will be presented to members in advance of summer recess. Arrangements have been put in place to accelerate information to members through Q1 2016-17 report.</p> <p><b>Responsible officer:</b> Head of Council Resources / Service manager Business Finance</p> <p><b>Implementation date:</b> 30 June 2017</p>

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Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p><b>2) Bad debt provision</b>  <i>Audit dimension: financial management</i></p> <p>The bad debt provision is calculated separately for council tax, housing rents, housing benefit and general bad debt. Historically the Council has been prudent in its bad debt provision and we raised a recommendation in our 2013-14 annual audit report that the bad debt provision was reviewed.</p> <p>In 2015-16 the housing rents bad debt provision equates to 101% of the total debtor. This includes an element for Universal Credit, although this will not impact rent debt until 2016-17. There is a risk that the debt is overprovided and the Council is not recognising rent debt appropriately.</p>	<p>We recommend that management reviews the calculation methods for the housing rents bad debt provision. This should include analysis of debtor payment profiles to update and refresh the bad debt and policies.</p>	<p style="text-align: center;"><b>Grade three</b></p> <p>Agreed - bad debt procedures are consistently updated and reviewed annually and in particular will be reviewed in light of the roll out of Universal Credit. Analysis of debt per Q1 of 2016-17 suggests the roll-out of Universal Credit may significantly impact recovery of outstanding debt. We are working to minimise the impact of any uncollected debt to the Council. The bad debt provision was reviewed and it is management's view that the provision remains reasonable.</p> <p><b>Responsible officer:</b> Service manager Business Finance / Service manager Revenues</p> <p><b>Implementation date:</b> June 2017</p>



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We follow up prior year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2014-15 audit and their current status.

Grade	Number recommendations raised	Implemented	In progress	Overdue
One	-	-	-	-
Two	4	3	1	-
Three	3	3	-	-

We have provided a summary of progress against overdue actions below, and their current progress.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
<b>1. Bank reconciliations</b> <i>Risk dimension: Business</i>			Grade two
<p>Progress has been made to bring the bank reconciliations up to date, however further work is needed to ensure all year end bank reconciliations are completed in a timely manner.</p> <p>The October 2014 bank reconciliation was completed on 12 February 2015. During our interim testing, the November bank reconciliation was in the process of being prepared. There is a risk that the year end bank reconciliations are not completed in a timely manner and an accurate cash balance is not reflected in the financial statements.</p>	<p>Bank reconciliations should be brought up to date and should be completed within six weeks of the period end.</p>	<p>Agreed. Work is ongoing to review the current bank reconciliation process.</p> <p><b>Responsible officer:</b> Service manager – corporate finance</p> <p><b>Implementation date:</b> June 2015</p>	Complete.
<b>2. Processing of leavers</b> <i>Risk dimension: Business</i>			Grade two
<p>From a sample of 25 leavers, one was not processed until two months after leaving the Council as the leavers documentation was not processed in a timely manner. This led to a gross overpayment of £3,981.32. The Council is taking action to recover this overpayment.</p> <p>There is a risk that overpayments are made to Council employees and are not recoverable.</p>	<p>Management should reiterate the importance to line managers of completing leavers documentation in a timely manner.</p> <p>Management should ensure all appropriate action is taken to recover any overpayments made.</p>	<p>Agreed. Arrangements have been put in place to reinforce the need for clear documentation.</p> <p><b>Responsible officer:</b> Service manager – HR and payroll</p> <p><b>Implementation date:</b> May 2015</p>	Complete.

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Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
<b>3. Chris21 audit logs and users</b> <i>Risk dimension: Business</i>			Grade two
<p>Audit logs are deleted from the Chris21 system on a weekly basis for 'housekeeping' purposes. A PDF copy of the audit log is automatically created, and a second PDF report created when the audit log is deleted. These reports are sequentially numbered, however not all reports are saved. There is a risk that unauthorised or inappropriate changes are made to system data and there is no evidence to support the changes.</p> <p>There are generic user accounts on Chris21 which were previously used for training. These accounts are no longer required, and there is a risk that they could be accessed and changes made in the system.</p>	<p>All system audit logs should be retained on file, in sequential order.</p> <p>Any generic user accounts should be disabled to ensure these can no longer be used.</p>	<p>Agreed. Audit logs have been implemented and training accounts have been disabled.</p> <p><b>Responsible officer:</b> Service manager – HR and payroll</p> <p><b>Implementation date:</b> May 2015</p>	Complete.
<b>4. Whole of government accounts – transport infrastructure assets</b> <i>Risk dimension: financial statements</i>			Grade three
<p>Management completed the whole of government accounts (“WGA”) data collection tool (“DCT”) in line with the deadline for submission to auditors on 24 July 2015. The DCT contains an optional tab for transport infrastructure assets to help local authorities prepare a depreciated replacement cost valuation in line with the transport code. This tab was not completed on the unaudited DCT, however management plans to include this within the financial submission.</p> <p>There is a risk that management will not have the depreciated replacement cost figures for transport infrastructure assets as at 1 April 2015 to allow for a restatement of the 2015-16 balance sheet in line with the requirements of the Code.</p>	<p>Management should consider completing the transport infrastructure assets tab of the DCT prior to final submission. Going forward, this should be included in the first submission.</p>	<p>Inclusion of the infrastructure assets in the draft WGA submission was an optional requirement, with the intention that this would be included within the final WGA submission.</p> <p><b>Responsible officer:</b> Service manager – Business Finance</p> <p><b>Implementation date:</b> October 2015 (in line with WGA submission)</p>	Complete.

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Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
<b>5. Remuneration report</b> <i>Risk dimension: Governance</i>			Grade three
<p>A number of corrections and presentational adjustments were required to ensure that the remuneration report was accurate and complied with guidance.</p> <p>There is a risk that remuneration report is inaccurate or is not in line with guidance.</p>	<p>We recommend that the report is reviewed more thoroughly prior to its inclusion in the annual accounts to identify errors and inconsistencies.</p>	<p>Recommendation agreed. We will continue to ensure appropriate level of review is included within the accounts planning process.</p> <p><b>Responsible officer:</b> Service manager – Business Finance</p> <p><b>Implementation date:</b> June 2015</p>	Complete.
<b>6. National fraud initiative</b> <i>Risk dimension: Governance</i>			Grade three
<p>We completed a return to Audit Scotland in June 2015 to review the Council's participation. This resulted in an amber grading. We consider the Council to be progressing well through the NFI exercise, focusing on high risk outcomes. There is opportunity for improvement by updating the NFI site more regularly when investigations are completed.</p>	<p>Management should ensure outcomes are recorded as complete on the NFI site as they are resolved to ensure the site is up to date.</p>	<p>Recommendation agreed.</p> <p><b>Responsible officer:</b> Internal audit manager</p> <p><b>Implementation date:</b> The NFI site will be updated as soon as investigations are completed.</p>	Complete.
<b>7. Financial capacity in public bodies</b> <i>Risk dimension: Business</i>			Grade two
<p>We completed a return to Audit Scotland in respect of our findings on financial capacity within the Council. Our review in response to the request for data collection identified that there is appropriate financial capacity within the organisation to ensure effective management. However, financial responsibility is concentrated to a few individuals with wide roles. It is likely that with the integrated health and social care joint board, responsibilities for the finance team will increase. There is a risk there may not be sufficient capacity to take on this additional burden. We understand that a service review is being considered to improve capacity within the finance team</p>	<p>It is recommended that a service review is implemented as planned to assess capacity within the finance team. Management should consider its responsibilities in terms of the integrated joint board and ensure these are allocated to appropriate individuals. Preparation of the annual accounts if the integrated joint board should be included within the year end timetable for 2015-16 onwards.</p>	<p>Recommendation agreed.</p> <p><b>Responsible officer:</b> Head of Council Resources / Service Managers – Business Finance and Corporate Finance.</p> <p><b>Implementation date:</b> December 2015</p>	Ongoing, see discussion of financial management at page 26. Part two of the service review has been implemented.

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Area	Appointed auditors responsibilities	How we've met our responsibilities
Corporate governance	<p>Review and come to a conclusion on the effectiveness and appropriateness of arrangements to ensure the proper conduct of the bodies affairs including legality of activities and transactions,</p> <p>Conclude on whether the monitoring arrangements are operate and operating in line with recommended best practice.</p>	Page 30 sets out our conclusion on these arrangements.
Financial statements and related reports	<p>Provide an opinion on audited bodies' financial statements on whether financial statements give a true and fair view of the financial position of audited bodies and their expenditure and income</p> <p>Provide an opinion on whether financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements</p>	Page 13 summarises the opinions we expect to provide.
Financial statements and related reports	Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns.	<p>Page 20 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.</p> <p>We have not reported on any grant claims.</p>
Financial statements and related reports	Notify the Controller of Audit when circumstances indicate that a statutory report may be required.	Page 13 sets out any notifications we have made to the Controller of Audit.
Financial statements and related reports	Review and conclude on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.	Pages 24 to 31 set out our conclusion on these arrangements.
WGA returns and grant claims	<p>Examine and report on WGA returns</p> <p>Examine and report on approved grant claims and other returns submitted by local authorities.</p>	Pages 37 and 38 set out our conclusion on these arrangements

DRAFT

Area	Appointed auditors responsibilities	How we've met our responsibilities
Standards of conduct – prevention and detection of fraud and error	<p>Review and conclude on the effectiveness and appropriateness of arrangements for the prevention and detection of fraud and irregularities, bribery and corruption and arrangements to ensure the bodies affairs are managed in accordance with proper standards of conduct.</p> <p>Review National Fraud Initiative participation and conclude on the effectiveness of bodies engagement.</p>	<p>Page 26-27 sets out our conclusion on these arrangements.</p> <p>Page 26 concludes on the bodies participation in the National Fraud Initiative.</p>
Financial position	Review and conclude on the effectiveness and appropriateness of arrangements to ensure that the bodies financial position is soundly based.	Pages 26 and 27 set out our conclusion on these arrangements.
Financial position	Review performance against targets	Pages 6 to 11 summarise our review of how the body has performed against it's financial targets.
Financial position	Review and conclude on financial position including reserves balances and strategies and longer term financial sustainability.	<p>Pages 6 to 11 sets out our conclusion on the bodies financial position including reserves balances.</p> <p>Pages 25 and 28 sets out our conclusion on the financial sustainability.</p>
Best Value	Be satisfied that proper arrangements have been made for securing Best Value.	Page 29 sets out our conclusion on these arrangements.
Performance information	Review and conclude on the effectiveness and appropriateness of arrangements to prepare and publish performance information in accordance with Accounts Commission directions.	Page 31 sets out our conclusion of the bodies arrangements for performance information.



*cutting through complexity*

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**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 13 September 2016

**BY:** Chief Executive

**SUBJECT:** Education Risk Register

---

**3**

## **1 PURPOSE**

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

## **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Audit and Governance Committee notes the Education 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 Education 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 Education 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 Education 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 Education Risk Register includes 6 High risks, 10 Medium risks and 2 Low Risks. As per the Council's Risk Strategy only the Very High and High risks are being reported to the Committee.
- 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 INTEGRATED IMPACT ASSESSMENT**

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy

#### **6 RESOURCE IMPLICATIONS**

- 6.1 Financial - It is the consideration of the Education 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 – Education Risk Register

7.2 Appendix 2 – Risk Matrix

<b>AUTHOR'S NAME</b>	Scott Kennedy Paolo Vestri
<b>DESIGNATION</b>	Emergency Planning and Risk Officer Service Manager - Corporate Policy and Improvement
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<b>DATE</b>	31 August 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
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
ED 1	<p>Educational Attainment</p> <p>Failure to raise the standards of educational attainment for all will lead to a reduction in opportunities for young people such as entrance to Further and Higher Education or employment, with the consequence of parental dissatisfaction and damage the reputation of individual schools and the education service as a whole.</p> <p>A failure to report positive findings in relation to the four national priorities set out within the national improvement framework will lead to further scrutiny by external organisations such as Audit Scotland, Education Scotland and Scottish Government and the Local Area Network.</p>	<p>Each school has a School Improvement Plan, guided by the revised Education Service Plan (developed and delivered by Education Steering group in consultation with Head Teachers) with target setting for attainment.</p> <p>QIOs monitor and evaluate schools while HMIE have a schools inspection programme.</p> <p>Regular liaison with Education Scotland Area Lead Officer (ALO).</p> <p>Curriculum for Excellence continues to evolve in schools while Education disseminates best practice, guidelines and policies.</p> <p>School strategies are in place for increasing expectations of pupils and families (including tackling the barriers to improving achievement and ensure pupil attendance i.e. reducing the attainment gap).</p> <p>Targeted support for schools and early year's providers is provided where a need is identified.</p> <p>An Education Digital IT group is in place to review the current ICT strategy and infrastructure. The current strategy identifies the required level of support and intervention within the authority and schools.</p> <p>Policies are in place covering Health &amp; Wellbeing, Numeracy &amp; Mathematics, Quality &amp; Assurance and Learning &amp; Teaching, all approved by Education Committee.</p> <p>All Schools now have at least two focussed attainment challenge meetings per annum. Primaries are held at cluster level led by the QIO and secondaries are chaired by the Head of Education with the QIO, Deputy Chief Executive and an independent Head Teacher.</p> <p>Activities to improve attainment to be reported upon at every future Education Committee as appropriate.</p> <p>A suite of data has been developed to highlight KPIs, share with schools and agree performance improvement.</p>	4	4	16	<p>Plan to develop curriculum across all areas to improve continuity and progression in learning with the broad general education</p> <p>Continue to improve the transition of young people from mainstream education to work, training, further and higher education through working with secondary schools.</p> <p>Develop an authority wide model for the Senior Phase that incorporates all elements of the curriculum.</p> <p>Early Learning and Childcare Strategy to develop a career path for potential future Early Years Practitioners. Strategy being presented to Cabinet on 13<sup>th</sup> September 2016.</p>	3	3	9	<p>Head of Education</p> <p>Quality Improvement Officers</p> <p>Head Teachers</p>	<p>August 2018</p> <p>August 2017</p> <p>August 2017</p> <p>September 2016</p>	<p>2</p> <p>3</p> <p>4</p>	<p>Refreshed August 2016 with no changes to scores.</p> <p>Refreshed August 2014 with current risk score increased from 6 to 16 and residual risk score increased from 4 to 9.</p>

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				
		<p>Continue to develop partnership arrangements with QMU and Edinburgh College to broaden the curriculum.</p> <p>Education Steering Group will review priorities detailed in the Service Plan and update as appropriate.</p> <p>An on-line learning environment has been developed with partners for all students to reflect the way young people can now learn.</p> <p>The connected learning network is currently in all six secondary schools and two early adopter primary schools. There is a further roll-out to six more primary schools this current school session. Roll out to all schools will be incremental dependent on funding.</p> <p>The Future Technologies Centre (Construction Academy) in partnership with Edinburgh College and Infrastructure Dept opened on 29<sup>th</sup> August 2016.</p>											
ED 2	<p>Supply Teachers</p> <p>There is a nationwide shortage of supply teachers which is impacting on East Lothian. In practice this means that classes are being covered by Management. Further changes are being made to the supply system to improve efficiency of processes however this is having little impact on the number of supply vacancies filled.</p> <p>This is impacting on the quality of learners experience also on the availability of management to undertake their leadership role.</p>	<p>LNCT Group set up in addition to national COSLA working group, identifying practical solutions to the challenge.</p> <p>Continue to advertise and recruit to supply list.</p> <p>Appointment of permanent Primary supply teachers.</p> <p>Continue to work with Contact Centre to improve communication with supply teachers in order to engage their services.</p>	4	4	16	<p>The Council is aiming to revisit our procedures for supply staff including inter-authority collaboration which it is hoped this will lead to a reduction in unfilled posts.</p> <p>Working collaboratively with neighbouring authorities and Edinburgh University to provide an appropriate course for returners to the profession. This will be enhanced through local advertising.</p> <p>Via COSLA continue to inform the national debate around teacher numbers, both permanent and supply.</p>	3	3	9	<p>Service Manager – Education (Strategy &amp; Ops)</p>	<p>December 2016</p> <p>December 2016</p> <p>December 2016</p>	<p>2</p> <p>3</p> <p>4</p>	<p>Risk refreshed August 2016 with no changes to scores.</p> <p>Residual risk score increased from 6 to 9 July 2015.</p>
ED 3	<p>Education Budget</p> <p>A failure to meet our statutory requirements and other targets due to budget constraints or conversely overspending our budget in order to meet said statutory requirements and targets.</p> <p>There are increasing requirements from the Government e.g. teacher numbers guarantee and 600/1140 hours of childcare and early education and there is a need to think creatively around budget deployment to meet needs.</p> <p>If appropriate solutions are not implemented, this could lead to a reduction in opportunities for young</p>	<p>The annual budget allocation is prioritised and monitored while the Scheme of Devolved School Management determines the allocation at School level.</p> <p>Detailed budget planning measures are in place together with monthly monitoring and validation.</p> <p>Education Steering Group meets every six weeks to review, direct and agree changes to strategy.</p> <p>Benchmarking against other authority initiatives and devolved school management schemes to ensure efficiencies.</p>	3	4	12	<p>Implement an Early Years Strategy 2016-2021 to incorporate future delivery of 1140 hours of free early learning and childcare by 2020.</p> <p>Strategy to include trial proposals in conjunctions with SFT and SG.</p> <p>An Inter Authority Group is to be established to agree a way forward in relation to Cross Boundary Charges.</p>	3	3	9	<p>Chief Executive</p> <p>Head of Education</p> <p>Service Manager – Education (Strategy &amp; Ops)</p> <p>Head of Council Resources</p> <p>Deputy Chief Executive – Resources and People Services</p> <p>Head of Finance</p>	<p>September 2016</p> <p>September 2016</p> <p>September 2016</p>	<p>2</p> <p>3</p> <p>4</p>	<p>Risk Refreshed August 2016 with current score reduced from 16 to 12.</p> <p>Refreshed September 2015 – Current Risk Score increased from 8 to 16 and residual score from 4 to 9.</p>

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				
	people with the consequence of parental dissatisfaction and damage the reputation of the Council. The opportunity is to create new propositions and service offerings.	Working with Finance colleagues at early stage to highlight and address possible budget pressures.  Staffing is continually monitored to ensure we meet the required Pupil to Teacher ratio at September 2016 Census point. Scottish Government monitors this. Close working with schools regarding established staffing compliments and continual updating of SEEMIS records to ensure accurate and up to date information is held.											
ED 4	School Estate Management  Failure to maintain up-to-date information on the Condition and Suitability of the schools' estate may result in having insufficient data to inform planned maintenance budgets and essential building works.  Failure to provide adequate financial and staffing resources to maintain the school estate to the required standard.	Condition and Suitability surveys for the Primary schools are refreshed annually to report SPI data.  Property Inspectors and the Asset Team identify priorities on a 3 year rolling programme and implement within available budgets. Work is prioritised on a risk management basis, addressing statutory compliance matters first (fire safety, electrical, safety DDA etc).	3	4	12	Condition and Suitability surveys for all Primary schools are almost complete, with only newer schools to be completed for 2016 while these are refreshed annually to report SPI date.  Reports to Corporate Asset Group will highlight risks which cannot be managed and may impact on the operation or safety of the school estate.	2	4	8	Depute Chief Executive – Resources and People Services  Service Manager – Engineering Services & Building Standards	December 2016  December 2016	2 3 4	Risk refreshed August 2016 with no change to score.
ED 5	Education Estate  Failure to make timeous responses to planning applications, identifying the impact of proposed development on the Education estate, resulting in delays to determining applications and potential claims from applicants.	Significant work has been undertaken through the LDP process to establish the likely impact of proposed development on the Education estate resulting in more robust information for responding to planning applications.  Education and Strategic Asset Management teams work closely to analyse the data provided by Education and identify requirements arising as a direct result of proposed development. The S75 process is under review. An enhanced and robust school roll projection and class organisation system is in place in Education. This is key to determining the future capacity needs of schools.	3	4	12	Quarterly review meetings to be held with Education and Strategic Asset and Capital Plan Management to review school development programmes and projects. Minutes and Actions to be circulated to Corporate Asset Group.  A review of average primary and secondary child per house ratio are due to be completed later this year.	2	4	8	Depute Chief Executive – Resources and People Services  Service Strategic Asset & Capital Plan Management	October 2016  December 2016	2 3 4	Risk refreshed August 2016 with no change to score.
ED 6	IT Infrastructure  The IT infrastructure will not be in place to support the use of digital technologies moving forward.  A failure to address this could result in a lack of infrastructure to address the use of digital technology and impact on the ability to enhance learners' digital literacy skills.	Collaborative working between IT ICT and Education continues in respect of addressing the needs of schools and the wider services.  EDIT group re-established and includes representatives from central IT, central Education officers and school based management and meets bi-monthly and is looking to develop an ICT strategy and maintain and improve the current ICT infrastructure within schools.	3	4	12	Finalise and implement the ICT strategy which is dependent upon appropriate finance.  Work with schools to encourage them to promote the effective use of current and future ICT resources.	2	4	8	Head of Education  Service Manager Education (Strategy & Ops)  Service Manager - IT Infrastructure	February 2017  December 2016	2 3 4	New risk created August 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
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
<b>Original date produced (Version 1)</b>		1st March 2012											
<b>File Name</b>		Education Risk Register											
<b>Original Author(s)</b>		S Kennedy											
<b>Current Revision Author(s)</b>		S Kennedy											
<b>Version</b>	<b>Date</b>	<b>Author(s)</b>	<b>Notes on Revisions</b>									<b>Risk Score</b>	<b>Overall Rating</b>
Original	1 <sup>st</sup> March 2012	S Kennedy										20-25	Very High
2	19/11/12	S Kennedy	Updated following update to Risk Strategy									10-19	High
3	08/01/13	S Kennedy	Updated with Education Risk Group's updates.									5-9	Medium
4	11/04/13	S Kennedy	Updated with Education Risk Group and Management Team's updates.									1-4	Low
5	May 2014	S Kennedy	Risks refreshed by Education and Corporate Risk on School Estate Management Added										
6	August 2014	S Kennedy	Risks refreshed (including former risk on post replacements being removed and new risks added) by Richard Parker and Liz McLean for Property involvement then checked and further updated by Darrin Nightingale.										
7	July 2015	S Kennedy	Risks refreshed (including former risks on standard of competence, service performance and replacement of director being removed and new risk on safes added) by Darrin Nightingale and Liz McLean for Property involvement.										
8	September 2015	S Kennedy	Risk relating to Property updated by Liz McLean and one of those risks split into two risks. Further refresh by Darrin Nightingale.										
9	June-August 2016	S Kennedy	Updated following meetings with Head of Education and Senior Staff										

**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:** 13 September 2016  
**BY:** Chief Executive  
**SUBJECT:** Children and Adult Services Risk Register

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**4**

## **1 PURPOSE**

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

## **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Audit and Governance Committee notes the Children and Adult Services 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 Children and Adult Services 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 Children and Adult Services 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 Children and Adult Services 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 Children and Adult Services Risk Register includes 7 High risks, 10 Medium risks and 1 Low Risk. As per the Council's Risk Strategy only the Very High and High risks are being reported to the Committee.

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 INTEGRATED IMPACT ASSESSMENT**

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

#### **6 RESOURCE IMPLICATIONS**

6.1 Financial - It is the consideration of the Children and Adult Services 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 – Children and Adult Services Risk Register

7.2 Appendix 2 – Risk Matrix

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<b>DATE</b>	31 August 2016



# Children and Adult Services Risk Register v1

Date reviewed: 31 August 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
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
CAS 1	<p>Care Homes &amp; Domiciliary Care Providers</p> <p>The failure of a major Care Home or Domiciliary Care provider resulting in a loss of capacity and the risk of service users being put at risk as a result of their service withdrawn at short notice.</p> <p>There are other challenges linked to Care at Home providers such as a provider acquisitioning poor quality care or a lack of capacity to deliver care.</p>	<p>Monitoring of care providers to help to identify potential service failures while working with all providers to gain advance information of any potential failure. If monitoring doesn't result in improvement then close monitoring would take place followed by a large scale investigation.</p> <p>Quarterly Multi-Agency quality of care meetings for both Residential and Homecare.</p> <p>Participation in national working groups to maintain national market intelligence.</p> <p>Continuing to work closely with providers to provide support with improvement planning. Ongoing standard practice working with providers.</p> <p>Contingency protocol established to deal with failure of a major care provider.</p> <p>Joint work with NHS Care Home Team and GP Practices to maintain standards and address concerns.</p> <p>Regulated services regular inspection by the Care Inspectorate and effective collaborative working over performance of Regulated services.</p> <p>Working with other Councils to allow information sharing mutual support and contingency planning.</p> <p>Engagement with the Carers Community aids monitoring of performance within care settings.</p>	4	4	16	<p>Embed proactive monitoring of care providers to establish early alert mechanisms informing of potential service risk.</p> <p>Retendering Help to Live at Home and specialist support to put an emphasis on outcomes for service users and service quality. A Risk Register is available for this project.</p> <p>Establishing short and longer term approaches to maximising capacity within the current contract arrangements and identifying what can be done to alter those arrangements either by amending the current or retendering.</p>	3	4	12	<p>Director of Health &amp; Social Care</p> <p>Head of Older People Services and Access</p> <p>Head of Children and Adult Services</p> <p>Chief Social Work Officer</p> <p>Service Managers</p>	<p>March 2017</p> <p>March 2017</p> <p>March 2017</p>	9	Risk reviewed June 2016 and current score increased from 12 to 16 due to current situation while residual score increased from 6 to 12.

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				
CAS 2	<p>National Targets</p> <p>National targets on delayed discharge of "no delays over two weeks" have created additional pressures and increased demand. Limited service capacity could result in increased waiting lists for access to local health and social care services.</p> <p>These targets could impact on the health and wellbeing of individual residents and on the reputation of the Health and Social Care Partnership (HSCP) and put pressure on assessment staff and resources.</p> <p>The proposed revised 72 hours target and ongoing care at home capacity issues continue to challenge performance in this area of work.</p>	<p>A delayed discharge action plan is in place and a weekly task force is chaired by the HSCP Director.</p> <p>New emergency care and hospital to home and hospital at home services implemented and dedicated team approach to reducing delays is working.</p> <p>Pilot new initiatives to assess potential new models in the delivery of care including East Lothian Service for Integrated Care of the Elderly (ELSIE), help to live at home collaborative allocations, hospital to home and step up/step down beds.</p> <p>Close working with NHS to commence discharge planning at the earliest opportunity. Implement Discharge to assess via ELSIE.</p> <p>Increased surveillance of care homes to identify spare capacity.</p> <p>Utilisation of recurrent delayed discharge fund to maximise NHS capacity.</p> <p>Using Integrated Care Fund to extend scope of ELSIE.</p> <p>Re-tendering Help to Live at Home framework to increase capacity.</p> <p>20 step down beds available at Crookston Home.</p> <p>Implementation of living wage and fair work funding for providers. Utilisation of Social Care Fund to purchase additional capacity.</p>				<p>Closer working and good co-operation with care at home providers to consolidate care support runs and release additional capacity which has seen significant improvements in delays over 4 weeks over the past year.</p> <p>Further development of a reablement approach and review of client pathway to assist in streamlining process, releasing capacity and reducing delays</p>				<p>Director of Health &amp; Social Care</p> <p>Head of Older People Services and Access</p> <p>Chief Social Work Officer</p>	<p>October 2016</p> <p>March 2017</p>	<p>9</p>	<p>Risk reviewed June 2016 with current score reduced from 20 to 16 due to implementation of measures while residual score reduced from 16 to 9 due to new planned measure.</p> <p>Risk reviewed and refreshed January 2016 with Residual impact increased from 8 back to 16 due to ongoing capacity issues and the potential implementation of the proposed 72 hour target.</p>
CAS 3	<p>Flexible Technology</p> <p>A lack of investment in flexible technology enabling staff to work in more efficient new ways, outwith traditional office settings, may incur a significant loss of staff time, when service referrals and demand levels are increasing. This in turn could mean that existing resources are "stretched" leading to delays and waiting times for access to service, and/or assessment of risks.</p> <p>Reliance on desk-top access to Framework-i is a vulnerability in Business Continuity planning and response.</p>	<p>The "social care2 system Framework-i is fully deployed and accessible to staff at desk, on Wyse terminals and in some cases via laptop/mobile devices.</p> <p>Staff have limited access to laptop/mobile devices to enable "hot desking" or appropriate home working, or on-site working, whenever possible.</p> <p>All staff have mobile phone technology.</p>				<p>Additional limited investment by services to purchase additional laptop/mobile devices.</p> <p>Improved business Continuity Planning to ensure key workers have access to Wyse terminals, hot desk facilities, and to current supply of laptop/mobile devices.</p> <p>Corporate IT investment in additional laptop/mobile devices for the social care workforce could be planned for.</p> <p>Exploration of New Ways of working transformation programme for targeted staff groups/services within Child and Adult Services.</p>				<p>Head of Children and Adult Services</p> <p>Head of Older People Services</p> <p>Head of Corporate Resources</p>	<p>March 2017</p> <p>March 2017</p> <p>March 2017</p> <p>March 2017</p>		<p>New risk created by Head of Children and Adult Services August 2016.</p>

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				
CAS 4	Demographic Pressures  Demographic pressures see demand for services outstrip available budgetary and staffing resources leading to unmet client need and risk to client safety and independence.	Service transformation and strategic commissioning to ensure services are targeted to achieve best value and meet the needs of the vulnerable.  Resource allocation system established and additional short term capacity to accelerate pace of reviews in place.  Self Directed Support implemented and audited with action plan in place.  Working in partnership with Health, third sector and independent sector to shift the balance of care and support more people to stay at home longer.  Good progress being made in partnership working with third sector including Day Centres Association.  Ensure Adult Services Integrated Care and Social Care Funds are utilised to address demographic pressures and fund additional capacity.  Review of resource allocation and to ensure resources are allocated to those with greatest need. QA process in place to ensure that resource use is optimal going forward.  AW and CW Service Plans are reviewed annually to take account of service priorities and resource allocation.	5	3	15	IJB is working to apportion the extra Scottish Government investment in Social Care in 2016/17.  Budget efficiency plans are being developed for full implementation in 2016/17.  Best value purchasing of external services.  IJB Strategic Plan directs a number of preventative and early intervention health and wellbeing work programmes and service transformation objectives which should aid reduction in levels of service demand i.e. "Wellbeing Programs"  Refresh practitioner and partner awareness and deployment of Adult Support & Protection Procedures and Child Protection Procedures.	4	3	12	Director of Health & Social Care  Head of Older People Services and Access  Head of Children and Adult Services  Chief Social Work Officer  Service Managers	March 2017  March 2017  April 2017  March 2017  March 2017	4 5	Risk reviewed June 2016 with current score reduced from 20 to 15 due to implemented measures and residual score reduced from 16 to 12 due to new planned measures.  Risk reviewed January 2016 and both current (12 to 20) and residual risk (6 to 16) increased as a result of the current overspend position.
CAS 5	Children and Young Persons Act 2014  Failure to deliver the Children and Young Persons Act 2014 could put a child at significant risk.  This failure could be due to a lack of resources (financial, services or staffing), poor practice, lack of training, a failure to prioritise, non-compliance with procedures/guidance or failing to intervene early enough. This could result in reputational damage and an impact on staff morale while significant case reviews would be required, overseen by the Child Protection Committee.  The implications of the Health and Social Care Integration agenda are currently being considered.	Specialist staff within East Lothian Council and its partners closely monitor policy changes.  Kinship Care and Fostering Strategy in place and being reviewed in 2016/17.  Various inspections and reviews carried out by external regulatory bodies resulting in reports which CW puts improvement plans in place to adhere to.  Provision of coherent suite of policies and criteria to ensure consistent practices are held on ELNet and NIMBUS databases.  The Children's Strategic Partnership is responsible for developing and monitoring the recently published Integrated Children's Services Plan.  Ensure budget is adequate to recruit sufficient social work staff to protect vulnerable children. CW has no efficiency targets for 2016.	3	4	12	Developing partnership service and resources to supplement core services.  Ensure all agencies are fully committed to the principles of Children and Young Persons Act 2014 in East Lothian including taking responsibility for Lead Professional and Named Person roles.  Fostering and Adoption Recruitment Campaign 2016 will seek to attract new carers and adoptive families.  Contribution to development of refreshed Staged Assessment & Intervention Policies focussing on inclusion and reduction of external placements.	2	4	8	Director of Health & Social Care  Head of Children and Adult Services  Group Service Manager, Long Term Care and Support  Group Service Manager, Protection and Family Support	December 2017  December 2017  December 2017  March 2017	4, 5, 6, 7	Further refreshed in August 2016 with no change to scores.  Risk refreshed in March 2015 with Residual Risk score reduced from 12 to 8.

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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			L	I	L x I		L	I	L x I				
CAS 6	<p>MELDAP</p> <p>Following a formal notification of a 23% reduction of funding available to MELDAP for the provision of Alcohol and Drugs services in East Lothian, MELDAP is developing a savings plan for implementation in April 2017. The impact of this funding reduction could lead to a reduction in local service provision supporting both recovery and early intervention work leading to potential escalation of drugs and alcohol activity in the community and greater demand on acute and local health services and Police/Social Work supports.</p>	<p>There had been a public consultation with service users and carers held in May 2016 in relation to the expected reductions (then thought to be 20%). Feedback from these sessions was used by the MELDAP East Lothian Core Delivery Group in deliberations in relation to identifying potential savings.</p> <p>A report was submitted to the MELDAP Strategic Group who agreed in principle to a number of savings that met most of the reduction in income and remitted to the MELDAP East Lothian Core Delivery Group to carry out the following:</p> <ol style="list-style-type: none"> <li>1) Identify further savings to ensure a balanced budget for 2017/18.</li> <li>2) Implement the savings by April 2017.</li> </ol> <p>This activity is being undertaken fully in partnership with Council, Health, Police and third sector organisations to plan effective service redesign and/or re-routing of service demand to other existing community resources.</p>	3	4	12	<p>A number of tasks will be implemented to act as risk control measures:</p> <ol style="list-style-type: none"> <li>1) The Core Delivery group and MELDAP team will discuss and negotiate planned reductions with service providers.</li> <li>2) The Core Delivery Group and MELDAP Team will carry out an Equality Impact Assessment in relation to planned funding reductions.</li> <li>3) The implementation of the final savings programme will be agreed by the MELDAP Strategic Group.</li> <li>4) The Strategic Group will agree a Communications Strategy to share the results of the process with Service Users/Carers, partner agencies, service providers, staff and other stakeholders.</li> <li>5) The Service developments to meet the financial constraints will be undertaken under overview of the Resilient People Partnership to ensure effective Community Planning around drugs and alcohol services in East Lothian.</li> </ol>	2	3	6	<p>Director of Health &amp; Social Care</p> <p>Head of Children and Adult Services</p> <p>MELDAP Manager</p> <p>Resilient People Partnership</p>	April 2017	6	Risk created by MELDAP Manager July 2016.
CAS 7	<p>Duty of Care</p> <p>Failure to fulfil our duty of care could result in the death, serious harm or detriment of a child or adult. This would in turn result in prosecution, having to pay compensation a negative impact on the reputation of the Council.</p> <p>This failure could be due to a lack of resources (financial, services or staffing), poor practice, poor facility maintenance, a failure to prioritise or non-compliance with procedures/guidance.</p>	<p>We prioritise maintenance of adequate staffing levels for Adult/Child Protection and other work with vulnerable children and adults.</p> <p>Comprehensive ongoing training programmes, specialist training, briefing sessions and staff supports are in place.</p> <p>Action Plans following on from Adult and Child Protection including Regulated Services inspections in place with relevant partnership structures progressing improvements.</p> <p>Learning from Significant and Initial Case Reviews and embed learning in practice.</p> <p>Staff have Personal Development Plans, focusing on specific and agreed development needs.</p> <p>Regular formal professional supervision in place for all staff.</p> <p>The development of a multi-agency Signs of Safety Model Development of a learning culture.</p>	3	4	12	<p>Regarding Duties re-Care and After Care, CW/AW have invested additional staffing to meet requirements of Children &amp; Young Persons Act and continue dialogue with colleagues in housing re-provision of post-care housing provisions for vulnerable young homeless care-experienced people.</p> <p>Framework is being developed to improve the ways cases are recorded and risks identified.</p>	1	4	4	<p>Critical Services Oversight Group</p> <p>Head of Children and Adult Services</p>	<p>December 2016</p> <p>March 2017</p>	4, 5, 6, 7	<p>Risk refreshed August 2016 with no change to scores.</p> <p>Risk refreshed in June 2015 with Residual Risk score reduced from 8 to 4.</p>



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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			L	I	L x I		L	I	L x I				
		<p>CW/AW adhere to the SSSC Code of Practice for Employers of Social Service and the HCPC for allied health professionals.</p> <p>PVG Checks carried out.</p> <p>The duty of care is reinforced through support and supervision arrangements as well as professional development case management.</p> <p>Frameworkki used to identify/record risk.</p> <p>Follow up of service user feedback.</p> <p>The Public Protection Office is now established with an active performance overview and improvement function.</p> <p>Active programmed building maintenance regime and health and safety inspections undertaken.</p>											
<b>Original date produced (Version 1)</b>		29 <sup>th</sup> August 2016											
<b>File Name</b>		Children and Adult Services Risk Register											
<b>Original Author(s)</b>		S Kennedy											
<b>Current Revision Author(s)</b>		S Kennedy											
<b>Version</b>		<b>Date</b>	<b>Author(s)</b>	<b>Notes on Revisions</b>							<b>Risk Score</b>	<b>Overall Rating</b>	
Original		August 2016	S Kennedy	Full Adult Wellbeing and Children's Wellbeing Risk Registers reviewed by Managers and then brought together to form the new Children and Adult Services 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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Date	Internal Audit Reports	External Audit Reports	Accounts Commission/ Audit Scotland reports	Governance	Risk
13/09/16	Section 75 Payments Direct Payments-Children's Wellbeing Housing Voids Audit	Draft Annual Report to Members			Education Risk Register Children and Adult Services Risk Register
29/11/16	Contracts Audit Roads Services Contracts Public Services Network (PSN) Freedom of Information (FOI) Schools Audit Funding – Third Sector Organisations Review of Previous Years'			Treasury Management Mid-Year Review Report Council Improvement Plan Monitoring Report	Service Risk Register
24/01/17	Prevention of Tenancy Fraud PPP Contract Monitoring Property Maintenance – Housing Repairs	ELC Audit Strategy and Plan			Risk Management Strategy Update

	Gas Servicing and Maintenance Income – Waste Services Information Security				
14/03/17	Workforce Planning Review of Performance Indicators Review of Previous Years' Work Internal Audit Plan 2017/18 Fuel Management Home to School Transport		How Councils Work – Roles and Responsibilities	2017 Corporate Governance Self-evaluation/ Annual Governance Statement	Service Risk Register
20/06/17	Capital Projects – Payment Certificates Housing Rents Housing Benefit and Council Tax Reduction Annual Internal Audit Report 2016/17 Controls Assurance Statement 2016/17	Interim Management Report	Overview of Scottish Local Government (Mar 2017)	Draft 2015/16 Annual Accounts Treasury Management Statement	Corporate Risk Register

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 13 September 2016

**BY:** Depute Chief Executive – Resources & People Services

**SUBJECT:** Internal Audit Report – Section 75 Payments

**6**

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**1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Section 75 Payments.

**2 RECOMMENDATION**

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

**3 BACKGROUND**

- 3.1 At the request of management a review was undertaken of the arrangements in place for the administration, management and monitoring of Section 75 Payments.
- 3.2 We are informed that a working group comprising of relevant officers from a number of service areas was established to review the existing arrangements in place for administering Section 75 developer contributions and that progress has been made in identifying a number of areas with scope for improvement. The areas identified by the working group together with the implementation of internal audit's recommendations will assist in the development of robust systems and processes for the administration, management and monitoring of Section 75 Payments.
- 3.3 The main objective of the audit was to ensure that the internal controls in place were operating effectively.
- 3.4 The main findings from our audit work are outlined in the attached report.

**4 POLICY IMPLICATIONS**

4.1 None

**5 INTEGRATED IMPACT ASSESSMENT**

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

**6 RESOURCE IMPLICATIONS**

6.1 Financial – None

6.2 Personnel – None

6.3 Other – None

**7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	1 September 2016



## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT SECTION 75 PAYMENTS**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

At the request of management a review was undertaken by Internal Audit of the arrangements in place for the administration, management and monitoring of Section 75 Payments. A summary of our main findings is outlined below.

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

- For the sample of cases examined, a signed Section 75 Agreement was in place.
- A detailed methodology is used in the school roll forecasting process for projecting pupil numbers – the forecasts form the basis for assessing the impact of proposed developments on Education infrastructure and facilities.

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

- The processes in place for the administration, management and monitoring of Section 75 developer contributions require review. *Risk – failure to adopt a consistent approach.*
- A comprehensive record is not currently maintained of all key information in respect of Section 75 developer contributions – details held by service areas were found to be incomplete and out of date. *Risk – errors and anomalies may arise and remain undetected.*
- At present, responsibility for leading and coordinating the Section 75 process has not been assigned to a specific officer within the Council. *Risk – failure to adopt a coordinated approach.*
- In some cases, errors and anomalies were found in the use of pupil projections, contributions already committed/received and capital costs. *Risk – failure to ensure accuracy and completeness.*
- In some cases, there had been a failure to ensure that Section 75 contributions received from developers had been correctly calculated and indexation properly applied. *Risk – errors and irregularities may occur and remain undetected.*
- There was a lack of adequate procedures in place to ensure that developer contributions were being utilised within the timescales specified in the Section 75 Agreement. *Risk – unutilised contributions may have to be refunded.*
- There was a failure to ensure that a summary of the terms of Section 75 planning obligations had been recorded in the Register of Applications maintained by the Council. *Risk – failure to comply with Regulations.*

#### **1.4 Summary**

Our review of Section 75 Payments 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**

**September 2016**

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT  
SECTION 75 PAYMENTS**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.1.1	Management should ensure that the draft supplementary guidance is finalised and approved.	Medium	Head of Development	Agreed – policy development work is ongoing and will be submitted to Council along with the Proposed LDP for approval.		September 2016 subject to engagement with others and acceptance, including Scottish Government.
3.2.1	Management should ensure that a summary of the terms of any Section 75 planning obligation is recorded in the Register of Applications maintained by the Council.	Medium	Management System and Admin Officer	Agreed		In Place
3.3.1	Management should ensure that detailed procedures are in place for the administration, management and monitoring of Section 75 developer contributions.	Medium	Head of Development / Head of Council Resources	S75 Co-ordinator post identified currently going through Service Review. Procedures, management arrangements and systems to be put in place for current and future policy obligations. Policy transition arrangements also to be agreed and confirmed.		September 2016

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.4.1	Management should ensure that regular training is provided to relevant staff within service areas on the provisions set out in the Scottish Government Circular 3/2012 and on the circumstances where it may be appropriate to seek planning obligations.	Medium	Head of Development	Agreed – training will be provided to staff and will be in accordance with the developer contributions framework that will be agreed by council and as part of the planning application process.		September 2016
3.5.2	Management should ensure that Section 75 Agreements accurately reflect the Planning Committee decision.  Appropriate procedures should be put in place for dealing with exceptional circumstances that may arise following a planning decision being made, which may impact on the Section 75 Agreement.	High	Head of Development / Head of Council Resources	Check and sign off to be put in place at Head of Service level.		June 2016
3.6.2	Periodic reviews should be carried out of the New Build Child Per House Ratios used in the school roll forecasting process.	Medium	Head of Education	The Education MIS Team will undertake a review of the average New Build Child Per House Ratios for primary and secondary during Summer 2016.		September 2016

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.6.2 (cont)				An annual review of the new build child per house ratios will be conducted thereafter in October following validation of the Pupil Census Rolls. This will inform roll projection calculations in accordance with the agreed policy approach to Developer Obligations moving forwards.		From October 2017
3.6.3	Management should ensure that a consistent approach is applied when assessing Education contributions.	High	Head of Development	Agreed		September 2016
3.7.1	Management should review the adequacy and effectiveness of the processes in place for the assessment of developer contributions.	High	Head of Development	Review is ongoing (see 3.1.1 above). Supplementary Guidance under development will set out the framework under which obligations will be gathered.		Interim – September 2016. Full – following adoption of the LDP and Supplementary Guidance.

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.7.1 (cont)	Management should ensure that a clear audit trail is available to support all developer contributions sought – appropriate supporting documentation should be maintained.			Detailed process controls will be established to ensure compliance under this framework. Transitional arrangements will be required to improve process and internal control in the interim until the Supplementary Guidance is adopted.		
3.7.2	The calculation of developer contributions should be checked by a person independent of the preparer to ensure accuracy and completeness.	Medium	Head of Development	Agreed – as 3.7.1 above.		September 2016
3.8.1	Management should ensure that a comprehensive record is maintained of all Section 75 developer contributions to assist in the monitoring and delivery of planning obligations.	Medium	Head of Development	The established working group that was formed to undertake policy and process review work has identified a suitable database for this specific purpose. Detailed process controls will be established on acquisition and deployment of the database.		September 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.8.2	<p>Effective arrangements should be put in place to ensure that all Section 75 contributions due from developers are monitored and that payments are received timeously.</p> <p>Management should ensure that appropriate arrangements are in place for the identification and recording of Section 75 payments received – a unique reference number should be assigned to each development.</p> <p>Management should ensure that Section 75 contributions received from developers have been correctly calculated and indexation properly applied.</p> <p>To assist in the effective monitoring of contributions received and utilised, consideration should be given to operating a separate bank account for all developer contributions.</p>	High	Head of Council Resources	<p>Agreed – appropriate arrangements will be developed and implemented.</p> <p>A separate bank account is not considered necessary and this can be managed effectively through the financial ledger.</p>	Yes	July 2016

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.8.3	Management should ensure that details of all Section 75 payments received are provided to relevant Council officers with responsibility for utilising the contributions within the specified timescales.	High	Head of Council Resources	Agreed – appropriate arrangements will be developed and implemented.		July 2016
3.8.4	Appropriate arrangements should be put in place to ensure that developer contributions received are utilised within the timescales specified in the Section 75 Agreement.	High	Head of Development / Head of Council Resources	Agreed – will be reflected within the role and responsibilities of the proposed new planning obligations officer.		September 2016
3.8.5	A responsible officer should be appointed to lead and coordinate the Section 75 process and ensure that the infrastructure and facilities to be provided under planning obligations are delivered within the appropriate timescales.	High	Head of Development / Head of Council Resources	Agreed – see recommendation 3.3.1 above.		September 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
<b>High</b>	Recommendations which are fundamental to the system and upon which Management should take immediate action.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	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:** 13 September 2016

**BY:** Depute Chief Executive – Resources & People Services

**SUBJECT:** Internal Audit Report on Direct Payments – Children's Wellbeing

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7

**1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Direct Payments – Children's Wellbeing.

**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 Direct Payments – Children's Wellbeing was undertaken as part of the audit plan for 2015/16.
- 3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

**4 POLICY IMPLICATIONS**

- 4.1 None

**5 INTEGRATED IMPACT ASSESSMENT**

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

## **6 RESOURCE IMPLICATIONS**

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

## **7 BACKGROUND PAPERS**

- 7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	1 September 2016

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT  
DIRECT PAYMENTS – CHILDREN’S WELLBEING**

**1. EXECUTIVE SUMMARY**

**1.1 Introduction**

As part of the Audit Plan for 2015/16 a review was undertaken of Direct Payments – Children’s Wellbeing. A summary of our main findings is outlined below.

**1.2 Areas where Expected Controls were Met**

- Key information on Direct Payments including the start date, the assessed needs of the child/young person, the care provider, the number of hours for each provider and the total cost is recorded on the Direct Payments Application Form.
- All Direct Payments Application Forms held on Frameworkki had been properly authorised.
- For the sample of cases examined, we found that Direct Payments had been correctly calculated.

**1.3 Areas with Scope for Improvement**

- There was a lack of operational procedures in place to assist staff with responsibility for administering Direct Payments. *Risk – an inconsistent approach may be adopted.*
- The existing arrangements in place for the authorisation of care packages following a Panel decision require to be formalised. *Risk – lack of a clear audit trail.*
- The Letter of Agreement and the accompanying ‘Responsibilities and Duties’ leaflet require review. *Risk – information contained may not be accurate or complete.*
- There was a lack of procedures in place to ensure that Direct Payment calculations are checked by a person independent of the preparer. *Risk – errors and irregularities may occur and remain undetected.*
- In some cases, no supporting documentation had been provided by the Direct Payment recipient to the Council to support the expenditure that had been incurred, while in other cases there had been delays in the required financial information being submitted. *Risk – errors and irregularities may occur and remain undetected.*
- The financial monitoring and review arrangements in place require review – in a number of cases there had been a failure by Direct Payment recipients to adhere to their Responsibilities and Duties. *Risk – failure to use Direct Payments for their intended purpose.*

**1.4 Summary**

Our review of Direct Payments – Children’s Wellbeing 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**

**September 2016**

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT  
DIRECT PAYMENTS – CHILDREN’S WELLBEING**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.1.1	Management should ensure that the draft procedures currently being reviewed are finalised and issued to staff with operational responsibility for the administration, management and monitoring of Direct Payments.	Medium	Self Directed Support Officer	Procedures for Direct Payments are being reviewed and amended to include Children’s Services. When completed these procedures will be issued to staff with operational responsibility for the administration, management and monitoring of Direct Payments.		November 2016
3.2.1	Management should ensure that all Section 23 Assessments are properly signed by both the parent/guardian and the social worker.	Medium	Team Leader - Disability	<p>Already raised with Children’s Disability Team members. Staff reminded that signed copies of S23 Assessments &amp; Support Plans are uploaded on Frameworki.</p> <p>We will undertake a Qualitative Audit of recently undertaken Section 23 Assessments &amp; Support Plans.</p>		<p>August 2016</p> <p>November 2016</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1	<p>Management should ensure that all Direct Payment documentation currently in use is reviewed to ensure accuracy and completeness.</p> <p>Consideration should be given to introducing a separate form for recording Direct Payment recipient's bank details.</p>	Medium	Self Directed Support Officer / Systems Administrator / Group Service Manager, Long-term Care and Support	<p>We will redesign all paperwork for Direct Payments on Frameworki.</p> <p>We are designing a separate form for recording Direct Payment bank details. We will review current Direct Payment bank details held.</p>		<p>November 2016</p> <p>August 2016</p>
3.4.1	Management should ensure that a clear audit trail exists for the authorisation of all care packages following a Panel decision and of any subsequent changes approved.	Medium	Group Service Manager, Long-term Care and Support / Team Leader - Disability	<p>Have already put this in place since initial feedback from this audit.</p> <p>Minutes &amp; letters from June 2016 Respite Support Panel were all signed off by Group Service Manager, Long-term Care and Support.</p> <p>Subsequent changes to care packages by Group Service Manager will be clearly recorded on Frameworki.</p>		<p>In Place</p> <p>In Place</p> <p>August 2016</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1	<p>Management should review the adequacy and effectiveness of the Letter of Agreement and the accompanying 'Responsibilities and Duties' leaflet.</p> <p>Management should ensure that the Letter of Agreement is signed by all parties.</p>	Medium	Self Directed Support Officer / Team Leader - Disability	<p>All paperwork for Direct Payments is being reviewed and amended including Letters of Agreement and 'Responsibilities and Duties' leaflet.</p> <p>Team Leader has already raised with staff that signed copies of Letter of Agreement must be uploaded onto Frameworki.</p> <p>S23 Assessment &amp; Support Plan Qualitative Audit will include signatures on Letters of Agreement.</p>		<p>November 2016</p> <p>In Place</p> <p>November 2016</p>
3.6.2	<p>Management should ensure that all Direct Payment calculations are checked by a person independent of the preparer.</p> <p>Management should liaise with the Information Systems Manager to explore the option of using the facility on Frameworki to calculate Direct Payments.</p>	Medium	Team Leader - Disability / Senior Business Support Assistant / Frameworki Team	<p>We are going to explore whether Frameworki could undertake Direct Payment calculations. At present the variations of payments makes this a challenge to build into system. However, implementation of minimum wage in October 2016 may reduce complexity.</p>		November 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.2 (cont)				In the interim we have identified an independent member of staff to check Direct Payment calculations.		August 2016
3.7.1	<p>Management should ensure that payments are only made to recipients where a separate bank account is held solely for Direct Payments.</p> <p>Management should ensure that Direct Payment recipients comply with their Responsibilities and Duties.</p> <p>Management should ensure that Direct Payment recipients do not transfer Direct Payment funds to other bank accounts.</p>	Medium	Team Leader - Disability / Group Service Manager, Long-term Care and Support / Self Directed Support Officer	<p>Our updated procedure will require workers undertaking the S23 Assessment &amp; Support Plan to seek a copy of the zero balance bank account held solely for Direct Payments at the time they arrange for the Letter of Agreement to be signed.</p> <p>Qualitative Audit will include Direct Payments recipients' compliance with Responsibilities and Duties.</p> <p>This point refers to challenge with one case that has recently transferred to Adult Services. At transfer the young adult's carers have</p>		<p>November 2016</p> <p>November 2016</p> <p>August 2016</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.7.1 (cont)				<p>again been reminded by Team Leader of their need to comply with Responsibilities and Duties.</p> <p>The Children's Disability Team are aware that this is not acceptable practice.</p>		
3.7.2	<p>Management should ensure that the guidance document 'Responsibilities and Duties' clearly specifies that bank statements and receipts are attached to the Financial Statements of Expenditure.</p> <p>Management should ensure that relevant back-up documentation including bank statements, payslips and receipts are submitted with the Financial Statements.</p>	Medium	<p>Self Directed Support Officer / Team Leader – Disability</p> <p>Self Directed Support Officer/ Team Leader - Disability / Group Service Manager, Long-term Care and Support</p>	<p>Updated 'Responsibilities and Duties' guidance will clearly specify that bank statements and receipts are attached to the Financial Statements of Expenditure.</p> <p>Qualitative Audit will check that relevant back-up documents are submitted with the Financial Statements and that appropriate action is taken if Financial Statements are not submitted within agreed timescales.</p>		<p>November 2016</p> <p>November 2016</p>



PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.7.2 (cont)	<p>Management should ensure that appropriate action is taken where there has been a failure by the recipient in submitting Financial Statements.</p> <p>Management should ensure effective monitoring of Financial Statements – consideration should be given to implementing a grading system (red, amber and green) to monitor on an exception basis.</p> <p>Where there has been a consistent failure by recipients to provide Financial Statements to the Council, Management should assess if the parent/guardian has the ability to manage the Direct Payments process.</p>			<p>We will explore with colleagues in Adult Services how this system might be improved.</p> <p>We have case examples to evidence we are doing this already.</p> <p>This will be checked at Qualitative Audit.</p>		<p>November 2016</p> <p>August 2016</p> <p>November 2016</p>
3.7.3	Management should ensure that a consistent approach is adopted for dealing with unspent balances that exceed the two 4 week periods.	Medium	Team Leader - Disability / Group Service Manager, Long-term Care and Support	Part of planned Direct Payment Review is a financial review which will address these issues.		August 2016

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.8.1	Management should ensure that regular reconciliations are undertaken between payments processed on Frameworki and the amounts posted to the General Ledger.	Medium	Group Service Manager, Long-term Care and Support / Team Leader - Disability	We are consulting with the Creditors Section to achieve this recommendation.		August 2016
3.9.1	<p>Management should ensure that the existing guidance is updated to reflect the provisions of the Protection of Vulnerable Groups (Scotland) Act 2007.</p> <p>Management should ensure that all Direct Payment recipients sign a user agreement confirming their knowledge of the PVG Scheme, their understanding of the importance of Scheme Membership and their acceptance of the responsibility for managing any risk arising from employing an unsuitable person.</p>	Medium	<p>Team Leader - Disability / Group Service Manager, Long-term Care and Support</p> <p>Team Leader - Disability / Group Service Manager, Long-term Care and Support</p>	<p>Guidance will be updated to reflect the provisions of the Protection of Vulnerable Groups (Scotland) Act 2007.</p> <p>We are implementing this recommendation immediately and propose to use Adult Services template to achieve this.</p>		<p>November 2016</p> <p>August 2016</p>

### **Grading of Recommendations**

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

Level	Definition
<b>High</b>	Recommendations which are fundamental to the system and upon which Management should take immediate action.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	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:** 13 September 2016

**BY:** Depute Chief Executive – Resources and People Services

**SUBJECT:** Internal Audit Report – Housing Voids

**8**

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**1 PURPOSE**

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

**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 Housing Voids was undertaken as part of the audit plan for 2016/17.
- 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 INTEGRATED IMPACT ASSESSMENT**

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

## **6 RESOURCE IMPLICATIONS**

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

## **7 BACKGROUND PAPERS**

- 7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	1 September 2016

## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT HOUSING VOIDS**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

As part of the Audit Plan for 2016/17 a review was undertaken of Housing Voids. A summary of our main findings is outlined below.

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

- Detailed process maps are in place to provide guidance to staff with responsibility for the voids management process.
- Adequate arrangements are in place to ensure that inspections are carried out on all void properties.

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

- The existing Voids Management Policy in place requires review. *Risk – failure to adopt a consistent approach.*
- No clear targets are in place for monitoring key stages in the voids management process. *Risk – failure to identify activities which may contribute to delays in the voids management process.*
- There was a failure to ensure that the 28 days End of Tenancy notice period was used as effectively as possible for the management of voids. *Risk – failure to minimise the void period.*
- At present, key activities including the scheduling of repairs work and the allocation process only commence after the outgoing tenant has vacated the property. *Risk – failure to minimise the void period.*
- The arrangements in place for managing voids in respect of allocations to transfer applicants require review. *Risk – property transfers may create a chain of vacant properties impacting on void property re-let periods.*
- The existing approach adopted for the calculation of performance information in respect of housing voids requires review. *Risk – reported information may not accurately reflect actual void periods.*
- In some cases delays were noted in invoices being issued to outgoing tenants for rechargeable works, while in other cases no invoices had been raised. *Risk – loss of income to the Council.*

#### **1.4 Summary**

Our review of Housing Voids 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**

**September 2016**

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT  
HOUSING VOIDS**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.1.1	<p>A detailed review of the Voids Management Policy should be undertaken to ensure that it accurately reflects all revisions approved by management.</p> <p>Management should ensure that the revised Policy is available to all relevant members of staff and tenants.</p>	Medium	Service Manager - Community Housing	Agreed. This is a major policy review which will require consultation with our tenants as per Housing (Scotland) Act 2001.		July 2017
3.2.1	Management should ensure that clear targets are in place for each stage of the voids management process.	Medium	Service Manager - Community Housing	Agreed – targets will be developed for inclusion in the PMF during the coming months.		Full implementation and reporting from April 2017.
3.3.1	<p>Management should review the adequacy and effectiveness of the existing voids management processes in place.</p> <p>Management should ensure that the 28 days End of Tenancy notice period is used as effectively as possible to manage the voids process.</p>	Medium	Service Manager - Community Housing	Agreed		March 2017



<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.4.1	<p>Management should ensure that the process of identifying a new tenant commences as soon as the Council is made aware that the property is to become vacant.</p> <p>Consideration should be given to undertaking pre-void allocations where appropriate.</p>	Medium	Service Manager - Community Housing	Agreed – to be considered as part of the Policy review.		July 2017
3.5.1	Management should review the impact on void property re-let periods of housing allocations made to transfer applicants.	Medium	Service Manager - Community Housing	Agreed		July 2017
3.6.1	<p>Management should review the current approach adopted for the calculation of performance information in respect of housing voids.</p> <p>Management should ensure that reported performance information is accurate and complete and complies fully with the definition.</p>	Medium	Service Manager - Community Housing	Agreed		September 2016
3.7.1	Management should ensure that invoices are raised timeously for all rechargeable works identified relating to outgoing tenants.	Medium	Service Manager - Property Maintenance	Agreed		September 2016

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.8.1	Management should ensure that outgoing tenants are informed of the status of their rent account and are encouraged to make payments to clear any outstanding debt before the end of the tenancy – where tenants are unable to clear the full arrears, a payment arrangement should be put in place to clear the outstanding debt.	Medium	Service Manager - Community Housing	Agreed – current process already refers CHO's to invite Rent Officer to arrange a visit in cases with rent arrears.		In Place
3.9.1	<p>Management should ensure that repairs are identified at the pre-void stage to enable these to be prioritised between those repairs that can be carried out before the end of the tenancy and essential repairs that require to be undertaken while the property is empty, including safety checks.</p> <p>Management should ensure that an accurate record is maintained of the actual start and end dates of all repairs work undertaken on void properties.</p>	<p>Medium</p> <p>Medium</p>	<p>Service Manager - Community Housing</p> <p>Service Manager - Property Maintenance / Service Manager - Community Housing / Service Manager - Engineering Services and Building Standards</p>	<p>Agreed – to be considered as part of the Policy review.</p> <p>Agreed</p>		<p>July 2017</p> <p>March 2017</p>

### **Grading of Recommendations**

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

Level	Definition
<b>High</b>	Recommendations which are fundamental to the system and upon which Management should take immediate action.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	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:** 13 September 2016  
**BY:** Depute Chief Executive – Resources & People Services  
**SUBJECT:** Internal Audit Progress Report 2016/17

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9

**1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of Internal Audit's progress against the annual audit plan for 2016/17.

**2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note the contents of the Internal Audit Progress Report 2016/17.

**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 INTEGRATED IMPACT ASSESSMENT**

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

## **6 RESOURCE IMPLICATIONS**

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

## **7 BACKGROUND PAPERS**

- 7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	1 September 2016

**INTERNAL AUDIT PROGRESS REPORT 2016/17**

<b>AUDIT REPORTS</b>	<b>SCOPE OF THE AUDIT</b>	<b>TARGET COMPLETION DATE</b>	<b>STATUS</b>
Housing Voids	We will assess the arrangements in place for the management and reporting of housing voids.	September 2016	Completed
Contracts Audit	We will examine a sample of contracts to ensure that the Council's Corporate Procurement Procedures have been properly complied with.	September 2016	In-progress
Road Services Contracts	We will examine the arrangements in place for the procurement and monitoring of contracts within Road Services.	November 2016	
Public Services Network (PSN)	We will evaluate the Council's security arrangements, policies and controls to ensure PSN compliance.	November 2016	
Property Maintenance – Housing Repairs	Our review will cover both housing repairs undertaken directly by Property Maintenance and work allocated to external contractors.	November 2016	
Funding – Third Sector Organisations	We will continue our review of 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. In 2016/17 we will examine the grant awards made by Children's Wellbeing.	November 2016	

<b>AUDIT REPORTS</b>	<b>SCOPE OF THE AUDIT</b>	<b>TARGET COMPLETION DATE</b>	<b>STATUS</b>
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by Management have been properly managed.	November 2016	
Freedom of Information (FOI)	We will carry out a review of the arrangements in place to ensure compliance with legislative requirements and timescales for responding to FOI requests.	January 2017	
Prevention of Tenancy Fraud	We will review the adequacy and effectiveness of the arrangements in place for the prevention of tenancy fraud, including a review of tenancy changes.	January 2017	
PPP Contract Monitoring	A review will be undertaken of the arrangements in place for the performance monitoring of the PPP contract.	January 2017	
Gas Servicing and Maintenance	We will review the adequacy and effectiveness of the contractual arrangements in place for undertaking gas servicing and maintenance of all Council properties (both HRA and non HRA).	January 2017	
Income – Waste Services	We will review the current arrangements in place for the collection and re-sale of recycled materials.	January 2017	



AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Information Security	We will carry out an assessment of the arrangements in place within the Council to ensure that information is appropriately controlled.	January 2017	
Schools Audit	We will examine the internal controls operating within one secondary school in East Lothian.	March 2017	
Workforce Planning	We will review the processes and controls in place for managing secondments and 'acting up' roles.	March 2017	
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	March 2017	
Home to School Transport	We will examine the payments made to operators for Home to School transport for both Mainstream and Additional Support Needs pupils to ensure compliance with the contract rates in place.	March 2017	
Fuel Management	We will review the fuel management arrangements in place at the Council's fuel depots.	March 2017	
Internal Audit Plan 2017/18	Internal Audit will present the detailed operational Audit Plan for 2017/18 for approval to the Audit and Governance Committee.	March 2017	

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.	March 2017	
Capital Projects – Payment Certificates	We will review the issuing, authorisation and payment of interim and final certificates for capital projects.	June 2017	
Housing Rents	We will examine the processes and controls in place for housing rents.	June 2017	
Housing Benefit and Council Tax Reduction	We will examine the systems in place for the processing, assessment and payment of Housing Benefit and the award of Council Tax Reduction.	June 2017	
Annual Internal Audit Report 2016/17	We will present the Annual Internal Audit Report based on Internal Audit activity undertaken for financial year 2016/17, as required by the Public Sector Internal Audit Standards.	June 2017	
Controls Assurance Statement 2016/17	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 2016 to 31 March 2017.	June 2017	

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 13 September 2016

**BY:** Depute Chief Executive (Resources & People Services)

**SUBJECT:** East Lothian Council Annual Accounts – 2015/16

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**10**

## **1 PURPOSE**

1.1 To provide those members charged with governance the 2015-16 annual accounts. (The finalised accounts will be placed on the Council's website in due course.)

## **2 RECOMMENDATIONS**

2.1 Members are recommended to;

- Note the 2015-16 audited final accounts, taking into consideration the External Auditors Annual Audit Report.
- Note the intention to submit the audited final accounts in accordance with the statutory timetable.

## **3 BACKGROUND**

3.1 The draft 2015-16 annual accounts were presented and considered by Audit & Governance Committee on 14 June 2016, and were submitted for audit on 30 June 2016.

3.2 Audit review has now been completed, which overall has resulted in a small number of non material amendments to the accounts, and KMPG have confirmed they intend to issue an unqualified audit opinion. A copy of the audited accounts for 2015-16 is set out in Appendix 1 of this report.

3.3 In line with statutory guidelines, the annual accounts will now be formally submitted by 30 September 2016.

#### **4 POLICY IMPLICATIONS**

4.1 There are no direct policy implications associated with this report.

#### **5 INTEGRATED IMPACT ASSESSMENT**

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

#### **6 RESOURCE IMPLICATIONS**

6.1 Financial – there are no direct resource implications arising from the recommendations within this report.

6.2 Personnel – none.

6.3 Other – none.

#### **7 BACKGROUND PAPERS**

7.1 Audit & Governance 14 June 2016 – Item 2 – East Lothian Council Annual Statement of Accounts (Draft) 2015-16

7.2 Members Library Service, June 2016 (ref 86/16) - 2015/16 Draft Annual Accounts (submitted for audit)

7.3 Council 23 August 2016 – Item 4 – 2015-16 Financial Review

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