

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

**TUESDAY 29 NOVEMBER 2016
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

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Committee Members Present:

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

Council Officials Present:

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 Proudfoot, Head of Development
Mr T Shearer, Head of Communities & Partnerships
Mr P Vestri, Service Manager – Corporate Policy
Ms M Garden, Internal Audit Manager
Mr S Allan, Senior Auditor
Mr A Stubbs, Service Manager - Roads
Mr C Redpath, (Acting) Team Manager - Engineering
Ms L Shaw, Corporate Finance Manager
Mr S Kennedy, Risk Officer

Clerk:

Ms F Currie

Visitors Present:

Ms G Woolman, Audit Scotland
Ms E Scoburgh, Audit Scotland

Apologies:

Councillor S Currie

Declarations of Interest:

None

1. MINUTES OF THE AUDIT & GOVERNANCE COMMITTEE MEETING HELD ON 13 SEPTEMBER 2016 (FOR APPROVAL)

The minutes of the Committee's meeting on 13 September 2016 were approved.

Item 10 - Jim Lamond, Head of Council Resources, provided information to Members' regarding the Council's involvement with Lothian Buses. He outlined the value of the Council's shares, the stakes held by Edinburgh, West and Mid Lothian Councils and the arrangements for minority shareholder representation on the Lothian Buses Board.

2. INTRODUCTORY LETTER FROM AUDIT SCOTLAND

An introductory letter was submitted by Audit Scotland to provide the Committee with further information on its appointment as the Council's new external auditors.

Gillian Woolman, Assistant Director, presented the letter. She introduced the wider audit team and outlined the background to Audit Scotland's appointment, its audit approach, reporting arrangements and key timescales.

The Convener queried the timescale of September 2017 for presentation of the final accounts to Members. Mr Lamond acknowledged that this year there had been a delay in sharing the final version of the accounts with Members, although the statutory deadline had been met. He said that his team continued to work on bringing forward aspects of the financial reporting timetable and he hoped to avoid a similar delay next year.

Decision

The Committee agreed to note the contents of the introductory letter from Audit Scotland.

3. REVISED ANNUAL WORK PLAN 2016/17

The Convener advised Members that the Annual Work Plan, which had been revised to reflect future input from Audit Scotland, had been submitted for information.

Mr Lamond referred to the Overview of Scottish Local Government which was scheduled for presentation at the Committee's meeting on 20 June 2017. He advised Members that Part 1 had just been published, Part 2 was due in March 2017 and that this may result in a change to the proposed reporting timescales set out in the Work Plan.

Decision

The Committee agreed to note the contents of the Annual Work Plan 2016/17.

4. COUNCIL RESOURCES RISK REGISTER

A report was submitted by the Chief Executive presenting to the Committee the Council Resources Risk Register for discussion, comment and noting.

Scott Kennedy, Risk Officer, presented the report. He outlined the background to the Risk Register and drew Members' attention to the current scorings which included 3 Very High risks, 6 High risks, 26 Medium risks and 11 Low risks. As per the Council's Risk Strategy only the Very High and High risks had been reported to the Committee.

In response to questions from Members, Mr Lamond acknowledged that the recent increase in rent arrears was undoubtedly linked to the extended rollout of Universal Credit to "Full digital Service" and that the Council's experience was similar to that of the other local authority areas of Highland and Inverclyde who had more recently also been subject to the full service. He outlined some of the mitigation measures which the Council had put in place including public awareness campaigns and increasing support for Council tenants. He added that discussions had taken place at both operational and senior management levels with the Department of Work & Pensions (DWP) and concerns remained about the sustainability of the current working arrangements.

Mr Lamond responded to further questions on the effects of this policy on staffing levels, budgets and the ability of the proposed control measures to adequately manage the risks. He advised that following correspondence from the Chief Executive the DWP's Excellence Group would be visiting the Council next month to gather more information on the challenges facing Council services. A further update report would be presented to the Council meeting on 20 December 2016.

Councillor McAllister commented that the rollout of Universal Credit was not only dislocating poorer people from funds but also from direct communication following the closure of dedicated phone lines. He said that, in his view, the policy represented an unremitting attack on the poorest and most vulnerable in society the full effects of which were yet to be known.

Decision

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

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

5. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY – MID YEAR REVIEW 2016/17

A report was submitted by the Depute Chief Executive – Resources and People Services to update the Committee on Treasury Management activity during the first half of 2016/17.

Liz Shaw, Corporate Finance Manager, presented the mid-year report which had been prepared in compliance with CIPFA's Code of Practice on Treasury Management. She summarised the key areas contained in the report including a review of the Council's borrowing and investment activity for 2016/17 and the economic update provided by Capita Asset Services.

Mr Lamond responded to questions from Members regarding the possibility of bond market funding. He also provided a brief update on the exploratory work being undertaken to assess any potential for review of the Council's contractual commitments under PPP.

Decision

The Committee agreed to note the content of the report.

6. 2016/17 COUNCIL IMPROVEMENT PLAN MONITORING REPORT

A report was submitted by the Depute Chief Executive – Partnerships and Community Services to present to the Committee the 2016/17 Council Improvement Plan six month monitoring report.

Paolo Vestri, Service Manager – Corporate Policy, presented the report which outlined progress that had been made in completing the 12 actions in the Improvement Plan since its adoption in June 2016. He said that significant progress had been made on most actions and that all actions would be completed by March 2017.

Mr Vestri responded to questions on the process for indentifying the three Service Areas and the comparison local authorities used in the benchmarking exercises.

Decision

The Committee agreed to note the progress in achieving the Council Improvement Plan as detailed in the monitoring report.

7. INTERNAL AUDIT REPORT – ROADS CONTRACTS

A report was submitted by the Depute Chief Executive – Resources and People Services to inform the Committee of the recently issued audit report on Roads Contracts.

Mala Garden, Internal Audit Manager, presented the report summarising the areas where controls had been met, those with scope for improvement and the recommendations contained in the Action Plan which had been accepted by Management.

Ms Garden responded to questions from Members regarding progress since the last audit in 2004 and failure to comply with HMRC regulations in respect of VAT receipts.

In reply to a question from the Convener, Ray Montgomery, Head of Infrastructure, confirmed that the contractors were on an approved list but that the Council had previously engaged a company called Construction Line to undertake appropriate

checks on their behalf. However, he had accepted the recommendation from Internal Audit that these checks should now be done in-house.

Decision

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

8. INTERNAL AUDIT REPORT – PUBLIC SERVICES NETWORK

A report was submitted by the Depute Chief Executive – Resources and People Services to inform the Committee of the recently issued audit report on Public Services Network (PSN) compliance.

Ms Garden presented the report. She advised that a high level review of PSN compliance had been undertaken as part of the audit plan for 2016/17. She outlined the main findings and referred Members to the recommendations set out in the Action Plan which had been accepted by Management.

Ms Garden responded to Members questions on the timeframe for signing of the Acceptable Use Policy and third party access to Council systems.

Mr Lamond stated that every two years was a reasonable timeframe for signing of the Policy and would ensure that staff were regularly familiarising themselves with their responsibilities. He added that the completion date of August 2017 would allow the Council time to reach all members of staff and to ensure that arrangements were in place to meet its obligations thereafter.

Councillor McAllister commented on the advance of digital technology and the scope of its application at work, in schools, at home and as part of leisure activities. He reflected on its all pervasive nature and the implications for individuals and organisations.

Decision

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

9. INTERNAL AUDIT REPORT – PAYMENTS TO THIRD SECTOR ORGANISATIONS

A report was submitted by the Depute Chief Executive – Resources and People Services to inform the Committee of the recently issued audit report on Payments to Third Sector Organisations.

Stuart Allan, Senior Auditor, presented the report outlining the findings and recommendations contained in the Action Plan which had been accepted by Management.

In response to a question from Councillor Caldwell regarding duplicate creditor accounts, Mr Allan stated that there was no evidence to suggest that duplicate payments had been made.

Tom Shearer, Head of Communities and Partnerships, advised that the 2016/17 arrangements for Children's Services grants was currently undergoing a process of consolidation and a report would be presented to Cabinet in March 2017. He added that the next stage of work would involve drawing together the different grant procedures and integrating these into a single process.

Decision

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

10. INTERNAL AUDIT FOLLOW UP REPORTS

A report was submitted by the Depute Chief Executive – Resources and People Services to inform the Committee of the recent follow up work undertaken by Internal Audit.

Mr Allan presented the report. He advised Members that as part of the audit plan for 2016/17 Internal Audit had followed up the recommendations made in previously issued audit reports to ensure that they had been implemented as agreed by Management. He outlined the findings in relation to Musselburgh Burgh Primary School, Bad Debt Write-offs, Waste Management and Out of Authority Placements.

Responding to a question from the Convener on bad debt write-offs, Mr Allan confirmed that one of the actions currently outstanding was to ensure that debts over £10,000 recommended for write-off were submitted timeously to Cabinet for approval.

Mr Lamond acknowledged that there had been an undue passage of time since the last submission and he advised Members that a report would be presented to Cabinet before March 2017.

Decision

The Committee agreed to note the findings of Internal Audit's follow up work on Musselburgh Burgh Primary School, Bad Debt Write-offs, Waste Management and Out of Authority Placements.

11. INTERNAL AUDIT PROGRESS REPORT 2016/17

A report was submitted by the Depute Chief Executive – Resources and People Services informing the Committee of Internal Audit's progress against the annual audit plan for 2016/17.

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

In response to a question from the Convener, Ms Garden confirmed that a report on PPP Contract Monitoring would be presented to the Committee's January 2017 meeting.

Decision

The Committee agreed to note the contents of the Internal Audit Progress Report 2016/17.

DRAFT

Signed

Councillor Kenny McLeod
Convener of the Audit and Governance Committee

Code of audit practice

2016

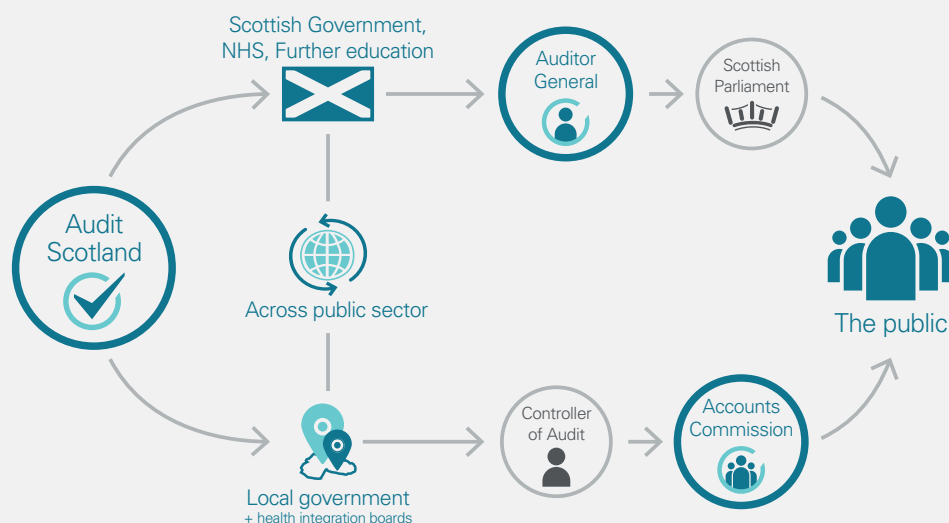
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Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The **Auditor General** is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The **Accounts Commission** is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- **Audit Scotland** is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.


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Foreword

The public sector landscape in Scotland will continue to change significantly with the greater powers and responsibilities being devolved to the Scottish Parliament for taxation and social security.

The public sector will continue to face challenging financial and demand pressures. New ways of providing services are being developed including the creation of Integration Joint Boards for health and social care which marks a significant shift in the planning and delivery of these major services.

As we set out in [Public audit in Scotland](#) , public audit helps create a strong and effective system of financial accountability and transparency which supports the best use of public money in the public interest. Public audit provides independent assurance that public money is spent properly and is providing value for money thereby supporting effective decision-making.

This new Code of audit practice sets the framework for public audit in Scotland. The Code requires auditors to comply with the highest professional standards including International Standards on Auditing and ethical standards.

The Code now requires auditors to provide conclusions on the four dimensions of wider-scope public audit: financial sustainability, financial management, governance and transparency, and value for money. The audit work on the dimensions will help meet stakeholder expectations of audit and also help to focus auditors' work in support of the Accounts Commission's evolving new approach to auditing Best Value. This involves an increasingly integrated approach that will make more use of the work that auditors carry out so that they add value for audited bodies and are better placed to address the challenges that they face.

The Code is a high-level document and will be supplemented by more detailed guidance which will reflect changing priorities and auditing developments and support auditors to provide consistently high-quality audits.



Caroline Gardner
Auditor General for Scotland



Douglas Sinclair
Accounts Commission Chair

Introduction

Background

1. The Code of audit practice (the Code) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and the Accounts Commission and it is a condition of their appointment that they follow it.
2. The Code also describes the scope of public audit in Scotland where audit work is undertaken by appointed auditors, performance audit and Best Value audit staff from Audit Scotland or jointly depending on the nature and timing of the work.
3. The Code forms part of the wider context in which the conduct of public audit in Scotland takes place.
4. This Code applies to external audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011.

Context for public audit in Scotland



Note: 1. The standard letters of appointment will be published on Audit Scotland's website. These letters cover all the contractual elements and responsibilities to be followed by appointed auditors when undertaking audits for the Auditor General and the Accounts Commission including relevant environmental, sustainability and other matters.

Responsibility for public audit in Scotland



5. The Auditor General and the Accounts Commission are responsible for securing the external audit of most public sector bodies in Scotland. They work closely together and, by looking at issues across boundaries, aim to maximise the effectiveness of audit work. Audit work is carried out by Audit Scotland staff and appointed auditors including private firms.

The Auditor General for Scotland

6. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to the control of any member of the Scottish Government or the Parliament.

7. The Auditor General is responsible under the Public Finance and Accountability (Scotland) Act 2000 (the 2000 Act) for appointing the external auditors of most public bodies in Scotland outside the local government sector, and reporting on their financial health and performance. The following bodies fall within the Auditor General's remit:

- the Scottish Government, its agencies and its non-ministerial departments

- Scottish Parliamentary Corporate Body and other directly funded bodies
- Crown Office and Procurator Fiscal Service
- National Health Service bodies
- further education colleges
- Scottish Water
- commissioners and ombudsmen
- non-departmental public bodies (eg, Scottish Enterprise) and others.

8. Audited annual financial statements including the independent auditors' reports, and reports by the Auditor General where the Auditor General decides these are appropriate, are sent to Scottish ministers to be laid before the Scottish Parliament.

9. The Auditor General may initiate examinations into the economy, efficiency and effectiveness with which the relevant public bodies have used their resources in discharging their functions.

The Accounts Commission for Scotland

10. The Accounts Commission for Scotland is an independent public body with its members appointed by Scottish ministers to hold local government to account. The Accounts Commission has five main responsibilities:

- Securing the external audit, including the audit of Best Value and Community Planning. The Commission appoints auditors to councils, local government joint boards and committees, and integration joint boards under the Local Government (Scotland) Act 1973.
- Following up issues of concern, highlighted through the audit, to ensure satisfactory resolutions.
- Carrying out or promoting national performance audits to improve the economy, efficiency and effectiveness of local government or securing best value.
- Issuing directions to local authorities which set out the range of performance information that they are required to publish.
- To coordinate the scrutiny of local government in Scotland.

11. The Accounts Commission has the power to report and make recommendations to Scottish ministers and audited bodies, and it can hold hearings. If it considers that there has been illegality or financial loss due to negligence or misconduct, the Accounts Commission may impose sanctions including censure, suspension or disqualification of members from office.

12. The Controller of Audit post is established by statute with functions involving reporting to the Accounts Commission on the accounts of local authorities and the performance by a local authority of their duties under Best Value and Community Planning. The Controller of Audit acts independently of the Accounts Commission when making judgments in reports.

Audit Scotland and firms

13. Audit Scotland provides services to the Accounts Commission and the Auditor General, including carrying out audit work and supporting them in appointing auditors. It is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair and two non-executive members who are appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament. Audit Scotland also provides guidance and support to appointed auditors and, on behalf of the Auditor General and the Accounts Commission, monitors their performance through a rigorous quality-appraisal process. Once appointed, auditors act independently in carrying out their responsibilities and in exercising professional judgement.

14. Audits of financial statements are carried out by appointed auditors, who are either Audit Scotland staff or firms appointed by the Auditor General or the Accounts Commission. Performance audits and Best Value audits are typically led by Audit Scotland staff working with, and drawing on the work of, appointed auditors where appropriate.

Framework for public audit

Principles of public audit

15. The principles of public audit are shared across the UK and are based on:

- the independence of auditors from the bodies that they audit
- a wider scope which reaches beyond financial statements into judgements on governance, financial sustainability and performance
- public reporting of audit findings and recommendations.

16. This Code provides a framework for auditors to make a difference and support improvement in public services. This framework defines the scope of public audit and explains how audit work and audit outputs are to be delivered and help stakeholders understand the value of audit.

How public audit makes a difference



Responsibilities of audited bodies

17. The audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

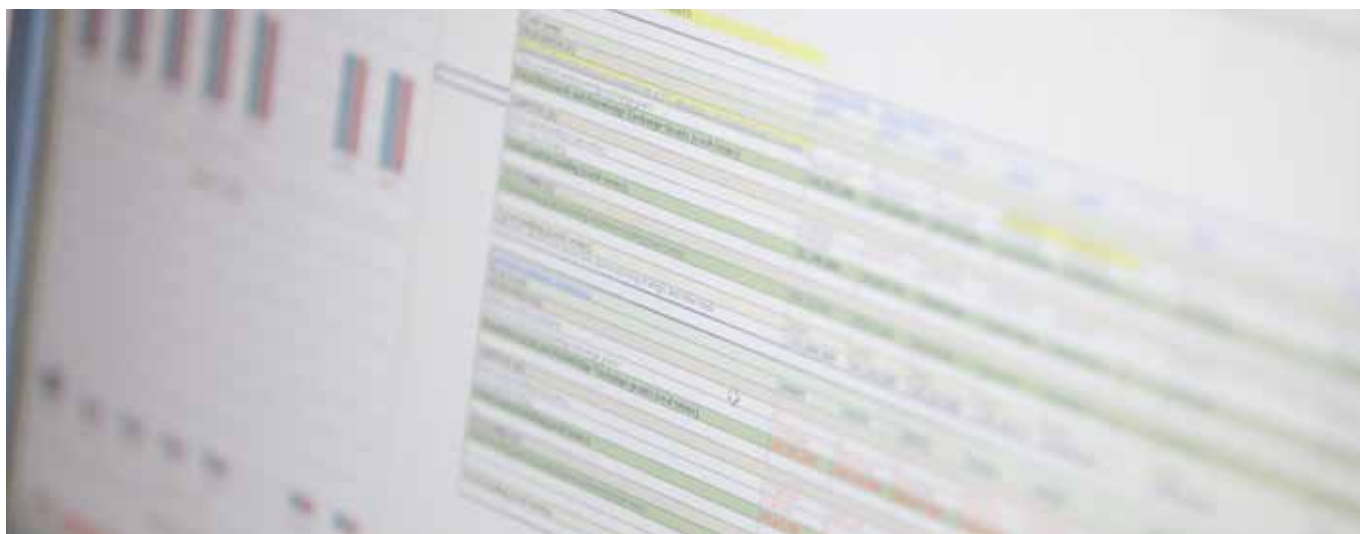
Corporate governance

18. Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

Financial statements and related reports

19. Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation
- maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures
- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority
- maintaining proper accounting records
- preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.



20. Further, it is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

21. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Standards of conduct for prevention and detection of fraud and error

22. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

Financial position

23. Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified
- compliance with any statutory financial requirements and achievement of financial targets
- balances and reserves, including strategies about levels and their future use
- how they plan to deal with uncertainty in the medium and longer term
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

24. Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make 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. The Community Empowerment (Scotland) Act 2015 will have implications for the Audit of Best Value. This Act is designed to help empower community bodies through the ownership or control of land and buildings, and by strengthening their voices in decisions about public services. Specified audited bodies also have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

25. The Police and Fire Reform (Scotland) Act 2012 also places a statutory duty to make arrangements to secure best value in carrying out their functions on the Scottish Police Authority; the Chief Constable of the Police Service of Scotland; and the Scottish Fire and Rescue Service.

26. For other sectors, the *Scottish Public Finance Manual* sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

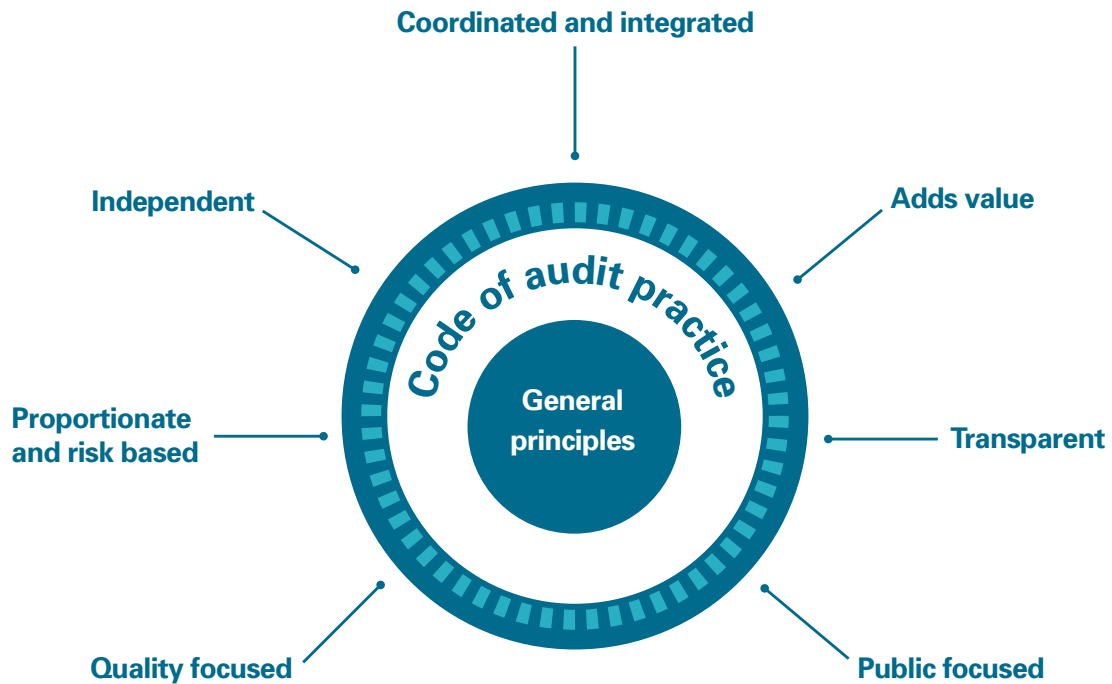
Appointed auditor responsibilities

27. Auditor responsibilities are derived from statute, this Code, International Standards on Auditing (UK and Ireland), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards
- provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions
- review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns
- notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required¹
- participate in arrangements to cooperate and coordinate with other scrutiny bodies (local government sector only)
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
 - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets
 - suitability and effectiveness of corporate governance arrangements
 - financial position and arrangements for securing financial sustainability
- and additionally for local authority auditors:
 - effectiveness of arrangements to achieve best value
 - suitability of arrangements for preparing and publishing statutory performance information.

28. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

General principles



29. This Code is designed such that adherence to it will result in an audit that exhibits these principles.

Independent

30. When undertaking audit work all auditors should be, and should be seen to be, independent. This means auditors should be objective, impartial and comply fully with the Financial Reporting Council's (FRC) ethical standards and any relevant professional or statutory guidance. Auditors will report in public and make recommendations on what they find without being influenced by fear or favour.

Proportionate and risk based

31. Audit work should be proportionate and risk based. Auditors need to exercise professional scepticism and demonstrate that they understand the environment in which public policy and services operate. Work undertaken should be tailored to the circumstances of the audit and the audit risks identified. Audit findings and judgements made must be supported by appropriate levels of evidence and explanations. Auditors will draw on public bodies' self-assessment and self-evaluation evidence when assessing and identifying audit risk.

Quality focused

32. Auditors should ensure that audits are conducted in a manner that will demonstrate that the relevant ethical and professional standards are complied with and that there are appropriate quality-control arrangements in place as required by statute and professional standards.

Coordinated and integrated

33. It is important that auditors coordinate their work with internal audit,² Audit Scotland, other external auditors and relevant scrutiny bodies to recognise the increasing integration of service delivery and partnership working within the public sector. This would help secure value for money by removing unnecessary duplication and also provide a clear programme of scrutiny activity for audited bodies.

Public focused

34. The work undertaken by external audit is carried out for the public, including their elected representatives, and in its interest. The use of public money means that public audit must be planned and undertaken from a wider perspective than in the private sector and include aspects of public stewardship and best value. It will also recognise that public bodies may operate and deliver services through partnerships, arm's-length external organisations (ALEOs) or other forms of joint working with other public, private or third sector bodies. The Accounts Commission has recently updated its auditor guidance on its Following the Public Pound (FtPP) Code to reflect its ongoing interest in this area. Compliance with the FtPP Code will be considered as part of the new approach to auditing Best Value. Auditors have a right to information held by audited bodies, group entities and others to ensure that they are able to follow, review and assess how public money is being spent and to report on this in the public interest.

Transparent

35. Auditors, when planning and reporting their work, should be clear about what, why and how they audit. To support transparency the main audit outputs should be of relevance to the public and focus on the significant issues arising from the audit.

Adds value

36. It is important that auditors recognise the implications of their audit work, including their wider scope responsibilities, and that they clearly demonstrate that they add value or have an impact in the work that they do. This means that public audit should provide clear judgements and conclusions on how well the audited body has discharged its responsibilities and how well they have demonstrated the effectiveness of their arrangements. Auditors should make appropriate and proportionate recommendations for improvement where significant risks are identified.

Scope of public audit



Background

37. Public audit as described in this Code is a combination of specific legal requirements, professional requirements, best practices as applied to public interest entities in the private sector and the requirements arising from this Code that are designed to ensure that public audit adds value for audited bodies, the public and their elected representatives.

38. Audit work is carried out in an integrated way with work undertaken to provide evidence for one objective being used to inform others.

Bases of public audit

Requirements:

Statutory



Best practice



Adds value



Examples:

- Opinions on the financial statements and regularity
- National performance audits and Best Value audits

- Opinions on management commentaries, remuneration reports and governance statements

- Public reporting of audit findings
- Wider scope reporting

Responsibility for audit

39. On behalf of the Auditor General and the Accounts Commission, Audit Scotland leads and coordinates the delivery of public audit in Scotland in consultation with key stakeholders to ensure that it is focused, integrated and proportionate.

40. Auditors appointed by the Auditor General for Scotland or the Accounts Commission are responsible for giving an opinion on the financial statements and reporting on other related matters. Audit Scotland provides technical support to appointed auditors in respect of these responsibilities to inform their professional judgement.

41. Appointed auditors will work in partnership with Audit Scotland performance audit and Best Value audit staff in discharging their wider scope responsibilities. These teams have a key role in developing and delivering national performance and Best Value audit work.

42. For all sectors, except local government, performance audit reports are approved by the Auditor General and many of them are considered by the Scottish Parliament, particularly the Public Audit Committee. The Accounts Commission receives reports prepared by the Controller of Audit on the audit and performance of local authorities. These reports are usually published together with the stated findings of the Accounts Commission.

43. The appointed auditors for each audit will report annually to those charged with governance on the results of their work covering both the financial statements and the wider scope audit.

44. Within each five-year audit appointment period there will be at least one report on Best Value for each council concluding on their performance relating to best value characteristics and improvements. These reports will be informed by the work carried out by the appointed auditors in the intervening years.

Audit of financial statements and related matters

45. For the purposes of the Code, the scope of the financial statements audit work is set by International Standards on Auditing (UK and Ireland) and Ethical Standards for Auditors as issued by the FRC. All appointed auditors are required to comply with these standards.

46. Appointed auditors are required to give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income (not required for local government).

47. In some areas the application of the International Standards on Auditing (ISAs) have been interpreted to meet the additional requirements of public sector audit. The relevant ISAs are referred to in this Code and summarised in the glossary.

48. ISA include certain requirements relating to the auditor's consideration of fraud. The nature of public sector organisations means that there are specific fraud risks that are relevant to a public sector audit which should be considered when applying ISA 240. These include taxation receipts, welfare benefits, grants and other claims made by individuals and organisations on the public purse.

49. Appointed auditors should consider the risks and the arrangements put in place by audited bodies to ensure that all material revenue is identified and collected and that material payments are made correctly. Appointed auditors should use their professional judgement when assessing all the risks within individual audited bodies and whether they are significant, relevant or rebuttable.

50. In line with the Companies Act 2006 requirements that apply in the private sector, appointed auditors are also required to give opinions on remuneration reports, annual governance statements, and whether the management commentaries are consistent with the disclosures in the accounts.

Wider scope audit

51. Legislation creates further responsibilities for the audit of the public sector in Scotland which form the basis for the wider scope of public audit in Scotland. These are:

- The Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General the right to initiate examinations into the economy, efficiency and effectiveness with which audited bodies and certain other bodies have used their resources to discharge their functions. The results of such examinations may be presented to the Scottish Parliament and considered by its Public Audit Committee.
- The Police and Fire Reform (Scotland) Act 2012 gives the Auditor General the right to initiate examinations into the arrangements made by the Scottish Police Authority; the Chief Constable of Police Service of Scotland; and the Scottish Fire and Rescue Service to secure best value.
- The Local Government (Scotland) Act 1973 requires the Accounts Commission to undertake or promote comparative and other studies designed to make recommendations for:
 - the securing by local authorities of best value
 - improving economy, efficiency and effectiveness in the provision of services by local authorities
 - improving the financial or other management of such authorities.
- The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing best value and complying with responsibilities relating to Community Planning.
- The Local Government Act 1992 requires auditors of local government bodies to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

52. This Code recognises the increasingly high expectations the public has about the role of audit in the stewardship of public funds. It defines the wider scope of public audit as going beyond the financial statements to include work that contributes to audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.



53. The planned audit work should, however, be risk based and proportionate to the nature and size of an audited body. Where the application of the full wider scope is judged by auditors not to be appropriate to an audited body then annual audit work on the wider scope should be undertaken that enables conclusions to be made on the:

- appropriateness of the disclosures in the governance statement
- financial sustainability of the body and the services that it delivers over the medium to longer term.

54. Audit Scotland will include guidance on the application of the wider scope audit requirements in its annual guidance to auditors.

55. If, in the case of a small body, an appointed auditor identifies that there is particular risk or public interest in a wider scope issue beyond these areas then the auditor must contact Audit Scotland to discuss the issue and agree an appropriate response.

Audit dimensions and Best Value

56. The Auditor General, the Accounts Commission and Audit Scotland have agreed four audit dimensions that frame the wider scope audit work into identifiable audit areas. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support the judgements and conclusions made by appointed auditors on these dimensions. These dimensions will be used to report where auditors are adding value or having an impact.

57. All appointed auditors must consider these audit dimensions when scoping, planning, performing, and reporting their work. The dimensions are set out in the diagram below.

58. In the local government sector, the appointed auditor’s annual conclusions on these four audit dimensions will contribute to an overall assessment and assurance on best value. Across the five-year audit appointment these conclusions will provide an indication of whether the audited body is demonstrating that it is securing best value through the continuous improvement in the performance of its functions. Supplementary guidance will provide further details on this.

59. The following section describes each dimension and the high-level audit work to be considered by appointed auditors when undertaking their annual audit.

Four audit dimensions to be used when planning and reporting the audit



Financial sustainability

60. Appointed auditors consider ISA 570, including that auditors consider the appropriateness of the use of the going concern basis of accounting, as part of their annual audit of the financial statements. In particular, auditors would consider that if the period to which those charged with governance have paid particular attention in assessing going concern is less than one year from the date of approval of the financial statements, and those charged with governance have not disclosed that fact, the auditor is required to do so within the auditor's report.

61. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets this requirement and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

62. Audit work would include reviewing, concluding and reporting on areas such as:

- the effectiveness of the financial planning systems in identifying and addressing risks to financial sustainability across the shorter and longer terms
- the appropriateness of the arrangements put in place to address any identified funding gaps and whether the body can demonstrate that these arrangements are working
- whether the body can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

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

64. Audit work would include reviewing, concluding and reporting on areas such as:

- whether the audited body has arrangements to ensure systems of internal control are operating effectively
- whether the body can demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance

- how the audited body has assured itself that its financial capacity and skills are appropriate
- whether the body has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

65. 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.

66. Audit work would include reviewing, concluding and reporting on areas such as:

- whether the body can demonstrate that the governance arrangements are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs)
- whether there is effective scrutiny, challenge and transparency on decision-making and financial and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

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

68. Audit work would include reviewing, concluding and reporting on areas such as whether:

- the body can provide evidence that it is demonstrating value for money in the use of resources
- the body can demonstrate that there is a clear link between money spent, outputs and the outcomes delivered
- the body can demonstrate that outcomes are improving
- there is a sufficient focus on improvement and the pace of it.

Integration of the audit dimensions into the annual audit

69. The audit dimensions should be considered by appointed auditors when:

- identifying significant audit risks at the risk assessment and audit planning stage
- reporting the work done on obtaining assurances over these risks and dimensions
- making recommendations for improvement.

70. Where appointed auditors have identified significant wider scope risks during the planning process these should be included in a plan, having regard to the appropriate audit dimensions, together with the audit work that will be undertaken to address these risks.

71. All annual audit reports should include a summary on each dimension that states any work done in the year by the appointed auditor and the assurances, risks and any good practice that they have identified. A simple description of the arrangements in place is not sufficient. Appointed auditors should provide clear judgements and conclusions on the effectiveness and appropriateness of the arrangements in place based on any work that they have done. If there are still significant risks, appointed auditors should make recommendations for improvement.

72. By reporting against the dimensions in their annual audit reports, auditors will have discharged their wider scope responsibilities under this Code.

73. Audit Scotland will use the audit outputs to support the development of performance audits; to inform further work; to report to the Parliament and the Accounts Commission; and to share good practice.

Planning and performing the annual audit



Introduction

74. Auditors should plan and perform their audit work in accordance with ISAs, this Code and additional guidance prepared by Audit Scotland. This guidance will be informed, as appropriate, by the following:

- Accounts Commission Strategy
- Auditor General priorities
- Audit Scotland's Corporate Plan.

Planning

75. Audit planning is an ongoing process which evolves in response to changes in audit risk and emerging audit findings, as well as the context in which audited bodies are operating.

76. As part of the annual audit planning process, appointed auditors should prepare an annual audit plan that documents how they intend to meet their responsibilities, in the light of their assessment of risks and wider scope responsibilities. These plans should be communicated to those charged with governance.

Annual audit plans and the wider scope

77. The principles of ISA 330 are extended to meet the expectations of public audit when planning the audit and must be applied to the appointed auditors' assessed risk of bodies not having appropriate arrangements in place in respect of the wider scope requirements.

78. Auditors should coordinate their planned audit work with internal audit, performance and Best Value programmes to ensure that it is effective and proportionate. Auditors should consider completing audit work covering elements of the four audit dimensions on an annual basis.

79. For local government auditors there is also a requirement to participate in the Shared Risk Assessment process. This involves contributing to a joint local scrutiny plan for a council each year, in partnership with other scrutiny bodies.

80. Annual audit plans should categorise auditor judgements over significant risks by reference to the wider scope dimensions, and clearly demonstrate that the wider scope responsibilities have been considered at the planning stage of the audit.

81. Where significant risks to financial statements and audit dimensions are identified at the planning stage, auditors must indicate the work planned in the year to address these risks in the audit plan.

82. Local government auditors are also required to satisfy themselves that the local authority has made proper arrangements for securing best value and also the suitability of the arrangements for preparing and publishing statutory performance information.

83. To support appointed auditors to discharge their wider scope responsibilities, supplementary guidance will be provided by Audit Scotland.

The auditor's opinion on the financial statements and related matters

84. Appointed auditors are required to provide an opinion on the audited body's financial statements. These opinions will cover:

- whether the financial statements give a true and fair view of the state of affairs of the audited body and its expenditure and income for the period audited
- whether the financial statements have been prepared properly in accordance with the applicable financial reporting framework and relevant legislation.

85. Opinion on regularity:

- in sectors other than local government, the regularity of expenditure and income.

86. Opinion on other matters:

- whether a specified part of the remuneration report has been properly prepared
- whether the management commentary (or equivalent report) is consistent with the financial statements
- whether the information given in the governance statement complies with regulations or Scottish ministers' guidance.


87. Reporting by exception:

- if other information accompanying the financial statements is materially inconsistent with the financial statements or apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by auditors in the course of performing the audit
- if adequate accounting records have not been kept
- if the financial statements and the part of the remuneration report to be audited are not in agreement with the accounting records
- if the auditor has not received all the information and explanations required for the audit
- if there is a failure to achieve a financial objective prescribed by Scottish ministers.

Reporting the annual audit



Introduction

88. Audit reporting is the visible output from the annual audit. Audit plans, the principal audit outputs arising from audit plans and any other outputs on matters of public interest will be published on [Audit Scotland's website](#) .

Outputs from the audit to those charged with governance

89. The following outputs are to be produced annually for each audit appointment:

- annual audit plan
- independent auditor's report(s)
- annual audit report.

90. The independent auditor's report and annual audit reports are required by the Code to be communicated to those charged with governance and to also be addressed to the Controller of Audit in the case of local authorities and the Auditor General for Scotland in all other cases.

Annual audit plan

91. The annual audit plan will contain an overview of the planned scope and timing of the audit to be carried out in accordance with ISAs, this Code, and guidance from Audit Scotland.

92. It will clearly identify the audit work that is planned to be done to meet the wider code requirements of public sector audit as well as the audit of the financial statements and other related matters. It should include the respective responsibilities of audited bodies and appointed auditors.

93. Audit plans are addressed to the audited body and should be presented to those charged with governance. The plan should contain information relating to the appointed auditor's approach to significant risks and internal control and refer to the concept of materiality³ and the materiality figures used. The annual audit plan will include the name of the engagement lead and confirm the independence of the appointed auditor. Plans should be reviewed throughout the audit and the audit approach updated as necessary.

Independent auditor's report

94. The independent auditor's report must set out the results of the appointed auditor's work on the financial statements in accordance with the Technical Guidance Note on model independent auditor's reports that is prepared annually by Audit Scotland.

95. The auditor's report must be signed with the name of the engagement lead. Where the appointed auditor is a firm, it should be signed for and on behalf of the firm.

Annual audit report

96. The annual audit report will include the content to be reported to those charged with governance at the completion of an audit, the conclusions on work carried out to provide assurance on the wider scope dimensions, and recommendations for improvement where there are still risks. The annual ISA 260 report to those charged with governance may be included in the annual audit report or be separately reported.

97. The annual audit reports that are prepared under this Code will include both opinions and conclusions which are retrospective in nature and also prospective views which will necessarily be based on assumptions about the future.

98. Appointed auditors will discharge their responsibilities in this area by providing clear conclusions in the annual audit report on the wider scope audit work, as framed by the four audit dimensions.

99. These conclusions should provide clear narrative that explains to the reader what the appointed auditor found in respect of the effectiveness and appropriateness of the arrangements that audited bodies have in place regarding the four audit dimensions, including best value characteristics where applicable. Simply describing the arrangements that are in place at an audited body would not meet this responsibility.

100. The enhancements made to auditor reporting for listed companies, and entities who have voluntarily adopted UK Corporate Governance Code, in the private sector by ISA 700 are extended to apply to all annual audit reports prepared under this Code.

Other outputs

101. The following other outputs may require to be produced in the course of audits:

- Certification of grant claims prepared by audited bodies.
- Assurance statements for whole of government account returns or other consolidation schedules.
- Reports on summary financial information.

102. These other outputs are to be prepared in accordance with the appropriate Technical Guidance Notes produced by Audit Scotland.

103. Auditors may also produce management reports, where relevant.

Principles of reporting

104. It is important that audit reports are clear and can be understood by those charged with governance and members of the public who have an interest. All reports produced are to be:

- written in plain language, minimising jargon and technical terms
- relevant to the needs of the audited body and users
- focused on drawing clear conclusions and making recommendations for improvement, where appropriate
- issued promptly at the appropriate point in the audit process.

105. Recommendations arising from audit work should:

- be useful, specific and practicable and focused on the public interest

- be proportionate and take account of the expected costs and challenges of implementation
- include management responses including target dates and responsibility for action where appropriate
- be followed up at appropriate intervals.

Quality arrangements

106. The audit work completed under this Code will be subject to robust and appropriate quality arrangements to ensure that auditors are meeting their responsibilities. These arrangements provide assurance to the Auditor General for Scotland and the Accounts Commission on the quality of the audit work that they have procured. The quality-review results will be used to promote improvements in the quality of public audit.

Guidance

107. Audit Scotland will issue guidance in support of this Code and appointed auditors must have regard to it. On an annual basis planning guidance will be issued covering the expected audit outputs for each audit year. Supplementary guidance will be issued as appropriate to support appointed auditors to fulfil their responsibilities.

Technical support

108. Audit Scotland provides technical support and guidance to all appointed auditors. While appointed auditors act independently, and are responsible for their own conclusions and opinions, Audit Scotland has a role in ensuring that those conclusions and opinions are reached on the basis of informed judgement. Audit Scotland will consult with appointed auditors and other interested parties on the preparation of technical guidance and appointed auditors are expected to contribute. Consistency in similar circumstances is important and therefore appointed auditors should consider such guidance. However, appointed auditors must advise and discuss with Audit Scotland promptly of any intended significant departures from the technical guidance.

Other matters/activities



Information returns

109. Audit Scotland requires appointed auditors to complete information returns during the audit appointment. These returns are used for a number of purposes including benchmarking, risk assessment and performance audit work and programme development.

Fraud returns

110. Appointed auditors are required to report information on cases of fraud and irregularities in accordance with guidance from Audit Scotland. Appointed auditors should also review information about frauds disseminated by Audit Scotland and consider whether any action is required in relation to their own audit appointments.

Correspondence – issues of concern

111. People or organisations write to Audit Scotland because they have concerns about an issue within a public body that falls under the remit of the Auditor General for Scotland or the Accounts Commission. An issue of concern may be something such as a breakdown in financial management or governance arrangements.

112. The key factor in determining whether Audit Scotland examines an issue is the relevance of the issue to Audit Scotland's role and functions. Audit Scotland and appointed auditors will make this judgement using their professional and technical knowledge. They will also take into consideration the costs of carrying out such work to ensure that they use resources efficiently.

113. All correspondence relating to issues of concern should be directed to and managed by the Audit Scotland Correspondence Team in the first instance, who will liaise with auditors as appropriate. In investigating issues of concern, auditors should have regard to any guidance issued by Audit Scotland.

114. If the issue of concern does not fall within our remit we may redirect the correspondent to a more appropriate body.

Whistleblowing

115. The Auditor General, the Accounts Commission, Audit Scotland, and appointed auditors are prescribed persons under the Public Interest Disclosure Act. These bodies can consider any relevant concerns from whistleblowers and may investigate further.

Data matching

116. Audit Scotland may conduct data matching for the purposes of preventing and detecting fraud. Scottish public bodies are supported in their counter-fraud activities through participation in the National Fraud Initiative. This is a data-matching exercise which matches data within and between other public bodies to identify potentially fraudulent transactions or claims and errors.

Requests for auditors' views

117. Audited bodies often seek appointed auditors' views on the regularity, accounting treatment or performance management implications of transactions, or proposed courses of action, before embarking upon them. Appointed auditors should be as helpful as possible, but should bear in mind that:

- their independence must not be prejudiced by being involved in audited bodies' decision-making
- they must comply with professional standards
- they are not financial or legal advisers to audited bodies
- they should not act in any way that might compromise their ability to report on a matter, or to exercise the powers conferred by statute on them, the Auditor General, the Controller of Audit, the Accounts Commission or Audit Scotland.

118. Audited bodies and their management are responsible for deciding whether to embark on transactions or courses of action. Responses made by appointed auditors should not be taken by audited bodies as suggesting that proposed transactions or courses of action will be exempt from challenge in future, whether by auditors or others entitled to object to them.

Responsibilities to third parties

119. While the results of audits will be made available to the public, the appointed auditors' duty of care in respect of the audit of the bodies covered by this Code extends only to:

- local government bodies – the audited body, the Accounts Commission, the Controller of Audit and Audit Scotland
- all other bodies – the audited body, the Auditor General, Audit Scotland and the Scottish Parliament (under statute, most audited financial statements require to be laid before the Parliament).

120. Although reports may be addressed to members or managers, they are prepared solely for the use of the bodies referred to above. Appointed auditors do not undertake to have responsibilities to members, directors, accountable officers, managers or the Scottish ministers in their individual capacities, or to third parties.

Appendix 1

Appointed auditors' statutory duties and reporting

For bodies falling within the Auditor General's remit

Appointed auditors' statutory duties are derived from appointment by the Auditor General under the Public Finance and Accountability (Scotland) Act 2000. Appointed auditors' reports (ie, the auditor's independent report in relation to the financial statements) must set out the auditor's findings on:

- whether the expenditure and receipts⁴ shown in the financial statements were incurred or applied in accordance with:
 - any enactment by virtue of which the expenditure was incurred or the income received
 - the Budget Act(s) for the financial year, or any part of the financial year, to which the financial statements relate
 - Sections 4 to 7 of the 2000 Act, relating to the Scottish Consolidated Fund (the Fund)
- where sums have been paid out of the Fund for the purpose of meeting such expenditure, whether the sums were applied in accordance with Section 65 of the Scotland Act 1998
- whether the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable guidance (whether as to propriety or otherwise) issued by the Scottish ministers
- whether the financial statements comply with any applicable direction by virtue of any enactment.

Appointed auditors must send the financial statements, including the auditor's report, to the Auditor General who may prepare a report on the financial statements under Section 22 of the 2000 Act. Further details on Section 22 reporting are summarised at [Appendix 4 \(page 41\)](#).

For local government bodies

Appointed auditors' statutory duties for local government bodies are contained principally within Part VII of the Local Government (Scotland) Act 1973. These are to:

- audit the financial statements and place a certificate (ie, independent auditor's report) on the statements stating that the audit has been conducted in accordance with Part VII of the Act
- satisfy themselves that:
 - financial statements have been prepared in accordance with all applicable statutory requirements
 - proper accounting practices have been observed in the preparation of the financial statements
 - the body has made proper arrangements for securing best value and is complying with its community planning duties⁵
 - a local authority has made adequate arrangements for collecting, recording and publishing prescribed performance information
- hear any objection to the financial statements lodged by an interested person.

Appointed auditors should also be familiar with the responsibilities in Section 102 of the Local Government (Scotland) Act 1973, summarised in [Appendix 3 \(page 39\)](#) including those relating to the audit of the accounts of a local authority.

Appendix 2

Public right of inspection and objection under the Local Government (Scotland) Act 1973

The wider public interest dimension to the audit of public money is explained throughout the Code. For the audit of the financial statements of local government bodies, appointed auditors are required to have regard to the right of citizens to:

- inspect a local authority's accounts, books and records and take copies or extracts thereof
- lodge with the auditor a written objection to those accounts, together with a statement of the grounds thereof
- appear before and be heard by the auditor with respect to that objection.

Written objections require to be lodged directly with the local auditor.⁶ Appointed auditors should advise the Controller of Audit promptly of any objections or submissions received directly. If requested by the objector, the local authority or any officer of the authority who may be concerned, the appointed auditor must give the relevant party an opportunity to appear before, and be heard by, the appointed auditor with respect to the objection.

Appointed auditors should have regard to any additional guidance issued by Audit Scotland when dealing with objections to the accounts of a local authority.

Appendix 3

Statutory reports under Section 102 of the Local Government (Scotland) Act 1973 and auditor's right of access

Section 102(1)

Under Section 102(1) of the Local Government (Scotland) Act 1973 the Controller of Audit may, and if required by the Accounts Commission must, submit reports to the Commission about:

- the accounts of local authorities
- any matters arising from the accounts or the audit of local authorities that the Controller considers should be considered by a local authority or brought to the attention of the public
- the performance of a local authority of their duties relating to best value and accountability and community planning as set out in the Local Government in Scotland Act 2003.

Section 102(2) requires any report under Section 102(1) to be copied to any local authority named in the report and to any other persons that the Controller thinks fit.

Section 102(3)

Having considered any matter arising out of the audit of the accounts of a local authority, and having made such enquiries as the Controller sees fit, in certain circumstances the Controller may, under Section 102(3), make a special report to the Accounts Commission. A report may be made where the Controller is of the opinion that:

- an item of account is contrary to law
- there has been a failure on someone's part to bring into account a sum which ought to have been brought into account
- a loss has been incurred or deficiency caused by the negligence or misconduct of a person, or by the failure of an authority to carry out a duty imposed on them by any enactment
- a sum which ought to have been credited or debited to one account of an authority has been credited or debited to another account and the authority has not taken, or is not taking, steps to remedy the matter.

A fundamental feature of the process which might give rise to a report to the Accounts Commission is the role which auditors play in bringing circumstances which could give rise to a report for the attention of the Controller. For example, should the auditors of a local government body identify a matter which could potentially lead to a report under Section 102(3), immediate contact should be made with Audit Scotland. The need to draw early attention to the matter takes priority over the need to have prepared a detailed report or for the auditor to have formed a definitive view on the matter.

Immediate notification to Audit Scotland should normally be followed by the submission of a detailed report.

Section 100 – auditor’s right of access to documents

Section 100 covers an auditor’s right of access to documents in the local government sector.

An auditor shall have a right of access at all reasonable times to all such documents relating to the accounts of a local authority that they judge necessary to examine for the purpose of auditing those accounts.

Auditors shall be entitled to require from any officer of that authority or any other person holding or accountable for any such document such information and explanation as they think necessary.

Appendix 4

Statutory reports of the Auditor General under the Public Finance and Accountability (Scotland) Act 2000 and an auditor's right of access

Section 22 reports

Under Section 22 of this Act, the Auditor General can prepare a report on matters arising from the audit of the accounts of a public body for which they are responsible for auditing. This type of report is known as a Section 22 report.

Reasons for the Auditor General preparing a Section 22 report

Reporting under Section 22 of this Act enables the Auditor General to bring to the attention of the Scottish Parliament and the public, matters of public interest arising from the audit of the wide range of public bodies for which they have audit responsibility. These matters of public interest are generally focused on specific issues or concerns that have been raised by the appointed auditor and highlighted in their annual audit report on a public body. The Auditor General may also decide to prepare a Section 22 report so that progress with issues raised in a previous Section 22 report can be publicly reported.

Examples of issues that may be highlighted in Section 22 reports

The issues highlighted in Section 22 reports can vary and a range of factors are considered when deciding whether to prepare a Section 22 report including:

- the auditor's opinion on the accounts, eg the auditor may have highlighted particular issues by qualifying their opinion on the financial statements or adding an 'emphasis of matter' paragraph
- materiality, ie the significance of the issue in terms of its value or its impact
- relevance, eg whether the issue is relevant elsewhere within the public body or across public bodies, whether the issue is of future relevance in that other public bodies may have similar problems or may pursue a similar course of action
- timing, eg how long it has been since the matter arose or whether the issue is a continuing concern
- reporting, eg whether the issue has been reported in public before.

Arrangements for preparing a Section 22 report

During the annual audit of a public body, the appointed auditor will draw any significant issues arising to the attention of the public body concerned as well as to the Auditor General. The auditor will also

comment on significant issues in their annual audit report which is submitted to the Auditor General once the audit is complete. Working closely with the auditor, the Auditor General will make a judgement on whether Audit Scotland should prepare a Section 22 report.

The appointed auditor and Audit Scotland work together in drafting the Section 22 report. The appointed auditor will check with the public body that the content of the draft report is factually accurate and the Auditor General signs off the final draft. The accounts and the final Section 22 report are then laid before the Scottish Parliament.

The Auditor General briefs the Scottish Parliament's Public Audit Committee on the Section 22 report. The Committee may decide to take evidence from the relevant Accountable Officer.

Section 23 – economy, efficiency and effectiveness examinations

Under this section of the Act the Auditor General may initiate examinations into the economy, efficiency and effectiveness with which bodies and office-holders have used their resources in discharging their functions.

The range of bodies where the Auditor General can carry out such examinations includes all those where they have responsibility for the annual audit but can also include bodies or office holders, specified in an order, where in a financial year:

- more than a quarter of the income was received from public funds or
- the amount of the income received from public funds exceeded £500,000.

In determining whether an examination under this section is to be carried out, the Auditor General must take into account any proposals made by the Parliament. However, it is for the Auditor General personally to initiate an examination under this section and to decide who is to carry out the examination.

Section 24 – access to documents and information

Section 24 of the Act ensures that the auditor, under Sections 21 and 22, or examiner, under Section 23, has the necessary right of access to documents and information to enable them to discharge their responsibilities.

Endnotes

- ◀ 1 Appendices 1, 3 and 4 provide more detail on the statutory reporting arrangements for public audit in Scotland.
- ◀ 2 It should be noted that audits undertaken in compliance with ISAs (UK and Ireland) do not allow direct assistance from internal audit.
- ◀ 3 Auditors should follow and apply the concept of materiality as laid out in ISA 320 Materiality in planning and performing an audit.
- ◀ 4 The relevant accounting frameworks require most audited bodies under the Auditor General's remit to prepare financial statements on an accruals basis and the independent auditors' report usually refers to income rather than receipts.
- ◀ 5 The Accounts Commission has approved arrangements under Section 53 of the Local Government in Scotland Act 2003 so that appointed auditors work alongside performance audit and Best Value audit staff in Audit Scotland to discharge auditor responsibilities in this area and in providing overall conclusions on a local government body's arrangements in a public report by the Controller of Audit. A new more integrated approach is developing in this regard and supplementary guidance will be issued in due course.
- ◀ 6 Audit Scotland may also consider correspondence received at any time about the finances of an audited body or an issue which is relevant to auditors' functions. See the Other matters/activities section.

Glossary

Audit	Work carried out by auditors to meet any of the requirements of the Code.
ALEOs	<p>Arm's-length external organisations.</p> <p>Companies, trusts and other bodies that are separate from a local authority but are controlled or influenced by them. The local authority could do this, for example:</p> <ul style="list-style-type: none">• by having a representative on the organisation's board• by the council being the organisation's main funder or shareholder• in both these ways. <p>ALEOs can take many forms. They include:</p> <ul style="list-style-type: none">• companies limited by guarantee or shares• community enterprises, such as industrial and provident societies' trusts• Scottish Charitable Incorporated Organisations. <p>Examples of the services they deliver include leisure, transportation, property development and, more recently, care services. ALEOs are often set up as non-profit making organisations such as charities to benefit the public in areas such as health, education, recreation and equal opportunities.</p>
Appointed auditors	External auditors of public bodies appointed by the Accounts Commission under Section 97 of the Local Government (Scotland) Act 1973 or the Auditor General under Section 21 of the Public Finance and Accountability (Scotland) Act 2000. These include appointed auditors in Audit Scotland's Audit Services Group and appointed private firms.
Audited body (or body)	A body (or account) for which the Auditor General or the Accounts Commission is responsible for appointing an auditor, comprising the members of the body (eg, elected members of a local authority or executive and non-executive directors of NHS bodies), an accountable officer, management and other officers, as appropriate.
Auditors	Appointed auditors and performance audit and Best Value audit staff collectively.
Best value	<p>Local authorities' duty to secure best value:</p> <p>(1) It is the duty of a local authority to make arrangements which secure best value.</p> <p>(2) Best value is continuous improvement in the performance of the authority's functions.</p>

Best value (continued)	<p>(3) In securing best value, the local authority shall maintain an appropriate balance among:</p> <ul style="list-style-type: none"> (a) the quality of its performance of its functions (b) the cost to the authority of that performance (c) the cost to persons of any service provided by it for them on a wholly or partly rechargeable basis. <p>(4) In maintaining that balance, the local authority shall have regard to:</p> <ul style="list-style-type: none"> (a) efficiency (b) effectiveness (c) economy (d) the need to meet the equal opportunity requirements. <p>(5) The local authority shall discharge its duties under this section in a way which contributes to the achievement of sustainable development.</p> <p>(6) In measuring the improvement of the performance of a local authority's functions for the purposes of this section, regard shall be had to the extent to which the outcomes of that performance have improved.</p>
Best Value audit	Auditors have responsibility under legislation to provide public assurance on the extent to which local government bodies are meeting their statutory duties. New audit approach is detailed in the relevant supplementary guidance.
Code (the)	The Code of Audit Practice issued by Audit Scotland and approved by the Auditor General and the Accounts Commission.
Controller of Audit	The officer appointed by the Accounts Commission under Section 97(4) of the Local Government (Scotland) Act 1973. The Controller of Audit has statutory reporting functions, in particular those referred to in Appendix 3 (page 39) of the Code.
Ethical Standards	Ethical Standards issued by the FRC.
Financial Reporting Council (FRC)	The body responsible in the UK for issuing auditing and ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.
Financial statements	Annual or periodic financial statements, abstract(s) of accounts or the account in the prescribed form on which the auditor expresses an opinion.
Following the Public Pound Code	In 1996, the Accounts Commission and COSLA published a joint Code of Guidance on Funding External Bodies and Following the Public Pound. This Code is still relevant and local government auditors are required to review the guidance for auditors when carrying out their work in this area.
FReM	<i>Government Financial Reporting Manual</i> published by HM Treasury.
Fraud	Intentional distortion of financial statements and accounting records and/or misappropriation of assets involving deception to obtain an unjust and illegal financial advantage.


ISAs	<p>International Standards on Auditing (UK and Ireland). The following ISAs are referenced in this Code:</p> <ul style="list-style-type: none"> • 240 – The auditor’s responsibilities relating to fraud in an audit of financial statements • 260 – Communication with those charged with governance • 320 – Materiality in planning and performing an audit • 330 – The auditors responses to assessed risk • 570 – Going concern • 700 – The auditors report on financial statements.
Local government bodies	<p>Councils, joint boards, committees, integration joint boards and other associated bodies, established under the Local Government (Scotland) Act 1973, as amended or replaced by the Local Government (Scotland) Act 1994.</p>
Other (joint) scrutiny bodies	<p>Inspectorates and other public sector organisations that have a role in assessing aspects of organisational performance, compliance with professional standards and the competence of professional staff.</p> <p>In local government, the relevant organisations are listed in Schedule 14 of the Public Services Reform (Scotland) Act 2010 alongside the Accounts Commission. They have a duty to cooperate with each other and, where appropriate, with the Scottish ministers, under the Act.</p>
Regularity (of expenditure and income)	<p>Whether, subject to the concept of materiality, expenditure and income has been incurred or applied in accordance with (i) any applicable enactment by virtue of which the expenditure was incurred or the income received and guidance issued by the Scottish ministers; (ii) the Budget Act or Acts for the financial year, or any part of the financial year, to which the financial statements relate, and (iii) Sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000. Strictly, the legislation refers to receipts rather than income. Where the accounting framework requires audited bodies to account for income this is the term more commonly used in independent auditors’ reports.</p>
Shared risk assessment (SRA) Local government auditors only	<p>A process involving a joint approach using key information about a body to plan scrutiny activity that is proportionate and based on risk. SRA is undertaken by a joint scrutiny network and leads to the preparation of an assurance and improvement plan, part of which may be the conduct of a Best Value audit.</p>
Those charged with governance	<p>Those charged with governance are defined in auditing standards as ‘those persons entrusted with the supervision, control and direction of an entity’. In most cases, for example, this might be a full council or board of management, an audit committee (where established) or another committee with delegated responsibility for receiving the financial statements.</p>
Whole of Government Accounts (WGA)	<p>The WGA initiative is to produce a set of consolidated financial statements for the entire UK public sector on commercial accounting principles. The larger public sector bodies in Scotland are required to submit a consolidation pack to the relevant Scottish Government directorate which is based on, but separate from, their statutory accounts.</p>

Code of audit practice

2016

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REPORT TO: Audit and Governance Committee

MEETING DATE: 24 January 2017

BY: Chief Executive

SUBJECT: Infrastructure Risk Register

3

1 PURPOSE

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

2 RECOMMENDATIONS

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

3 BACKGROUND

- 3.1 The Risk Register has been compiled by the Infrastructure LRWG. All risks have been evaluated using the standard (5x5) risk matrix which involves multiplying the likelihood of occurrence of a risk (scored 1-5) by its potential impact (scored 1-5). This produces an evaluation of risk as either 'low (1-4)', 'medium' (5-9), 'high' (10-19) or 'very high' (20-25).

- 3.2 The Council's response in relation to adverse risk or its risk appetite is such that:
- Very High risk is unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position;
 - High risk may be tolerable providing the Council is assured that adequate and effective control measures are in place;
 - Medium risk is tolerable with control measures that are cost effective;
 - Low risk is broadly acceptable without any further action to prevent or mitigate risk.
- 3.3 The current Infrastructure Risk Register includes 6 High risks, 26 Medium risks and 15 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 Infrastructure Local Risk Working Group that the recurring costs associated with the measures in place for each risk are proportionate to the level of risk. The financial requirements to support the Risk Register for the year ahead should be met within the proposed budget allocations. Any unplanned and unbudgeted costs that arise in relation to any of the corporate risks identified will be subject to review by the Corporate Management Team.
- 6.2 Personnel - There are no immediate implications.
- 6.3 Other - Effective implementation of this register will require the support and commitment of the Risk Owners identified within the Register.

7 BACKGROUND PAPERS

7.1 Appendix 1 – Infrastructure Risk Register

7.2 Appendix 2 – Risk Matrix

AUTHOR'S NAME	Scott Kennedy Paolo Vestri
DESIGNATION	Emergency Planning and Risk Officer Service Manager - Corporate Policy and Improvement
CONTACT INFO	skennedy@eastlothian.gov.uk 01620 827900 pvestri@eastlothian.gov.uk 01620 827320
DATE	12 January 2017

Infrastructure Risk Register

Date reviewed: 12 January 2017

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
INF 1	Failing to maintain the Council's burial grounds could result in a serious injury/death to the public or ELC employees from falling headstones/memorials and a resulting financial loss due to insurance claims. There is also the risk of losing part of East Lothian's cultural heritage through the loss of family history records on headstones and memorials and failure to comply with the Equalities Act if access paths aren't maintained.	Responsibility for maintenance of facilities shared with Property Maintenance. Inspection of all headstones now complete North Berwick Cemetery extension has concrete foundation provided for headstones. A Community Pay Back scheme to repair headstones/memorials has been set up but will take time to make any significant impact. St Mary's Haddington has had emergency stability work undertaken on headstones. ELC staff now responsible for installation of foundations for all new memorial stones. Additional equipment purchased to assist with roll out of headstone safety works and improve output. Priority for safety works now moved over to Amenity Services Staff from Criminal Justice Team Now in year 2 of a 6 year programme to Dig and Deepen unstable headstones and risk reduced by 16% volume – 1000 of 6000 stones now safe with most high risk stones now dealt with.	4	4	16	Toolbox Talks to be delivered to all staff on memorial safety by March 2017 Round 2 of Headstone Inspection programme to be completed by March 2017.	3	4	12	Principal Amenity Officer	March 2017 March 2017	11	Risk refreshed by Principal Amenity Officer December 2016 with no change to assessment of current score. Risk Refreshed by Principal Amenity Officer Sept'15. Risk Refreshed by Principal Amenity Officer and by Head of Infrastructure Dec'14 with Current Risk Score reduced from 20 to 16.
INF 2	Inability to provide an efficient burial service and sufficient land for burial purposes would mean that the Council is unable to undertake its statutory duties, and create distress to family and mourners. An audit highlighted there is less available burial space than indicated previously.	Burial Administration now centralised in single office and revised procedures from service review now operating. Risk Assessments and SOPs are in place, regularly updated and employees are aware of them. Training programme in place to ensure employees are qualified. Burial Strategy now adopted by ELC Communication procedure with the Registration Service has been put in place and monthly liaison meetings take place. New procedures for management of burials are now operational. Negotiation ongoing with landowners and consultation with Planning for new burial provision at priority site in Tranent. Active Planning Applications now lodged for Dunbar and Prestonpans with ground water studies ongoing to satisfy SEPA. Representation made to MIR consultation regarding all cluster needs for new space Recruitment exercise complete meaning staffing filled to budget.	4	4	16	Take Planning Applications for Dunbar and Prestonpans through to Full Planning Applications. Complete negotiations and secure ownership of land according to priority list. Deliver induction session for all burial staff on current procedures.	2	4	8	Principal Amenity Officer	September 2017 March 2017 March 2017	11	Risk refreshed by Principal Amenity Officer December 2016 with no change to assessment of current score. Risk Refreshed by Principal Amenity Officer Sept'15. Risk Refreshed by Principal Amenity Officer and by Head of Infrastructure Dec'14 with Current Risk Score reduced from 20 to 16.

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating				
			L	I	L x I		L	I	L x I				
INF 3	<p>There is a risk of environmental and reputational harm (in terms of corporate social responsibility) and also the potential for significant unbudgeted costs if the Council does not develop solutions and/ or implement robust arrangements for Land Management challenges.</p> <p>The Council currently has ownership of potentially contaminated land sites (including the former Carberry landfill site, old coal mining sites etc).</p> <p>Whilst there are no current indications of significant problems, possible remediation costs to the Council could be substantial.</p> <p>The Council are currently in breach of discharge consent at Carberry and are in discussions with Scottish Water regarding the raising of permitted levels.</p>	<p>Land Management (remediation) sites in Council ownership subject to environmental monitoring to evaluate risk.</p> <p>Former Carberry Landfill site is subject to SEPA waste management licence conditions.</p> <p>Implementation of the Contaminated Land Inspection Strategy in line with the Environmental Protection Act 1990.</p> <p>Potential contaminated sites across East Lothian including Council development sites will be remediated as part of development plans through planning conditions.</p> <p>Data Recorder for Flow installed and being monitored for Scottish Water.</p> <p>Carberry landfill Site - Gas Pumping Trial complete.</p> <p>Consultation and discussion with SEPA on gas management and effluent continuing.</p>	4	4	16	<p>Carberry landfill Site -. There is now a requirement for a Gas Flaring system. Waste Services Manager has secured formal agreement from Scottish Government of £250,000 grant to affect the works. Tender awarded and Planning Approval given as works as classed as permitted development.</p>	2	2	4	Depute Chief Executive – Partnerships and Community Services	May 2017		<p>Risk refreshed by Waste Services Manager December 2016 with no change to assessment of current score.</p> <p>Planned measures updated Dec'15 and residual score further reduced from 9 to 4.</p> <p>Planned Measures updated October 2014 and planned risk score reduced to 9.</p> <p>May'14 – Transferred from Corporate Risk Register.</p>
INF 4	<p>Failure to manage and maintain the Council's tree estate including a failure to monitor for the current risk from tree diseases resulting in potential damage to people and or property and the failure to deliver an SOA Outcome. Also potential negative impact on the landscape and character of East Lothian and its towns and villages, biodiversity, health & wellbeing of residents and the local economy and tourism.</p>	<p>Regular inspections undertaken. Monitoring for tree diseases within the tree estate.</p> <p>Some record kept of trees inspected. Record kept of arboriculture work undertaken.</p> <p>Annual programme of tree planting and record kept of trees planted.</p> <p>All forestry staff have appropriate qualifications, training and experience. Risk Assessments and SOPs in place and regularly updated for all arboriculture and forestry work which employees are aware of.</p> <p>Woodland Action Plan in the Biodiversity Action Plan.</p> <p>Forestry Squad currently operating at structure.</p>	3	4	12	<p>Survey of all Council owned trees on their condition and location has commenced and a rolling inspection programme to be set up. Resourcing issues are such that survey progress will be limited and completion will take an extended period of time.</p> <p>Purchase of specialised Tree Management software to allow mapping and detailed recording of condition & history.</p>	2	4	8	Tree Officer	March 2021 March 2017	11	<p>Risk refreshed by Principal Amenity Officer Dec'16 with no change to assessment of current score.</p> <p>Risk refreshed by Principal Amenity Officer Sept'15.</p> <p>Risk refreshed by Principal Amenity Officer & Head of Infrastructure Dec'14 with Current Risk Score reduced from 16 to 12 and residual score from 10 to 8.</p>
INF 5	<p>Police Scotland has removed the Traffic Warden Service nationally since January 2014. Police Scotland is still responsible for enforcing Traffic violations. However, this reduction of resource may have impact on the enforcement of traffic regulation orders issued by ELC and the policing of other parking and traffic management issues.</p>	<p>The enforcement of parking infringement is a Police Scotland responsibility. ELC cannot enforce traffic or parking infringements. We will continue to work with Police Scotland making them aware of areas identified where there are parking violations.</p> <p>Continue to advise the public and encourage them to make Police Scotland aware of parking violations so they can take appropriate action. ELC will look at a parking strategy in the long term in the interest of public safety and economic impact on businesses.</p>	4	3	12	<p>The Council considered options to deal with the removal of Police Traffic Warden and its impacts.</p> <p>At Council on 15th December 2015 approval was given for submission to Transport Scotland of an application to introduce Decriminalised Parking Enforcement in East Lothian.</p> <p>DPE will commence in East Lothian on the 23rd January 2017.</p>	2	3	6	Head of Infrastructure	January 2017	7	<p>Risk Refreshed January 2017 by Roads Manager with no change to assessment of current score.</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				
INF 6	<p>Current mobile working hardware, within Property Maintenance, is dated and does not meet PSN requirements.</p> <p>Failure to implement PSN complaint hardware will result in return to paper-based job ticketing, placing increased pressure on administrative resources.</p> <p>A project to implement Windows 8 tablet technology was terminated due to the supplier failing to meet expectations.</p>	<p>A new mobile working platform was procured in Q1 16/17.</p> <p>A project plan has been developed with the new suppliers to ensure the system is fully live by the end of 16/17 financial year.</p> <p>A further PSN extension agreed until end December 2016 by ELC IT, in lieu of further roll-out of mobile working hardware and software.</p>	4	3	12	<p>Implementation of phase 2 mobile working, encompassing iOS Smartphone technology commenced September 2016.</p> <p>A paper-based contingency has been developed to cover the intervening period between PSN 'switch-off' and phase 2 go-live.</p> <p>Revised project plan agreed with suppliers to ensure system in place by deadline.</p>	1	3	3	Service Manager – Property Maintenance	March 2017	<p>Risk refreshed Dec'16 by Service Manager – Property Maintenance with no change to assessment of current score.</p> <p>Risk refreshed Nov'15 by Service Manager – Property Maintenance</p> <p>New risk identified 30/10/14 by Service Manager – Property Maintenance.</p>	

Original date produced (Version 1)		9 th January 2013				Risk Score	Overall Rating
File Name		Infrastructure Risk Register				20-25	Very High
Original Author(s)		Scott Kennedy, Risk Officer				10-19	High
Current Revision Author(s)		Scott Kennedy, Risk Officer				5-9	Medium
Version	Date	Author(s)	Notes on Revisions			1-4	Low
1	January 2013	S Kennedy	Environment Register updated to Infrastructure Risk register following Senior Management Restructure and updates to Risk Strategy and Corporate Risk Register.				
2	April-May 2013	S Kennedy	All risks updated by Service Managers.				
3	September 2013	S Kennedy	Landscape & Countryside Risks updated by S Pryde.				
4	October 2013	S Kennedy	Waste Management Risks updated and two added by T Reid and no change to Road Services Risks (A Stubbs) or Transport Services Risks (I Dalglish). Facilities risks updated.				
5	December 2013	S Kennedy	Roads Network Risks added.				
6	January 2014	S Kennedy	Dangerous Dogs & Dog Fouling Risks transferred to Communities & Partnerships (Customer Services) Risk Register; Healthy Living Risks added and Print Unit Risk added to Facilities to create initial Infrastructure Risk Register following realignment process.				
7	May 2014	S Kennedy	Waste risks reviewed by Tom Reid. Land Management Risk transferred from Corporate RR at the request of CMT.				
8	November 2014	S Kennedy	All risks updated by Service Managers.				
9	December 2015	S Kennedy	All Infrastructure risks reviewed and refreshed by all Service Managers. Risks on postal strike and print unit deadlines removed by Head of Infrastructure. Risk on staffing levels also removed as covered in Corporate Risk Register.				
10	December 2016	S Kennedy	All Infrastructure risks reviewed and refreshed by all Service Managers.				

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: 24 January 2017

BY: Chief Executive

SUBJECT: Risk Management Strategy

4

1 PURPOSE

- 1.1 The purpose of the report is to advise Audit and Governance Committee of the revised and updated Risk Management Strategy.

2 RECOMMENDATIONS

- 2.1 It is recommended that Audit and Governance Committee approves the revised Risk Management Strategy (Appendix 1) and notes that this is a live document which will be reviewed by the Corporate Risk Management Group.

3 BACKGROUND

- 3.1 The strategy provides a comprehensive framework that will help embed effective management of risk. Key elements of the strategy are:-
- Risk Management Philosophy, Objectives and Standard Procedures
 - Structural Arrangements and Responsibilities
 - Monitoring and Reviewing Risk Management Activity
 - Implementation, Communication and Review
- 3.2 The Strategy was last revised in December 2014. The Corporate Risk Management Group has revised the strategy and made some relatively minor amendments to take account of existing practice. The revised strategy is attached in full as Appendix 1.

4 POLICY IMPLICATIONS

- 4.1 In noting this report the Council will be ensuring that risk management principles 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 – There are no direct financial implications associated with approving the revised strategy although it is anticipated that implementation may give rise to improvement measures which may themselves have financial implications.
- 6.2 Personnel – There are no immediate implications.
- 6.3 Other – Effective implementation of this strategy will require the support and commitment of those identified within the strategy to have specific responsibilities.

7 BACKGROUND PAPERS

- 7.1 Appendix 1 - Risk Management Strategy

AUTHOR'S NAME	Scott Kennedy Paolo Vestri
DESIGNATION	Emergency Planning and Risk Officer Service Manager - Corporate Policy and Improvement
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DATE	12 January 2017



Risk Management Strategy

DECEMBER 2016

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<u>Document Control</u>			
<u>Version No.</u>	<u>Effective Date</u>	<u>Reason for Update</u>	<u>Lead Reviewer</u>
1.0	December 2009	New document	CMT/EP&RM
2.0	October 2012	Revised	CMT/EP&RM
3.0	January 2015	Revised	EP&RO/CMT
4.0	December 2016	Revised	EP&RO

1. Background

East Lothian Council provides a diverse range of services to the community of East Lothian and visitors to the area. The strategic and operational hazards and potential risks associated with delivering these services are many and varied.

East Lothian Council regards risk as the threat that an event or action will adversely affect the Council's ability to achieve objectives and the successful execution of strategies. Risk Management is the process of identifying, analysing, treating and monitoring risks which face the organisation and forms part of East Lothian Council's internal control and corporate governance strategy.

Developing a risk management culture and integrating risk management into the way the Council delivers services is essential for achieving best value, taking up opportunities and achieving the Council's Vision of making East Lothian a good place to live, work or visit. When risk is well managed it often goes unnoticed. If it is poorly managed or not managed at all the consequences can be significant and high profile. Effective risk management is needed to prevent such failures.

2. Policy Statement

- 2.1 The Elected Members and Chief Officers of East Lothian Council are committed to creating a culture within the Council where all staff are encouraged to develop new initiatives, improve performance and achieve their goals safely, effectively and efficiently by consistent application of tried and tested methodologies for identifying and managing opportunity and risk.
- 2.2 In doing so the Council aims to make the most of opportunities to:
 - achieve high standards of performance;
 - deliver high quality services for service users;
 - provide an environment that meets Health & Safety requirements for the people it employs;
 - protect assets and liabilities against potential losses, and
 - minimise uncertainty in achieving its goals and objectives.

3. Scope

- 3.1 Whilst the Chief Executive has overall accountability for risk management, the Head of Communities and Partnerships has responsibility for the implementation of a suitable and effective risk management framework, and is supported in this respect by the Emergency Planning & Risk Manager and the Emergency Planning & Risk Officer whose remit is to co-ordinate, integrate, oversee and support the risk management agenda and ensure that risk management principles are embedded across the Council.
- 3.2 The Council has agreed that the Council Risk Management Group (chaired by the Head of Communities and Partnerships) is the lead Group overseeing the development, implementation and maintenance of risk management across all services. Risks will be recorded within the corporate risk register, service risk registers or project risk registers.
- 3.3 **Corporate risks** represent those with the potential to impact on the 'corporate body', East Lothian Council, in achieving its stated policies and corporate objectives and those that require strategic leadership (for example the Council Plan and the Single Outcome Agreement). Service risks may be included on the corporate risk register where a risk impacts on multiple services or requires significant central resources in the development of risk control measures.
- 3.4 **Service risks** represent the potential for impact on 'individual services' in relation to service delivery, or the experience of those who work within the services, i.e. staff, partners, contractors and volunteers, or the general public and clients in receipt of the services provided.

- 3.5 All risk will be analysed in terms of impact on the Council, its component services and the likelihood of occurrence. This analysis will produce an evaluation of risk as being Low, Medium, High or Very High. The council's response in relation to adverse risk, or 'risk appetite' is such that:
- 'Low' risk is broadly acceptable without any further action to prevent or mitigate risk;
 - 'Medium' risk is tolerable with control measures that are cost effective;
 - 'High' risk may be tolerable providing the Council is assured that adequate and effective control measures are in place; and,
 - 'Very High' risk is unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position.

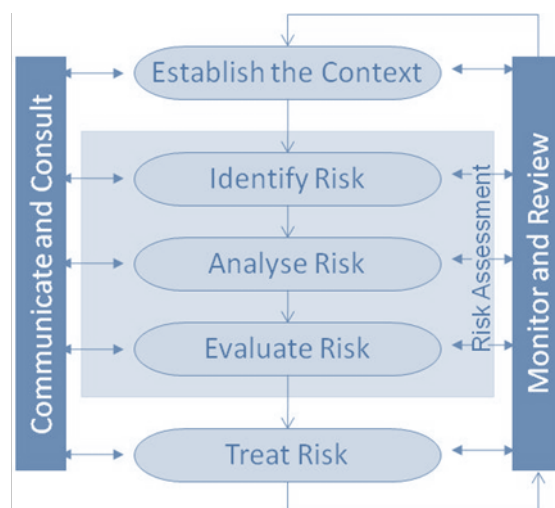
High and Very High risk will be subject to closer scrutiny by the Council Management Team (CMT) and the Cabinet or Audit and Governance Committee.

- 3.6 This document represents the risk management framework to be implemented across the Council and effectively contributes to the signing of the Statement of Internal Control, which is an annual requirement of the Head of Council Resources.

4. Risk Management Philosophy and Objectives

- 4.1 Risk Management is about the culture, processes and structures that are directed towards realising potential opportunities whilst managing adverse effects¹. It is pro-active in understanding risk and uncertainty, it learns and builds upon existing good practice and is a continually evolving process that has an important role to play in ensuring that defensible and beneficial 'risk-aware' not 'risk-averse' decisions are made. It ensures that the Council provides high quality services and staff are aware that every effort has been made to maximise their opportunities to succeed.

- 4.2 East Lothian Council uses the risk management process shown below².



4.3 Risk Management Objectives

The specific risk management objectives of the Council are to:

- (i) integrate governance and risk management into the day to day activities of all Council employees including project management and service planning;
- (ii) create a consistent approach to risk across all services using the adopted process;
- (iii) promote practical measures to reduce the council's exposure to risk and potential loss;

¹ Australia/ New Zealand Risk Management Standard, AS/NZS 4360: 2004

² Australia/ New Zealand Risk Management Standard, AS/NZS 4360: 2004 and ISO 31000 (2009)

- (iv) define clear lines of responsibility for the management of risk, including corporate risks, service risks and those involving specialised support functions;
- (v) provide a system for monitoring the effectiveness of the risk management framework;
- (vi) provide a system for feedback on the management of key risks to Elected Members, with clear and measurable targets set, and reports on progress made against those targets;
- (vii) comply with legislative requirements; and
- (viii) comply with the requirements of Corporate Governance

4.4 The fundamental principles of Risk Management are to:

- ensure that the Risk Management process takes account of and links to Council objectives;
- monitor the provision of, and attendance at, Risk Management training events;
- to keep the elected members and senior managers advised of any significant risk management issues;
- to promote an open and fair reporting culture;
- encourage local ownership of the Risk Management process by ensuring that decisions on risk management are taken locally rather than centrally.
- agree clear roles and definitions relating to the accountability, management, escalation and communication of key risks; and
- approach the assessment of risks and opportunities consistently.

5. Benefits of Effective Risk Management

5.1 Effective risk management will contribute to delivering significant benefits for the Council. The primary benefit is that appropriate, defensible, timeous and best value decisions are made. Such 'risk-aware' decisions should be based on a balanced appraisal of strengths, weaknesses, opportunities and threats, and should enable acceptance of a certain level of risk in order to achieve a particular goal or reward.

5.2 Defensible decision-making means that:

- all reasonable steps in the decision-making process will have been taken;
- all relevant information will have been collected and thoroughly evaluated;
- reliable assessment methods will have been used;
- decisions (and supporting rationales) will have been clearly documented, and
- processes will have been put in place to monitor the effectiveness of the decision outcomes.

5.3 Other benefits would include:

- high achievement of objectives and targets;
- high levels of staff morale and productivity;
- better use and prioritisation of the council's resources;
- high levels of user experience/ satisfaction with a consequent reduction in adverse incidents, claims and/ or litigation;
- further enhancement of the council's good reputation both as an employer and as a public service provider; and
- avoid duplication of Risk Management issues which affect more than one service and bring them together to benefit from good practice.

6. Standard Procedures

6.1 Standard procedures (6.1.1 – 6.1.14) should be fulfilled in order to achieve a consistent approach to effectively implementing risk management across all areas of the Council.

6.1.1 Full implementation of the continuous risk management process, embedding risk management within existing Council processes so that an assessment of risk as well as costs and benefits becomes routine wherever possible.

- 6.1.2 Identification of risk using standard methodologies and involving managers throughout the service with detailed knowledge of the service and the environment in which it operates.
- 6.1.3 Each Service through its Risk Working Group will identify events which may have the consequence of affecting the Council's ability to provide services and achieve its objectives.
- 6.1.5 Consistent application of a standardised 5x5 risk matrix to analyse risk in terms of impact and likelihood of occurrence, thus producing a risk score and evaluation of either 'low', 'medium', 'high' or 'very high.' The values attached to the risk for likelihood and impact are then multiplied and placed on the risk matrix, which shows the level of risk ranging from 1 to 25.
- 6.1.6 Consistency of approach for risk response/ treatment where appropriate actions are taken to bring a situation to a level where the exposure to risk is acceptable to the Council, either through termination, tolerance, transfer or treatment of the risk.³
It will be for the CMT or the departments Risk Working Group to decide on what action they take to deal with the identified corporate or operational risks.
- 6.1.7 Implementation and maintenance of risk registers as a means of collating risk information in a consistent format allowing comparison of risk evaluations and informed decision-making in relation to prioritisation of resources. The council will investigate the development of Risk Software to ensure consistency of approach and format of risk registers.
- 6.1.8 Routine reporting of risk information to the appropriate group e.g. Audit and Governance Committee, CMT and Cabinet dependent on the type and significance of risk.
- 6.1.9 Periodic re-assessment of individual risks, proportionate to significance of risks (i.e. low and medium risks fully reassessed every two years and significant [high and very high] risks annually) including routine audit of robustness of measures implemented to control risks.
- 6.1.10 Fully document the risks in the risk registers and to monitor and carry out an annual review of corporate and service risk registers to ascertain progress and to check for contextual changes affecting the risks.
- 6.1.11 Ongoing proactive identification of new and/or potential risks as a general responsibility of all service areas specifically those where risk is inherently discussed as part of their remit.

7. Structural Arrangements and Responsibilities

- 7.1 All employees are responsible for managing risk to varying degrees within East Lothian Council and it is important that employees are made aware by the Council of their specific responsibilities in order to ensure risk is successfully managed throughout the Council. The Risk Framework (Figure 2.0) illustrates the relationship between different levels of employees and their accountability amongst each other. It shows the structure whereby information, instruction, training, supervision and reporting in relation to the management of risk will be effectively communicated within the Council.
- 7.2 The process must be driven from the most senior level of the Council. The framework (2.0) shows that the CMT has collective responsibility for the management of risk and that the process of implementing the strategy will be through the Council Risk Management Group and thereafter cascading through the Council departments.

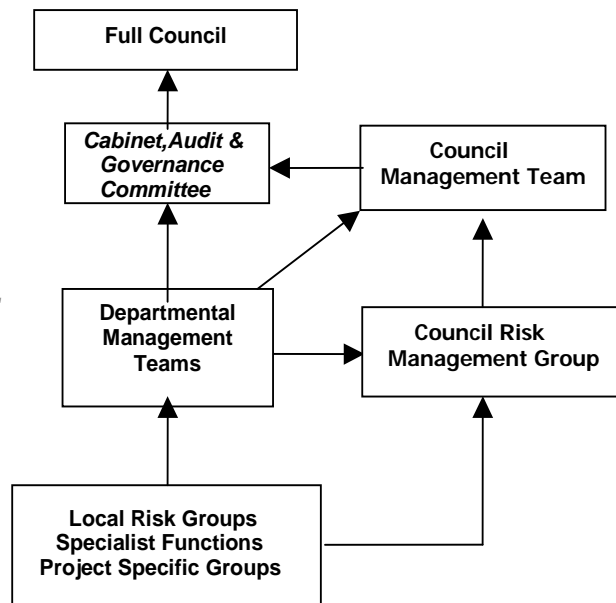
³ **Termination** - avoiding the risk by not proceeding with the activity likely to generate the risk;

Tolerance - ensuring that adequate plans exist to respond to potentially disruptive events and monitoring current controls where the probability of harm materialising is low and/or the economic cost of further reducing the risk is disproportionately high;

Transfer - arranging for another party to bear or share some part of the risk, through insurance, contracts, partnerships, joint ventures etc.; and

Treatment - controlling the likelihood and consequences of the occurrence through preventative measures.

*Figure 2.0
Reporting Arrangements*



7.3 Formal Groups

7.3.1 Elected Members, Full Council, Cabinet and Audit and Governance Committee

Elected Members will promote a culture of risk management throughout the Council and encourage effective management of risk by Officers.

As part of its corporate governance role, **Full Council** is accountable for ensuring that the organisation has a suitable risk management framework in place and that significant risks are adequately identified and controlled. At meetings of the relevant committees, Elected Members will approve service risk registers and risk management plans submitted on an annual basis.

Cabinet has delegated authority for and on behalf of Council for ensuring that corporate risks and any emerging significant (high and very high) risks within their specific remit are adequately controlled. Cabinet will approve the Corporate Risk Register.

Audit and Governance Committee will scrutinise and review the effectiveness of the implementation of the risk management processes within the Council. It will also scrutinise and review the Risk Registers.

7.3.2 Council Management Team

Council Management Team (CMT) will promote the importance placed on risk management within the Council and will:

- oversee the implementation of this strategy throughout the Council;
- review the proposed corporate risk register and all service risk registers and agree the risks for the Council in achieving its key corporate objectives;
- monitor the effective management of known risk by officers of the Council, by reviewing action taken in managing risks identified on all risk registers on an annual basis;
- support implementation of the strategy throughout the Council;
- timeously identify potential risks arising from the Council's external environment, and
- ensure effective systems of internal control and Risk Management are in place to support the corporate governance of the Council advise and promote the Risk Management framework, policy and strategy.

7.3.3 Council Risk Management Group

The Council Risk Management Group is fundamental to the delivery of risk management throughout East Lothian Council and will meet on a regular basis to ensure that risk management remains high on the corporate agenda. The Council Risk Management Group comprises the Emergency Planning and Risk Manager, Emergency Planning and Risk Officer and representatives from each Risk Working Group, Internal Audit, Insurance Services, Health and Safety, IT Security and other relevant members by invitation and will:

- identify and review corporate risks, in consultation with the CMT, through the production of a corporate risk register that will demonstrate the overall risk profile of the council and be used to focus on developing actions for effectively managing the risks;
- provide regular risk management reports to the CMT (in respect of risk registers, risk management plans);
- assist in implementation issues across the council, share experiences and inform changes to the strategy and direction;
- form a sub group(s) from within the Council Risk Management Group to take forward specific initiatives complimentary to the remit of the Group when required.

7.3.4 Risk Working Group (Service) – Can be Service Management Teams

Risk Working Groups will:

- organise training and raise awareness in their area of responsibility to ensure practical prevention and control measures are put in place to minimise risk;
- contribute to the service risk register and regularly review its content to ensure it continually reflects the key risks of the service and highlights the service's top risks;
- report progress to their Service Management Team on a regular basis;
- on behalf of the Head of Service, contribute to the council's assurance framework through the annual submission of their service's risk register for review prior to submission to the Audit and Governance Committee;
- provide the central point for co-ordination of risk management policy within the service;
- oversee the implementation of this strategy throughout the service at an operational level, and
- provide a representative to the Council Risk Management Group.

7.3.5 Specialist Functions

Specialist functions such as Insurance and Health and Safety will:

- provide a central resource of expertise to the wider Council, and
- be responsible for the development and actioning of corporate risk management initiatives, either directly or through other Council services.

Where relevant, the Council will access external sources of expertise such as the Police or the Council's Insurers.

7.3.6 Internal Audit

Internal Audit is an independent appraisal function within the Council. Internal Audit will:

- review, appraise and report on the adequacy and effectiveness of Risk Management arrangements within the Council, and
- take into account the Council's Corporate and Service Risk Registers when identifying areas to be included in the Annual Audit Plan.

7.4 Individuals

7.4.1 Chief Executive

The Chief Executive has ultimate responsibility for ensuring that there are suitable and effective arrangements in place to manage the Council's risks.

7.4.2 Head of Communities and Partnerships

The Head of Communities and Partnerships is the lead for risk management, its related strategy and supporting processes and is supported in this respect by a dedicated risk management resource in the Emergency Planning and Risk Manager and the Emergency Planning and Risk Officer.

7.4.3 Depute Chief Executives/Director of Health & Social Care Partnership

The Depute Chief Executives and Director of Health & Social Care Partnership are accountable to the Chief Executive for the management of risk within their areas of responsibility and will ensure that risks identified as likely to impact on their delivery of the strategic objectives are managed effectively.

It is the responsibility of each Depute Chief Executive/Director of Health & Social Care Partnership and their senior management team to implement local arrangements which accord with the principles, objectives and standard procedures set out in this strategy. Specifically, they will:

- implement the strategy within their own range of services, seeking every opportunity to embed risk management methodologies within their existing processes;
- monitor and review the effective application of the risk management process throughout their service and report on significant risks to the Council Risk Management Group, and
- encourage their Risk Working Group to promote staff learning and development in risk management and monitor operational risk management progress;

Whilst the Depute Chief Executives and Director of Health & Social Care Partnership have overall responsibility for the management of a risk within their services, they might not 'own' the risk control mechanisms being implemented to manage the risks (e.g. implementation of policies developed by other services, such as Finance or Human Resources). In this case, their role is to oversee that the control(s) is/ are fit for purpose and operating effectively within their area of responsibility.

7.4.4 Heads of Service

Heads of Service are accountable to their Depute Chief Executive for the management of risk within their areas of responsibility. They will ensure that any risks identified as likely to impact on their service are documented in the Risk Register and thereafter managed effectively.

Heads of Service across East Lothian Council have a responsibility to ensure that all employees are made aware of the latest risk management strategy, guidance and controls.

7.4.5 Emergency Planning and Risk Manager

The Emergency Planning and Risk Manager, in conjunction with the Risk Officer, will:

- organise the meetings of the Council Risk Management Group;
- offer advice and support to service managers and other groups in the management of corporate and service risks
- maintain the Corporate Risk Register and risk management systems for the Council.

7.4.6 All East Lothian Council Employees

All Council employees should be encouraged to be involved at all levels in identifying current and potential risks where they work. They should make every effort to be aware of situations which place themselves or others at risk, report identified hazards and implement risk reduction measures developed by their service. Risk assessments should encompass all facilities used to deliver services and be completed using the knowledge and experience of all relevant staff and where appropriate service users. This approach will support the formal risk review conducted annually by all services and enable staff to:

- understand the risks that relate to their roles and their activities;
- understand how the management of risk relates to their own and their client's/ the public's safety;
- understand their accountability for particular risks and how they can manage them;
- understand how they can contribute to continuous improvement of risk management;
- understand that risk management is a key part of East Lothian Council's culture;
- report systematically and promptly to senior management any perceived new risks or failures of existing control measures, and
- liaise with line managers to assess risk in their jobs and will manage risk effectively in their jobs.

8. Training, Learning and Development

- 8.1 To implement this strategy effectively, it is essential to have a workforce with the competence and capacity to identify and manage risk and handle risk judgements with confidence including learning from past experience.
- 8.2 The Council recognises that for Risk Management to be successfully embedded in the Council's day to day activities appropriate training must be undertaken by all members of staff to varying degrees. The Emergency Planning and Risk Manager, supported by the Emergency Planning and Risk Officer, will regularly review the risk management training needs of the Council and ensure the implementation of a programme of training for all staff to be undertaken both internally and also through specialist external trainers. This will ensure that all employees are equipped with the skills to act effectively in accordance with good practice.
- 8.3 Depending on the purpose, nature and extent of the training, it can provide staff with knowledge of the following:
- the risk management process;
 - risk reporting requirements;
 - risk management roles and responsibilities;
 - risk tools and techniques and how and where they are applied; and how to identify, assess and manage risks;
 - the Council's policy on risk, and
 - the Council's risk appetite, risk tolerance levels and escalation rules.

9. Monitoring and Reviewing Risk Management Activity

- 9.1 Efficient and effective risk management requires a monitoring and review structure to ensure that changes to the council and its environment are identified and addressed.
- 9.1.1 There will be reports to the CMT and Cabinet on progress in managing the risks recorded in the Corporate Risk Register. This will detail the most significant risks and what actions have been taken to mitigate them. The risks will be reviewed as follows:
- Very high risks and High Risks and the actions taken to mitigate them will be reviewed annually;
 - Medium risks and Low risks and the actions taken to mitigate them will be reviewed every two years.
- 9.1.2 There will be regular reporting to Service Management teams on progress against the risk management plans and service risk registers;
- 9.1.3 There will be regular reporting on progress on the Risk Management Action Plan to the Council Risk Management Group;
- 9.1.4 There will be quality assurance checks on the risk management process conducted through meetings of the Council Risk Management Group;
- 9.1.5 There will be continual review by Risk Working Groups of progress in managing individual risks listed in the service risk registers;
- 9.1.6 There will be quarterly reporting of claims data to Heads of Service by the Insurance Section and 'Stewardship reports' will be provided by the council's Broker annually;
- 9.1.7 There will be annual review of risk registers by the Audit and Governance Committee which will incorporate the reporting of progress made with individual risks.
- 9.2 A review of the above and other data sources should determine whether:
- the risk management framework and process is fit for purpose and aligned to the Council's corporate objectives;
 - staff across the Council have sufficient risk management skills, knowledge and competence in line with the activities they are required to perform on a daily basis, and
 - improved knowledge would have helped to make better judgements or reach better decisions and identify lessons for future assessments and the management of risks.

10. Risk Registers

- 10.1 The Council Risk Management Group will establish a Corporate Risk Register, which aligns with the Council Plan and they will have responsibility for maintaining the Register.
- 10.2 Each Service will establish a Risk Register which aligns to its Service Plan and which will, where appropriate, be linked to the Corporate Risk Register. The information to be contained in both the Corporate Risk Register and the respective Service Risk Registers will be:
- risk identification number;
 - risk description (linked to the achievement of business objectives);
 - likelihood/impact rating;
 - risk rating;
 - controls in place;
 - potential residual risk;
 - planned actions;
 - service or person responsible for planned actions/managing the risk;
 - timescale for completion of action, and
 - evidence of regular review.

11. Strategy Implementation, Communication and Review

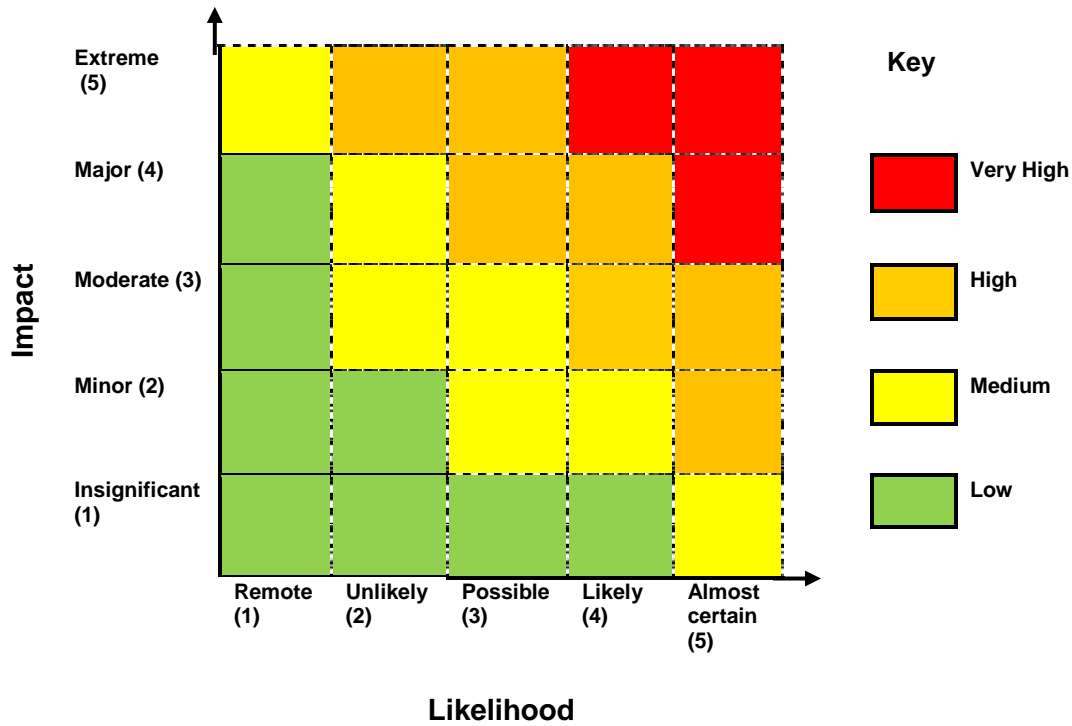
- 11.1 The Council's Risk Management Strategy was first approved by Council at its meeting on 8 December 2009, subsequently revised and approved in October 2012 and December 2014 before being further revised in December 2016. The Strategy accurately represents the arrangements for managing risk within the Council at the time of approval. Implementation of this strategy will be underpinned by Risk Management Guidance and the Risk Management Action Plan.
- 11.2 The Elected Members and Chief Officers consider that effective communication of risk management information across all services and levels of staff is essential in developing a coherent, consistent and effective approach to risk management. Copies of this strategy are available on ELnet and specific details will feature in the induction programme for all new staff.
- 11.3 This strategy will be reviewed at periodic intervals of at least every 3 years to ensure that it reflects current standards and best practice in risk management and fully reflects the rapidly changing environment in local government.

12. Outputs and Benefits of the Risk Management Strategy

- 12.1 Embedding a Risk Management culture throughout East Lothian Council is vital to the success of this strategy. The anticipated outputs and benefits of the Risk Management Strategy are:
- Improved service delivery;
 - Better value for money;
 - Improved corporate governance and compliance systems;
 - Improved insurance management;
 - Improved decision making;
 - Enhanced understanding of the Council's vulnerabilities;
 - Improved use of resources;
 - Enhanced strategic awareness;
 - Compliance with legislation/ regulation;
 - Adds value to the activities of the organisation, and
 - Increases the probability of success in achieving business objectives.
- 12.2 These outputs and benefits will protect and enhance East Lothian Council's reputation, which will in turn increase public trust.

Appendix 1 – Risk Rating Matrix

The probability (likelihood) of an event occurring being almost certain, likely, possible, unlikely or remote and the impact ranging through, catastrophic, major, moderate, minor or none, that such an event may have on the following areas; service objectives, financial, people, time and reputation. See next page for descriptions of risk ratings.



Descriptions of Risk Ratings

<p>Very High Risk (17 – 25)</p>	<p>These are classed as primary or critical risks requiring immediate attention. Their potential consequences are such that they must be treated as a high priority. This may mean that strategies should be developed to reduce or eliminate the risks, and the risk monitored every 6 months. Consideration should be given to planning being specific to the risk rather than generic. Examples of impact include: national attention, Government intervention, total service disruption and fatality. Very High risks are unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position.</p>
<p>High Risk (10 – 16)</p>	<p>These risks are classed as significant. They may have a high or low likelihood of occurrence but their potential consequences are sufficiently serious to warrant appropriate consideration after those risks classed as 'very high'. Consideration should be given to the development of strategies to reduce or eliminate the risks and they should be reviewed every 6 months. Examples of impact include: national media, adverse comments (reputational risk), external audit, MSP intervention, significant service disruption and disability (or other serious injury). High risks may be tolerable providing the Council is assured that adequate and effective control measures are in place.</p>
<p>Medium Risk (5 – 9)</p>	<p>These risks are less significant but may cause upset and inconvenience in the short term. These risks should be monitored to ensure they are being appropriately managed and should be reviewed annually. Examples of impact include: local media attention, service user complaints, service disruption and lost time injuries. Medium risks are tolerable with control measures that are cost effective.</p>
<p>Low Risk (1 – 4)</p>	<p>These risks are either unlikely to occur and not significant in their impact. They should be managed using normal or generic planning arrangements and require minimal monitoring and control unless subsequent risk assessments show a substantial change. They should be reviewed every two years. Examples of impact include: isolated complaints and minor service disruption. Low risks are broadly acceptable without any further action to prevent or mitigate risk.</p>

REPORT TO: Audit and Governance Committee

MEETING DATE: 24 January 2017

BY: Depute Chief Executive - Partnerships & Community Services

SUBJECT: Maintaining Scotland's Roads: a follow up report (Accounts Commission)

5

1 PURPOSE

- 1.1 The purpose of this report to the Audit and Governance committee the main findings of the Audit Scotland Maintaining Scotland's Roads – August 2016; to provide further information and detail that is relevant at a local level; to provide context to the findings and to provide a basis for discussion, comment and noting.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Audit and Governance Committee note progress on the development and action of the recommendations made by Audit Scotland in the context of maintaining Scotland's roads and detailed analysis of local progress as defined in Appendix 1.
- 2.2 Members should note the key messages contained within the report namely;
- The percentage of local roads in an acceptable condition within East Lothian Council (ELC) is 68% placing the Council in the top 10 of the 32 Scottish local authorities and above the Scottish average of 63%
 - Overall condition of Council maintained roads remains stable
 - ELC is one of 14 local authorities in Scotland to invest more than the steady state value necessary to maintain current road conditions in 2014/15.
 - ELC is actively exploring opportunities for increased Roads collaboration with Edinburgh, East Lothian, Midlothian, West Lothian, Scottish Borders and Fife Councils (ELBF)

- ELC use a suite of local and national performance indicators to manage and monitor road maintenance. These are reported regularly and used to highlight unusual activity and areas for improvement.
- National Spending on Road maintenance is decreasing

Further details are contained within the body of this report and the appendices.

3 BACKGROUND

3.1 Maintaining Scotland's Roads – A Follow up report August 2016 is the fourth review by Audit Scotland of progress made by local Roads Authorities on the development and introduction of systems and procedures to engender good practice and stewardship into the maintenance of roads in Scotland. This report was preceded by Maintaining Scotland's roads – An audit update on council's progress May 2013, Maintaining Scotland's roads – A follow up Report February 2011 and Maintaining Scotland's roads November 2004.

3.2 The original 2004 report made several recommendations that Councils and the Scottish Executive should:

- calculate the size of the structural maintenance backlog
- monitor and report annually on the condition of their road network and maintenance backlog
- review budget setting processes to be more reflective of reactive, routine and planned maintenance
- review capital expenditure on structural maintenance
- compare and contrast unit costs between Council areas
- consider the introduction of shared services to achieve economies of scale in road maintenance
- review Councils performance against the Code of Practice for maintenance management in *Delivering Best Value in Highway Maintenance – Code of Practice for Maintenance Management*
- collect better inventory information relating to the asset groups
- ensure Councils have up-to-date IT systems and asset management systems
- develop a framework of performance indicators to measure performance of the road maintenance system

- develop road maintenance strategies in the context of their transportation and road asset management strategies taking into account the views of the communities and road users
- 3.3 In 2011 Audit Scotland refreshed their recommendations. Progress on the 2004 and 2011 recommendations is provided in Appendix 1 - Analysis of Audit Scotland Recommendations with the Society of Chief Officers of Transportation in Scotland (SCOTS) Asset Management Tasks and Actions and how these items are being actioned locally and at a national level, where appropriate. Commentary is provided on the status of each of these themes in the context of SCOTS tasks to develop a robust asset management framework.
- 3.4 Consideration of these tasks have been reflected in the follow up report and it is recommended that Councils implement the findings therein.
- 3.5 The 2016 follow up report highlights that the condition of roads has generally remained stable since 2011 but there are significant differences between Councils. Appendix 2 – East Lothian Road Condition Indicator shows the extent of roads in East Lothian that should be considered for maintenance treatment on an annual basis.
- 3.6 In the national context spending on road maintenance has diminished since 2002/03, where £277m revenue and £44m capital was spent on road maintenance. Appendix 3 – National versus Local Maintenance Spend comparison highlights the national and local spend profile over time. Note, all data is provided from Scottish Transport Statistics records except capital spend 2011-12 which is taken from East Lothian records. Exhibit 3 of the follow up report shows a 4% decline in spending in East Lothian between 2011/12 and 2014/15. It is worth noting that East Lothian Council invested an additional £3,000,000 into the road network in 2010-12 following severe winter weather events.
- 3.7 Appendix 4 – A Local comparison compares East Lothian Council's spend with neighbouring local authorities. Each profile is accompanied with a trend line to compare and contrast investment over time. No values for 2011/12 Capital spend are held, consequently the values have been averaged between financial years to calculate a profile. The straight line profiles for each of the neighbouring authorities are: City of Edinburgh Council 0.63% increase over 11 year; Scottish Borders 2.3% increase; West Lothian 1.32% decrease; Midlothian 3.39% increase and East Lothian 6% increase. However, significant additional investment was made into the local road network following severe winter weather in 2009/10 and 2010-11 but recent investment shows a downward trend. Exhibit 9 - Councils' roads maintenance spending compared to that necessary to maintain their current road condition in 2014/15 highlights that East Lothian is spending sufficient to maintain the steady state requirement.
- 3.8 Appendix 5 – The Improvement action Programme summarises the necessary actions recommended to further develop ELC's road asset management practices. They are based upon the findings of a 2 day

audit and should be read in conjunction with Appendix 1.. Recommended priority for each action is given, however it is accepted that ELC will need to make their own choices of priority and will need to take into account resource availability in programming resulting actions.

- 3.9 To accelerate the improvement action programme an additional resource has been made available from the Business Financial Team and will be working with the Roads Asset and Regulatory team over the next 6 months to address the recommendation described.

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 - as described above.
6.3 Other - None

7 BACKGROUND PAPERS

- Maintaining Scotland's Road 2016 report.

http://www.audit-scotland.gov.uk/uploads/docs/report/2016/nr_160804_maintaining_roads.pdf

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DATE	16 January 2017

Appendix 1 Analysis of Audit Scotland Recommendations with SCOTS Asset Management Tasks and Actions

2011 Report Recommended Actions			
The Scottish Government should consider a national review on how the road network is managed and maintained, with a view to stimulating service redesign and increasing the pace of examining the potential for shared services.			
SCOTS Task Reference	Current Situation and Progress	Assessment	Recommendation
National Task	A Strategic Action Group meeting was called for 4th October and was the first meeting chaired by the new Transport Minister. Key items on the agenda included feedback from the consultation response on the 5G contract, the Roads Collaboration Programme and the recent Audit Scotland Report. It was agreed that SCOTS and Transport Scotland would discuss potential collaboration on winter maintenance in the context of 5g.	The strategic action group is developing work streams	East Lothian Council to Monitor progress

2004 Report Recommended Actions			
Councils should use the information from the Scottish road maintenance condition survey to calculate the size of the structural maintenance backlog in their area using a common accepted methodology.			
SCOTS Tasks	Current Situation and Progress	Assessment	Recommendation
National Task	The Scottish Road Maintenance Condition Survey SRMCS Contract was re-awarded 2013	The assessment of the maintenance backlog is secure. East Lothian Council headline backlog figure from SCOTS financial model (2015) £23,057,000; (2013) £25,942,916	Monitor progress - Task ongoing

2011 Report Recommended Actions			
a consistent way of costing total road maintenance backlog is used across all councils			
SCOTS Tasks	Current Situation and Progress	Assessment	Recommendation
National Task	The Scottish Road Maintenance Condition Survey SRMCS Contract was re-awarded 2013. Outputs from the financial model are prepared bi-annually.	The development of SCOTS assess procedures is secure.	Task complete

2004 Report Recommended Actions

Councils and the Scottish Executive should monitor and report publicly on the condition of their road network and their road maintenance backlog on an annual basis.

2011 Report Recommended Actions

Ensure that information on maintenance backlog and road condition is reported regularly to elected members and the public.

SCOTS Tasks	Current Situation and Progress	Assessment	Recommendation
<p>9. Knowledge and Communication</p>	<p>The audit reviewed level of resource available to the authority for asset management planning tasks and the level of understanding of the purpose and practice of asset management from those people who are involved in the audit meetings.</p> <p>The personnel interviewed as part of the audit demonstrated a differing level of understanding of asset management planning. Some officers who had regularly attended SCOTS RAMP workshops were well aware of the required activities. Other officers exhibited a lack of understanding and were unaware of the draft documents that had been produced. ELC does not have an asset management group that meets regularly to discuss and review progress.</p> <p>From the audit it appeared that that ELC has put effort into Road Asset Management Planning and made progress in some significant areas up to 2014. Progress has been halted due to the inability to finalise the draft documents produced.</p>		
	<p>The audit considers that:</p> <p>9.1 Good practice is to have the responsibility for asset management clearly allocated to appropriately trained/skilled personnel</p>	<p>East Lothian Council’s current position is Consolidating the Asset Management responsibility is assigned but not fully developed</p>	<p>Implement a road asset management working group in order to develop and monitor an improvement action programme.</p>
	<p>9.2 Good practice is to have regular, planned AM communications, appropriate to stakeholder needs</p>	<p>East Lothian Council current position is Consolidating good practice. There is evidence of Planned Asset Management communications but processes and procedures are not always implemented, or are applied at an appropriate/ sufficient officer level</p>	<p>Identify the required level of RAMP development involvement from each officer both within the council and at the national project level.</p>
	<p>9.3 Good practice is active engagement in the project</p>	<p>East Lothian Councils position is Developing Good Practice.</p> <p>The audit noted that there was Little evidence of active engagement with staff, stakeholders and members.</p>	

2004 Report Recommended Actions

Councils should review their budget setting process for road maintenance to ensure that an appropriate and cost-effective balance of expenditure between routine, winter emergency and structural maintenance is achieved.

SCOTS Tasks	Current Situation and Progress	Assessment	Recommendation
<p>4. Financial Practices</p>	<p>Financial practices are the hub of good asset management. Asset Management can only enable better value for money to be achieved if the information generated is used to aid better, more informed choices. There are several steps in attaining this. The financial enquiry looked at the extent to which the authority is able to gauge value for money. Does the authority have and use the requisite financial information to allow cost benchmarking, investment level comparisons and appropriate financial reporting? It examined the authorities cost recording methods and whether they create the information needed for asset management. The financial section is a major focus for the audit.</p> <p>Historical Cost Analysis Cost recording methods within ELC appear to be well structured providing potential access to detailed data that could be used to generate unit costs. ELC does not have a routine practice of reviewing historical costs. Unit rates are computed for the purposes of undertaking cost predictions and asset valuation. It is not clear how much rigour is put into the review of how these rates are constructed and how reliable they are. There is no evidence of a regime of comparing overarching parameter costs i.e. routine maintenance cost per km etc. It is considered an important element of good asset management to understand local costs and how they are varying over time.</p> <p>The audit considers that:</p>		
	<p>4.1 Good practice is to understand the High Level (network/asset group/activity level) Costs of typical items of work, and be able to determine why costs are changing</p>	<p>East Lothian Council current position is Consolidating good practice. Historical high level costs are recorded but are not being analysed presently.</p>	<p>To develop analytical techniques to analyse historical costs and investments made</p>
	<p>4.7 Good practice is to consider both the short and long term cost of investments made</p>	<p>ELC is Developing good practice. Decisions presently are primarily based upon immediate costs (short term)</p>	<p>To develop an understanding and methodology of whole of life investment</p>

2004 Report Recommended Actions

Councils should review their capital expenditure on structural maintenance to ensure that it achieves value for money and meets the key principles of the Prudential Code. In particular, councils should conduct an option appraisal for procuring and financing road maintenance services.

2011 Report Recommended Actions

review their road maintenance strategies and plans to confirm that adequate prioritisation is given to those routes which are likely to contribute greatest to economic growth and improved quality of life

SCOTS Tasks	Current Situation and Progress	Assessment	Recommendation
4. Financial Practices	<p>Budget Optimisation The allocation of the budget does not follow a <u>formal</u> process that is directly related to the asset management information. The current process for budget allocation within Roads is based upon considering pressures and changes to an existing historical budget at an annual managers meeting which decides priorities to the service and allocates money accordingly. The capital budget is influenced by individual business case reports although these focus predominantly upon the renewals/planned maintenance projects rather than the whole roads budget.</p> <p>The 2013 ASOR was presented to council but had no effect on the budgets being set. Budget optimisation using asset information is not practiced.</p> <p>Asset Valuation The valuation for 2013/14 has been undertaken fully with all the required figures computed and included in the WGA return. The 2014/15 Valuation had not been undertaken at the time of the audit. A valuation report for 2013/14 has not been produced.</p> <p>Value for Money A money saving initiative has been implemented in ELC where a LED lantern replacement scheme is being funded from a mix of Salix funding and monies that were previously allocated to the structures budget. There is an active programme of measuring and reporting on the benefits accrued from this initiative with results being presented to Senior Management and Council.</p> <p>The audit considers that:</p> <p>4.5 Good practice is to have a method of allocating service level budgets that uses performance and cost information to influence choices</p>	<p>East Lothian Council is Developing good practice such that Budget allocation are not solely based upon a</p>	<p>Use the SCOTS RAMP cost prediction tools for predicting future need for all aspects of the service and use it to</p>

		historical method	inform annual status and options reports.
	4.6 Good practice is to provide accurate information to inform corporate decision making	East Lothian Council is Developing a reporting structure of asset needs (ASOR or similar) at corporate or council level	
	4.8 Good practice is to know the value of the asset and whether that value is depreciating or not (and if depreciation is being fully funded)	East Lothian Council is Consolidating Asset valuation as a reporting mechanism to inform members and stakeholders of annualised depreciation.	Complete the 2014/15 Roads Asset Valuation (if not already done so) and report results to finance. Write a valuation report to detail the method of valuation the status of the input data and to identify any improvement actions required.
	4.9 Good practice is to conduct cost benefit analysis in significant investment decision making and evaluate and report the outcomes	East Lothian Council is Consolidating its processes. Individual significant investment decisions are subjected to a business case assessment	To evaluate all capital investment in line with the financial project business cases.
10. Improvement Action Programme & Value for Money	The audit examined the extent to which the authority is planning for improvement of its asset management practices. It reviewed where specific value for money enhancing initiatives driven, or underpinned by asset management have been undertaken. ELC does not have an improvement action programme and Value for Money activities are not formalised. The audit considers that:		
	10.1 Good practice is to be using asset management to drive improvement and deliver better value for money.	East Lothian Council is Developing an improvement plan. Asset Management is not yet being used to drive improvement. e.g. there is no improvement plan	Create a RAMP improvement action programme and a method of recording the benefits achieved from improvements to asset management practices and report them at least annually.

2004 Report Recommended Actions

Councils whose unit costs are above average should examine whether cost savings are possible.

SCOTS Tasks	Current Situation and Progress	Assessment	Recommendation
<p>4. Financial Practices</p>	<p>Cost Benchmarking There is currently no routine process of cost benchmarking. It is not an activity that is undertaken on a programmed basis and repeated at appropriate intervals. The APSE return provides some data that could be used for this as do other task outputs from the SCOTS RAMP project.</p> <p>The audit considers that:</p> <hr/> <p>4.2 Good practice is to understand the Unit Cost of typical items of work, and be able to determine why costs are changing</p>	<p>East Lothian Council is Consolidating Historical unit costs are recorded but are not being analysed</p>	<p>Create a documented process for computing unit rates, including the item coverage and use it to formalise reporting of historical costs.</p> <p>Use the unit costs generated above in conjunction with data available from other authorities to inform an annual review of costs and report the same to the relevant management forum/committee.</p>

2004 Report Recommended Actions

Councils should consider whether their road maintenance service could be improved by entering into consortia arrangements to achieve economies of scale in road maintenance.

2011 Report Recommended Actions

work together to consider all opportunities for achieving more with the resources currently available, by exploring new ways of working, such as service reconfiguration, pooling and flexible use of resources (including staff and machinery) and partnerships between councils and with the private sector

SCOTS Tasks	Current Situation and Progress	Assessment	Recommendation
National – Improvement Service	<p>ELC is a member of the ELBF roads Collaborations forum. This is made up of Edinburgh, East Lothian, Midlothian, West Lothian, Scottish Borders and Fife Councils. Representatives from each Council have been working together over to explore opportunities for increased collaboration within the activities undertaken by the roads service, the aim being to identify and deliver cost savings and to ensure future resilience of the roads service.</p> <p>Elected Members from the partner authorities will set the direction of collaboration and define the remit of the future Joint Committee. The costs (if any) and benefits of collaborating will be shared equally amongst participating authorities on an activity-by-activity basis.</p>	<p>The ELBF is developing the governance of the forum. A shadow joint committee has been set up to develop working relationships.</p>	<p>To recommend a lead authority to investigate collaborative opportunities and investigate areas of business which would be applicable as a shared venture.</p>

2004 Report Recommended Actions

All councils should review their performance against the Code of Practice for maintenance management in Delivering Best Value in Highway Maintenance – Code of Practice for Maintenance Management and take action to ensure they are complying fully with the Code.

2011 Report Recommended Actions

ensure they can demonstrate that the best use is being made of resources currently available, through benchmarking and improved performance management and reporting

SCOTS Tasks	Current Situation and Progress	Assessment	Recommendation
<p>4. Financial Practices</p>	<p>Cost Benchmarking There is currently no routine process of cost benchmarking. It is not an activity that is undertaken on a programmed basis and repeated at appropriate intervals. The APSE return provides some data that could be used for this as do other task outputs from the SCOTS RAMP project.</p> <p>The audit considers that:</p>		
	<p>4.3 Good practice is to routinely benchmark high level costs against peer authorities and external suppliers</p>	<p>East Lothian Council is Developing methodology to be reflective of high level costs. Currently, there is little evidence of efforts to benchmark high level costs</p>	<p>Use the unit costs generated in conjunction with data available from other authorities to inform an annual review of costs and report the same to the relevant management forum/committee.</p>
	<p>4.4 Good practice is to routinely benchmark unit costs against peer authorities and external suppliers</p>	<p>East Lothian Council is Developing methodology to be reflective of high level costs. Currently, there is little evidence of efforts to benchmark high level costs</p>	<p>Create a reporting method for estimating benefits of specific Asset Management cost reduction/value for money initiatives and report the accrued benefits annually (at least).</p>

2004 Report Recommended Actions

Councils should collect better inventory information about the assets they are managing, including roads, bridges and street lighting.

2011 Report Recommended Actions

all information is available to allow effective asset management to take place

SCOTS Tasks	Current Situation and Progress	Assessment	Recommendation
5. Maintenance Manual	<p>The audit examined evidence that the authority uses documented processes for the key activities associated with the management of the asset. Documented processes (or procedures) for aspects such as inspection, defect categorisation/prioritisation, selection of planned maintenance schemes and selection of maintenance treatments and/or materials are expected to be recorded as a minimum. ELC has produced a draft maintenance manual that contains a large number of detailed procedures. This document has not been completed. It is in need of review and finalisation to prevent it from becoming out of date even prior to its publication.</p> <p>The audit considers that:</p> <p>5.1 Good practice is to have documented methods of managing the asset and a process to monitor compliance.</p>	<p>East Lothian Council is Consolidating its processes. Evidence that main asset groups are being managed in accordance with Asset Management principles. Asset Management procedures are documented but not controlled.</p>	<p>Review and complete the draft maintenance manual ensuring it contains the documentation that ELC wish to use to record how maintenance is managed and create a programme for when each of the procedures/processes is to be reviewed and/or updated.</p>

<p>8. Works Programme</p>	<p><i>The audit investigated whether the authority had a practice of identifying long term programmes of work and the extent to which RAMP targets and strategies are incorporated and drive the selection of schemes and treatment included in the relevant works programmes</i></p> <p>Annual (1 year) work programmes exist for all the major asset groups with an indicative “wish list” of identified schemes to follow. As the RAMP does not contain documented strategies it is not possible to state that the programme support the strategies on which the RAMP is based. There is reliance upon officers to ensure that the programme is reflective of the approach being advocated.</p> <p>The audit considers that:</p> <p>8.1 Good practice is to have a rolling programme (3yrs or more) of prioritised planned maintenance/renewals schemes/projects that are driven by a documented strategy in the RAMP.</p> <p>Good practice is to have an evaluation process to monitor and review the effectiveness of the works programme</p>	<p>East Lothian Council is Developing rolling programme of works</p> <p>East Lothian is Developing systems to evaluate the works programme in the longer term.</p> <p>Currently, there is no evidence of evaluation of the works programme</p>	<p>Produce a 3 year rolling programme for the major asset groups (updated annually) to match the strategies detailed in the new RAMP, with firm commitment for the first year and lessening certainty for the following years</p>
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2004 Report Recommended Actions

Councils should ensure that they have up-to-date IT systems and asset management systems, and take into account the recommendations and good practice contained in the Framework for Highway Asset Management, in particular:

- up-to-date information on the condition of the assets they are managing including roads, bridges and street lighting
- asset management systems linked to GIS and financial systems
- pavement management systems to minimise whole life costs of road maintenance
- electronic recording of safety inspections.

2011 Report Recommended Actions

they fully support SCOTS' road asset management project and have a road asset management plan in place no later than the end of 2011, with those councils that have still to develop adequate inventory and information systems doing so quickly in order to comply with this deadline

SCOTS Tasks	Current Situation and Progress	Assessment	Recommendation
1 Policy.	<p>Policy.</p> <p>The Policy review is used to determine if there is evidence of a commitment to the use of Asset Management that has been formalised by the authority.</p> <p>ELC does not have a specific road asset management policy. A road asset management plan (RAMP) was however approved by council in June 2010. The RAMP provided a statement of current practice within the council and identified areas that required development. The draft Local Transport Strategy makes reference to the continuing development of the RAMP and the Council's commitment to its use for planning and prioritising maintenance works.</p> <p>A number of policies exist for individual activities such as safety inspections. A draft road maintenance manual exists containing a large number of documented processes and procedures which have become practice but which are not formal policy. A specific Asset Management policy is not essential. Formalised commitment to Asset Management can be achieved by other methods such as publishing relevant procedures as part of a quality management system. Regrettably, Roads Services no longer hold QA certification</p> <p>The audit considers that:</p>		

	<p>1.1 Good practice is to have asset management practices formalised. This may be in the form of a specific policy or it may be from other methods that the councils use.</p>	<p>East Lothian Council is Consolidating Some practices formalised via policy</p>	<p>Set out and formalise a framework for HC showing the RAMP activities for the year and publish it appropriately as a controlled document/procedure or policy.</p>
<p>7. Road/Road Asset Management Plan</p>	<p><i>The audit noted that East Lothian council has a RAMP and what its purpose and contents are. RAMPs are expected to be documents that are council approved and summarise the targets and investments committed by the authority. This audit used the template RAMP as a reference to gauge the quality of the RAMP.</i></p> <p>ELC produced and published an initial RAMP in 2010 to cover the period 2010-2013. The executive summary was presented to the Environment Committee in June of that year. It followed the format recommended by the preceding SCOTS RAMP project. It includes significantly more detail than would be included now following the later guidance (RAMP#2). The plan contains a lot of relevant detail but crucially does not include condition targets or specified strategies for how any targets that do exist are expected to be achieved.</p> <p>In early 2015 a draft RAMP#2 document was written but has yet to be completed. It covers the period 2015-2019 and contains details of assumed funding covering that period. It also contains some proposed level of service targets however many others remain to be identified including those relating to condition.</p> <p>As there are no specific council approved targets yet in place it is not possible to say that the council is actively targeting delivery in the manner that good asset management practice demands.</p> <p>The audit considers that:</p>	<p>East Lothian Council is Consolidating the process of publishing the RAMP but not taken through Council Committee approval process until conclusion of the LTS.</p>	<p>Complete the production of the RAMP#2 2017-2021. Present to Council to gain approval of the levels of service and strategies detailed within.</p>
	<p>7.1 Good practice is to have a RAMP approved by council</p>		

	<p>7.2 Good practice is for the RAMP to contain the service standard target for the period covered by the plan. (repair and condition standards/targets)</p> <p>7.3 Good practice is for the RAMP to details strategies for how it is planned to deliver the standards/targets</p> <p>7.4 Good practice is for the RAMP to identify key risks to successful delivery and how these will be managed.</p>	<p>East Lothian is Consolidating its targets and will contain with the RAMP details of standards/targets</p> <p>AS above ELC is Consolidating Some strategies in to the RAMP but not all asset groups are covered</p> <p>ELC is Consolidating the RAMP to identify and include known Risks but lacks sufficient detail, or a clear plan for how they will be managed</p>	
6. Annual Status and Options Report	<p><i>The audit examined if the status of the asset is being reported and if costed future condition predictions are reported. Template annual status and options reports have been made available for this purpose under the project. The audit investigated the adoption of these practices, specifically if there was a formalised reporting of status to management and councillors.</i></p> <p>ELC produced an ASOR for carriageways which was presented to council in November 2013. Draft ASORs were created for all asset groups in 2014 but these were not finalised or presented to council. ASORs for 2015 have yet to be drafted.</p> <p>Options reporting linking levels of investment to predicted outturn service standards (condition etc.) have not been produced for use within the budget setting process.</p> <p>The audit considers that:</p>		
	<p>6.1 Good practice is to report the performance (condition, repair record and other relevant information) about the asset and the risks associated with it to the relevant stakeholders and decision makers at least annually</p>	<p>East Lothian Council is Developing processes and procedures.</p> <p>Formal status reporting has not yet started</p> <p>East Lothian Council is Developing processes and procedures.</p> <p>Options reporting has started but not yet fully implemented</p>	<p>Formalise an annual status and options reporting process to Senior management and/or Councillors detailing what is to be reported and when, include details of predicted condition and associated costs.</p>
	<p>6.2 Good practice is to present decision makers with investment options.</p>		
2. Data.	<p>A draft Data Management Plan (DMP) was produced in December 2014 that includes improvement actions for all asset groups, however this DMP was not completed and there is no evidence of these improvement actions being undertaken or monitored. Observations on the reported data completeness and quality are given below</p>		

	<p>2.1 Good practice is to hold the core data recommended by SCOTS.CSSW for all major asset groups</p>	<p>East Lothian Council is Consolidating its practices. Good level of reliable core data held with clear plans to address the deficiencies</p>	<p>Complete a revised data assessment spreadsheet and identify the improvement actions required along with appropriate timescales Determine methods of updating data that can be sustained e.g. from ongoing</p>
	<p>2.2 Good practice is to have a plan for managing the improvement of asset data/closing gaps in asset data.</p>	<p>East Lothian is Developing processes. Data deficiencies are not yet clearly identified in a data improvement plan.</p>	<p>data collection during inspection and/or works completion and record in the data management plan including verification and validation processes.</p>
	<p>2.3 Good practice is to have formal data management and effective procedures that ensure data is regularly updated and validated.</p>	<p>East Lothian Council is Developing procedures. Data Management Planning is inadequate or procedures are not being followed</p>	<p>Complete the drafting of the DMP and define the actions with timescales</p>
	<p>2.4 Good practice is to have electronic information systems that enable efficient recording, storing and reporting to support decision making</p>	<p>East Lothian Council is Consolidating systems. Information is held in disparate systems. Improvement requirements have been identified with implementation in process.</p>	<p>Complete a review of data systems capability and use and document a strategy for improvement of the systems used (and/or their) upgrade /replacement</p>

2004 Report Recommended Actions

Councils should develop:

- a framework of performance indicators and outcome targets against which to measure the performance of the road maintenance system.
- Road maintenance strategies in the context of their transportation and roads asset management strategies. Councils should take into account the views of road users and the wider community in the development of road

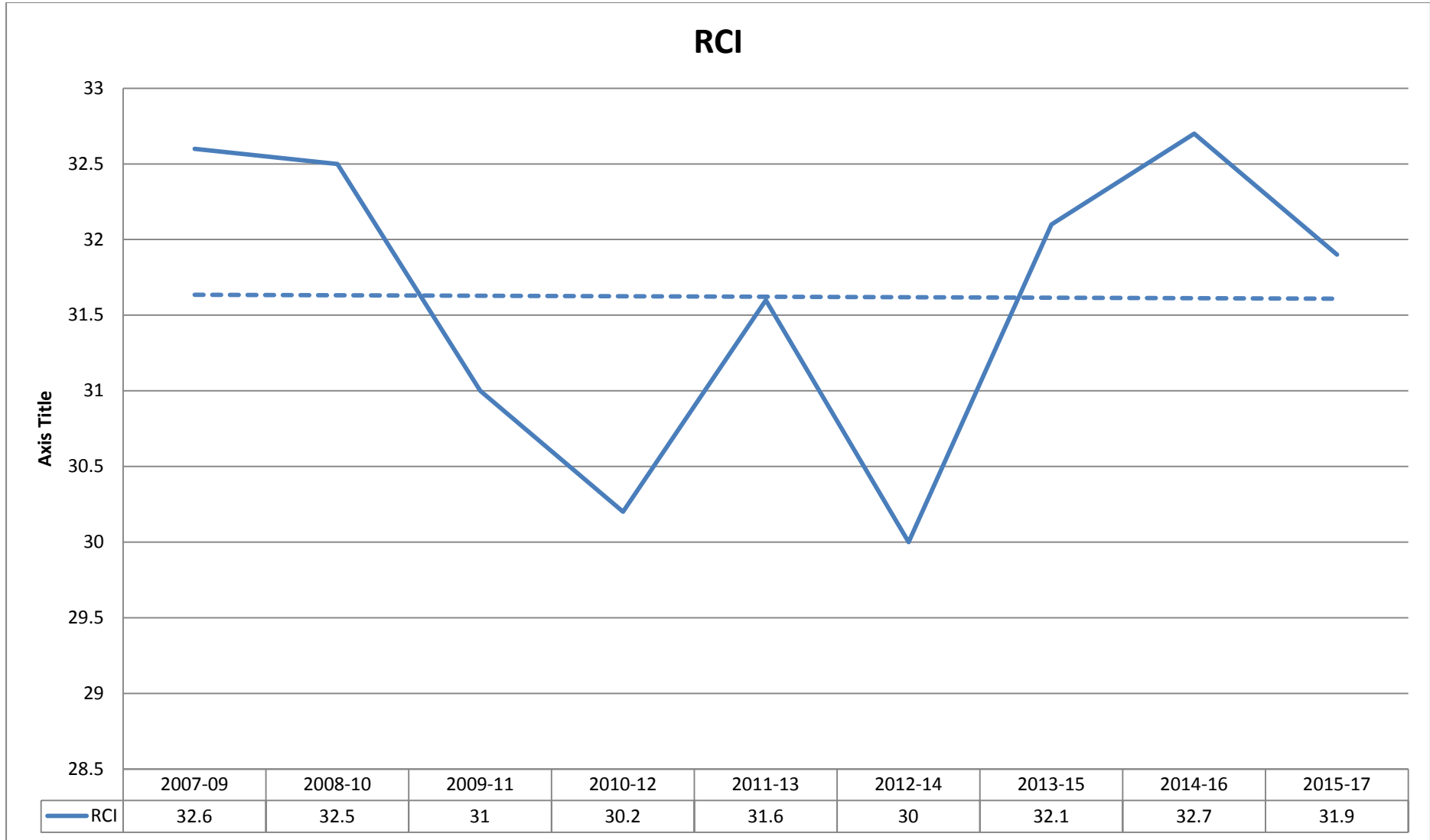
2011 Report Recommended Actions

they adopt the suite of performance indicators being developed by SCOTS as an important

SCOTS Tasks	Current Situation and Progress	Assessment	Recommendation
3. APSE Performance Indicator Returns.	<p>The audit found that ELC's performance data supplied to APSE appears complete. A full return was made in 2013/14 and the 2014/2015 data is in the process of being compiled. In addition to the annual APSE return data ongoing performance reporting is undertaken for a small number of indicators within the Departmental Performance Report (percentage of roads resurfaced, structures GIs undertaken, response times to customer enquiries, NRSWA noticing). This appears to be a well-developed system and the results are reviewed during quarterly internal meetings.</p> <p>The data for 2013/14 reported a level of compliance with reactive repair response times of 83%; this was noted as an issue and targeted for improvement. Current figures show a level of >90%. Figures for carriageway condition are quoted in the returns based on the SRMCS condition surveys and for footways based on the visual survey. The absence of target standards relating to most of the performance measures makes it difficult to determine if ELC are achieving their expected levels of service.</p> <p>The audit considers that:</p>		

	<p>3.1 <i>Good practice is to have a relevant suite of performance measures to actively manage core assets and drive investment decision making towards best value outcomes</i></p>	<p>East Lothian Council is Consolidating its Data and performance is reviewed and there is some evidence of usage in pursuing improvement activity</p>	<p>Establish a reporting regime for the key performance indicators that are required to measure the service standards that ELC aims to deliver in the RAMP.</p>
	<p>3.2 <i>Good practise is to have a mechanism for evaluating and improving performance, aimed at creating a culture of continuous improvement</i></p>	<p>East Lothian Council is Consolidating its targets. Evidence of specific ad-hoc improvement initiatives</p>	<p>Set up a system to identify where performance indicators show a deficiency of service against target and to produce an action plan as required.</p>

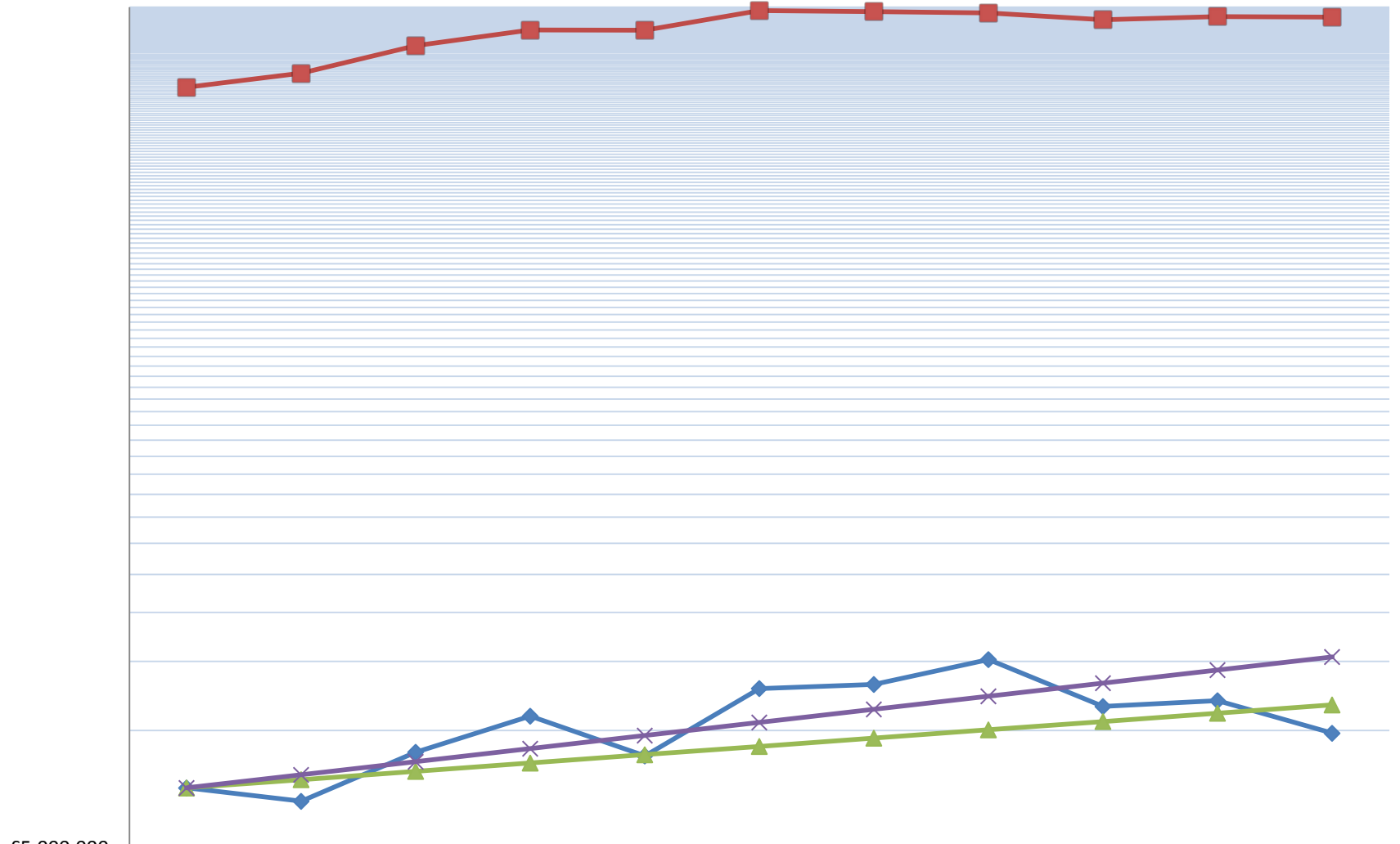
Appendix 2 – East Lothian Council – Road Condition Indicator (RCI)



RCI - % of local carriageway network considered necessary for maintenance treatment.

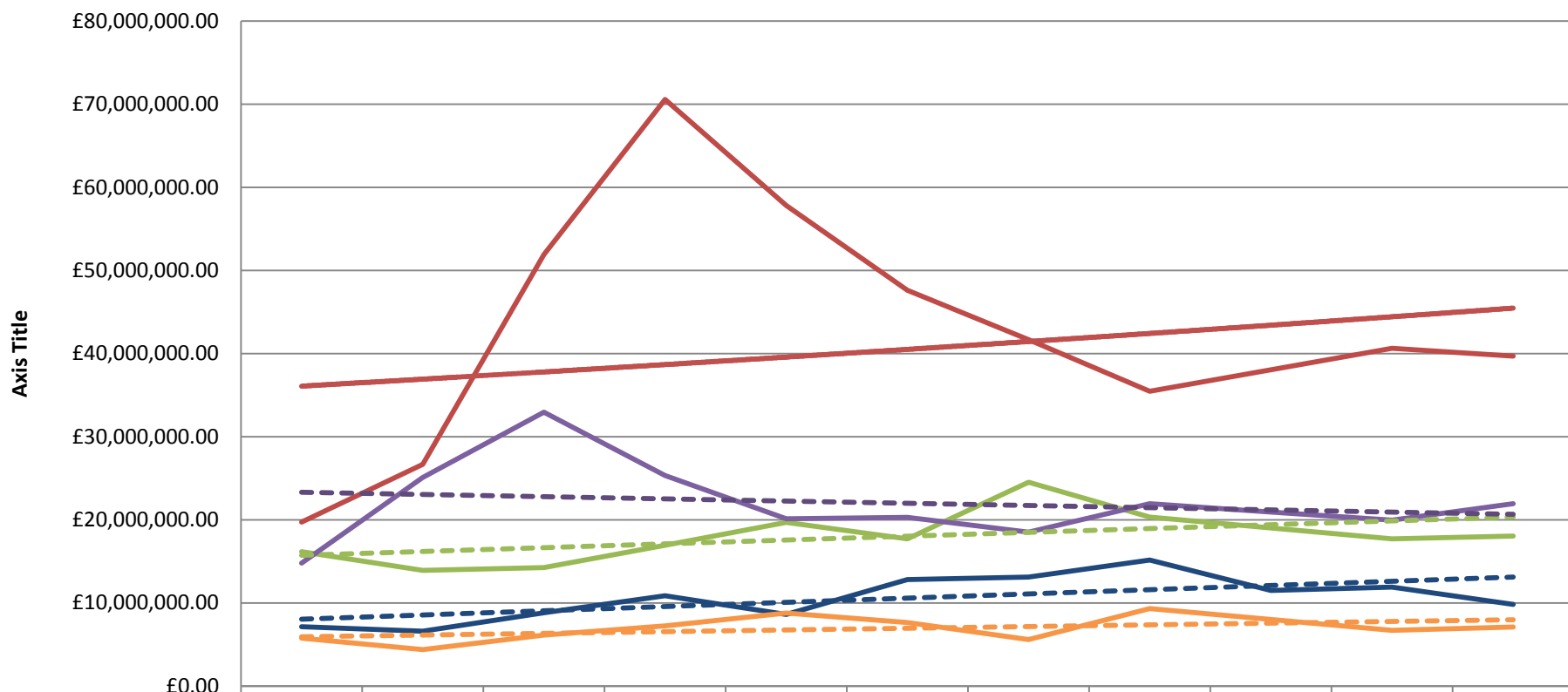
Appendix 3 - National versus Local Maintenance Spend Comparison

Axis Title



	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
◆ East Lothian Spend	£7,131,000	£6,593,000	£8,797,000	£10,872,000	£8,608,000	£12,789,000	£13,100,000	£15,160,000	£11,507,000	£11,908,000	£9,833,000
■ All Authority Acc. Spend	£437,000,000	£475,000,000	£558,000,000	£612,000,000	£611,000,000	£686,000,000	£682,000,000	£676,000,000	£650,000,000	£662,000,000	£660,000,000
▲ 5%	£7,131,000.0	£7,487,550.0	£7,861,927.5	£8,255,023.8	£8,667,775.0	£9,101,163.8	£9,556,222.0	£10,034,033.	£10,535,734.	£11,062,521.	£11,615,647.
✕ 8%	£7,131,000.0	£7,701,480.0	£8,317,598.4	£8,983,006.2	£9,701,646.7	£10,477,778.	£11,316,000.	£12,221,280.	£13,198,983.	£14,254,902.	£15,395,294.

Appendix 4 - Local comparison compares East Lothian Council's spend with neighbouring local authorities.



	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
— East Lothian	£7,131,000	£6,593,000	£8,797,000	£10,872,000	£8,608,000	£12,789,000	£13,100,000	£15,160,000	£11,507,000	£11,908,000	£9,833,000
— City of Edinburgh	£19,730,000	£26,665,000	£51,902,000	£70,577,000	£57,808,000	£47,596,000	£41,673,000	£35,444,000	£38,035,500	£40,627,000	£39,702,000
— Scottish Borders	£16,168,000	£13,897,000	£14,237,000	£16,938,000	£19,669,000	£17,702,000	£24,505,000	£20,330,000	£19,017,000	£17,704,000	£18,055,000
— West Lothian	£14,778,000	£25,079,000	£32,955,000	£25,337,000	£20,118,000	£20,275,000	£18,524,000	£21,919,000	£20,930,000	£19,941,000	£21,940,000
— Midlothian	£5,761,000	£4,389,000	£6,123,000	£7,221,000	£8,779,000	£7,623,000	£5,577,000	£9,306,000	£7,994,500	£6,683,000	£7,085,000

Appendix 5 - Improvement Action Programme

No	Recommendation	Priority
1	Set out and formalise a framework for HC showing the RAMP activities for the year and publish it appropriately as a <u>controlled document/procedure or policy</u> .	High
2	Complete a revised data assessment spreadsheet and identify the improvement actions required along with appropriate timescales.	High
3	Determine methods of updating data that can be sustained e.g. from ongoing data collection during inspection and/or works completion and record in the data management plan including verification and validation processes.	High
4	Complete the drafting of the DMP	High
5	Complete a review of data systems capability and use and document a strategy for improvement of the systems used (and/or their upgrade/replacement)	Medium
6	Establish a reporting regime for the key performance indicators that are required to measure the service standards that ELC aims to deliver in the RAMP.	Medium
7	Set up a system to identify where performance indicators show a deficiency of service against target and to produce an action plan as required.	Medium
8	Create a documented process for computing unit rates, including the item coverage and use it to formalise reporting of historical costs.	High

9	Use the unit costs generated above in conjunction with data available from other authorities to inform an annual review of costs and report the same to the relevant management forum/committee.	Medium
10	Use the SCOTS RAMP cost prediction tools for predicting future need for all aspects of the service and use it to inform annual status and options reports.	High
11	Complete the 2014/15 Roads Asset Valuation (if not already done so) and report results to finance. Write a valuation report to detail the method of valuation the status of the input data and to identify any improvement actions required.	High
12	Create a reporting method for estimating benefits of specific AM cost reduction/value for money initiatives and report the accrued benefits annually (at least).	Medium
13	Review and complete the draft maintenance manual ensuring it contains the documentation that ELC wish to use to record how maintenance is managed and create a programme for when each of the procedures/processes is to be reviewed and/or updated.	High
14	Formalise an annual status and options reporting process to Senior management and/or Councillors detailing what is to be reported and when, include details of predicted condition and associated costs.	High
15	Complete the production of the RAMP#2 2015-2019. Present to Council to gain approval of the levels of service and strategies detailed within.	High
16	Produce a 3 year rolling programme for the major asset groups (updated annually) to match the strategies detailed in the new RAMP, with firm commitment for the first year and lessening certainty for the following years.	Medium

17	Implement a road asset management working group in order to develop and monitor an improvement action programme.	Medium
18	Identify the required level of RAMP development involvement from each officer both within the council and at the national project level.	Low
19	Create a RAMP improvement action programme and a method of recording the benefits achieved from improvements to asset management practices and report them at least annually.	Medium

REPORT TO: Audit and Governance Committee
MEETING DATE: 24 January 2017
BY: Depute Chief Executive – Resources & People Services
SUBJECT: Internal Audit Report – Preston Lodge High School

6

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Preston Lodge High School.

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A review of Preston Lodge High School was undertaken as part of the audit plan for 2016/17.
- 3.2 The main objective of the audit was to ensure that the financial arrangements in place at the School were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None.

5 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

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DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	12 January 2017

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
PRESTON LODGE HIGH SCHOOL**

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the financial arrangements operating at Preston Lodge High School was undertaken as part of the Audit Plan for 2016/17. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Detailed financial procedures are in place for staff with responsibility for administering the School's finances.
- Adequate arrangements are in place for operating the Petty Cash Imprest bank account.
- A clear audit trail exists for all petty cash expenditure incurred.
- Appropriate arrangements are in place for the administration of the School Fund.
- Regular reconciliations are undertaken of both the Petty Cash Imprest and the School Fund.
- For goods ordered through the Pecos system, adequate procedures are in place for the ordering, authorising and receipting of purchases.
- Appropriate arrangements are in place for budget monitoring.

1.3 Areas with Scope for Improvement

- At present, cash prepared for banking is not being verified by a second member of staff. *Risk – errors and irregularities may occur and remain undetected.*
- There had been a failure to ensure that School Fund income was banked intact – in one case identified, income received had been used to replenish the Petty Cash Imprest. *Risk – non compliance with financial procedures.*
- The existing procedures in place for the recording and monitoring of school trip income and expenditure require review. *Risk – failure to adopt a consistent approach.*
- In some cases, there had been a failure to properly account for VAT. *Risk – non compliance with HMRC requirements.*

1.4 Summary

Our review of the financial arrangements operating at Preston Lodge High School has identified some areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

**Mala Garden
Internal Audit Manager**

January 2017

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
PRESTON LODGE HIGH SCHOOL**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.4	Management should ensure that the petty cash spreadsheet clearly identifies both the cash held and the bank balance.	Low	Head Teacher / School Business Manager	Agreed		January 2017
3.3.5	Management should ensure that all supporting documentation is submitted to the Council with the School Fund Annual Return.	Medium	Head Teacher / School Business Manager	Agreed – all documentation now in place.		January 2017
3.4.2	Management should review the existing procedures in place for the recording and monitoring of school trip income and expenditure.	Medium	Head Teacher / School Business Manager	Agreed		May 2017
3.4.3	Management should ensure that all income received is passed to the school office on a daily basis. Management should ensure that all income received is banked intact.	Medium	Head Teacher / School Business Manager	Agreed		January 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.5	Management should ensure that all cash prepared for banking is verified by a second member of staff – evidence of this check should be held on file.	Medium	Head Teacher / School Business Manager	Agreed		January 2017
3.5.1	Management should review the current arrangements for key security.	Medium	Head Teacher / School Business Manager	Agreed		January 2017
3.6.4	Management should ensure that all purchase card transactions are reviewed by the Cardplus Supervisor on the Cardplus system.	Medium	Head Teacher / School Business Manager	Agreed		January 2017
3.6.5	Management should ensure that for purchase card transactions, a clear description of the items purchased is detailed in the DSM and School Fund records.	Medium	Head Teacher / School Business Manager	Agreed		January 2017
3.8.1	Management should ensure compliance with the VAT procedures contained in both the DSM Financial Procedures for Schools and the purchase card guidance.	Medium	Head Teacher / School Business Manager	Agreed		January 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.10.1	Management should ensure that the two separate bank accounts held for fund raising activities are operated under the auspices of the Parent Council.	Medium	Head Teacher / School Business Manager	Agreed		June 2017

Grading of Recommendations

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

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

REPORT TO: Audit and Governance Committee
MEETING DATE: 24 January 2017
BY: Depute Chief Executive – Resources & People Services
SUBJECT: Internal Audit Report – Prevention of Tenancy Fraud

7

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on the Prevention of Tenancy Fraud.

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 As part of the audit plan for 2016/17 a review was undertaken of the arrangements in place for the Prevention of Tenancy Fraud.
- 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

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	12 January 2017

EAST LOTHIAN COUNCIL – INTERNAL AUDIT PREVENTION OF TENANCY FRAUD

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2016/17 a review was undertaken of the arrangements in place for the Prevention of Tenancy Fraud. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- A series of process maps are available on the Nimbus system covering succession, assignation and joint tenancy – the process maps are designed to assist staff with responsibility for managing tenancy changes.
- For the sample of cases examined where the tenancy had changed from a sole to joint tenancy, a clear audit trail was held on the Orchard system.

1.3 Areas with Scope for Improvement

- The existing documentation in place for managing tenancy changes due to succession requires review, including the staff guidance and checklist, leaflet to applicants and pro-forma letters. *Risk – an inconsistent approach may be adopted.*
- In a number of cases, applicants completing succession or assignation application forms had failed to provide appropriate supporting documentation to confirm residency. *Risk – inappropriate approval may be granted.*
- In a number of cases, there had been a failure by staff to complete the relevant checklists to confirm that applicants had met the necessary criteria, prior to consent being given for succession, assignation or joint tenancy. *Risk – inappropriate approval may be granted.*
- In some cases, there had been a failure to ensure that former tenancies had been properly terminated prior to new tenancies commencing, resulting in applicants being recorded as tenants for two separate properties on the Orchard system. *Risk – tenancy fraud may occur.*
- In two cases examined, there was a lack of evidence to confirm that an application form (for succession and joint tenancy) had been completed, while in other cases there had been a failure to complete key sections of the forms. *Risk – inappropriate approval may be granted.*
- The existing arrangements in place for the monitoring and reporting of sublet tenancies require review. *Risk – lack of a clear audit trail.*

1.4 Summary

Our review of the arrangements in place for the Prevention of Tenancy Fraud has identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

January 2017

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
PREVENTION OF TENANCY FRAUD**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should review the documentation in place for managing tenancy changes due to succession, including the staff guidance and checklist, leaflet to applicants and pro-forma letters.	Medium	Service Manager – Community Housing	Agreed		March 2017
3.3.1	<p>Management should ensure that all applications for succession are supported by a fully completed ‘Succession to a Scottish Secure Tenancy’ Form.</p> <p>Management should ensure that relevant applicants provide the necessary evidence to confirm residency.</p> <p>Management should ensure that residency checks include home visits and verification checks to other records e.g. Council Tax and Electoral Register.</p> <p>Management should ensure that the reasons for tenancy changes are accurately recorded on the Orchard system.</p> <p>Where succession applications are pending a decision, Management should seek advice as to the options available to the Council to mitigate any rent loss.</p>	Medium	Service Manager – Community Housing	Agreed		February 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	<p>Management should ensure that appropriate evidence is provided to confirm residency for all assignees.</p> <p>Management should ensure that the reasons for tenancy changes are accurately recorded on the Orchard system.</p>	Medium	Service Manager – Community Housing	Agreed		February 2017
3.5.1	<p>Management should ensure that an ‘Application for a Joint Tenancy’ Form is completed in all cases.</p> <p>Management should ensure that all former tenancies are properly terminated prior to new tenancies commencing.</p>	Medium	Service Manager – Community Housing	Agreed		February 2017
3.6.1	<p>Management should ensure that staff members fully complete the relevant checklists in place prior to consent being given for succession, assignation or joint tenancy.</p> <p>Management should ensure that periodic reviews are undertaken of tenancy changes. Evidence of the reviews should be held on file.</p>	Medium	Service Manager – Community Housing	Agreed		February 2017
3.7.1	<p>Management should review the existing arrangements in place for the monitoring and reporting of tenancies that have been sublet.</p>	Medium	Service Manager – Community Housing	Agreed		In Place

Grading of Recommendations

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

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

REPORT TO: Audit and Governance Committee

MEETING DATE: 24 January 2017

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – Contracts

8

1 PURPOSE

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

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 In May 2016 the Audit and Governance Committee asked Internal Audit to undertake additional work on contract awards to provide assurances that internal controls were operating effectively.
- 3.2 A sample of five contracts from across the Council was selected for examination. Of the five contracts examined, two are currently being considered by management and will be subject to a separate report. This report sets out the main findings from the remaining three contracts that formed part of this review.
- 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

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	12 January 2017

EAST LOTHIAN COUNCIL – INTERNAL AUDIT CONTRACTS

1. EXECUTIVE SUMMARY

1.1 Introduction

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

1.2 Areas where Expected Controls were Met

- The Council has in place an approved Corporate Procurement Procedures Manual to provide guidance to staff on procurement – the procedures form part of the Council's Standing Orders.
- For the three contracts examined, there was a clear audit trail of the tendering process undertaken.
- A Members' Library report was prepared for each of the contracts examined detailing the tenders received and the award of the contract – in each case the contract was awarded to the contractor submitting the lowest tender.

1.3 Areas with Scope for Improvement

- For one contract examined (fire damage works to a Council house), the procurement was undertaken under the Council's Framework Agreement for the Provision of Construction Works, however this category of work was specifically excluded from the scope of the framework. *Risk – failure to identify the contractors most suited to undertake the work.*
- For a second contract examined the following points were noted:
 - ❖ The tender was issued as a Drawings and Specification tender – the tender return date (26 February 2016) was two weeks from the date of issue (12 February 2016), with work anticipated to commence in March 2016.
 - ❖ The six contractors on Lot 1 of the Council's Framework Agreement for the Provision of Construction Works were contacted, however only two confirmed that they would submit a tender. Of the remaining four contractors who indicated that they would not be submitting a tender, two contractors stated that they would be unable to return the tender within the specified timescale. Due to insufficient interest from the framework contractors, the tender process under the framework was abandoned and a Quick Quote process was initiated.
 - ❖ The Council did not include a formal Mechanical and Electrical (M&E) design package in the tender documents – instead tenderers were instructed to include a provisional sum for M&E works. The M&E works subsequently undertaken (by a sub-contractor) had not been competitively tendered.
 - ❖ There was a significant delay between tenders being received and work commencing on site – work did not commence until July 2016.
Risk – failure to ensure an effective tendering process.

1.4 Summary

Our review of the award of contracts has identified some areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

Mala Garden
Internal Audit Manager

January 2017

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
CONTRACTS**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should ensure compliance with the Framework Agreement in place.	Medium	Service Manager – Strategic Asset & Capital Plan Management	Agreed		March 2017
3.3.1	Management should review the adequacy and effectiveness of the current approach adopted for the tendering of contracts.	Medium	Service Manager – Strategic Asset & Capital Plan Management	Agreed		March 2017

Grading of Recommendations

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

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

REPORT TO: Audit and Governance Committee

MEETING DATE: 24 January 2017

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – Waste Services Income

9

1 PURPOSE

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

2 RECOMMENDATION

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

3 BACKGROUND

- 3.1 A review of Waste Services Income 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 for the sale of recycled materials 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

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	12 January 2017

EAST LOTHIAN COUNCIL – INTERNAL AUDIT WASTE SERVICES INCOME

1. EXECUTIVE SUMMARY

1.1 Introduction

A review of the internal controls surrounding Waste Services Income was undertaken as part of the Audit Plan for 2016/17. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- The Council has adequate arrangements in place for the provision of recycling facilities – in addition to kerbside collections, the Council has recycling centres, recycling points and on the go recycling points.

1.3 Areas with Scope for Improvement

- There was a lack of adequate separation of duties – all key activities in respect of the sale of recyclates, including negotiating with buyers, the raising of debtor invoices and the issuing of credit notes were undertaken by the same member of staff. *Risk – errors and irregularities may occur and remain undetected.*
- There was a lack of a clear audit trail for the sale of scrap metal – no independent record was held by the Council of scrap metal collected, uplifted and dispatched for sale. The only records available were documents that had been initiated by the buyer. *Risk – errors and irregularities may occur and remain undetected.*
- In a number of cases, no formal agreements were held by the Council to confirm the rates agreed for the sale of recyclates – a spreadsheet of agreed rates was maintained, however in some cases the rates charged by the Council were lower than those detailed on the record of agreed rates. *Risk – errors and irregularities may occur and remain undetected.*
- There had been a failure to ensure that debtor invoices issued by the Council clearly detailed the total tonnage being sold and the agreed rate per tonne. *Risk – errors and irregularities may occur and remain undetected.*
- There was a lack of adequate arrangements in place to ensure that income received had been properly accounted for in the ledger – for one supplier where self billing arrangements were in place, there had been a failure to properly account for VAT. *Risk – overstatement of income.*
- In one case identified, there had been a failure to raise an invoice for waste that had been sold for recycling. *Risk – loss of income to the Council.*
- There is a lack of adequate arrangements in place to ensure that regular reconciliations are undertaken between the general ledger and the waste services record of income received from recyclates. *Risk – errors and irregularities may occur and remain undetected.*
- There was a failure to adopt a consistent approach throughout the Council for the sale of recyclates. *Risk – loss of income to the Council.*

1.4 Summary

Our review of Waste Services Income identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

Mala Garden
Internal Audit Manager

January 2017

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
WASTE SERVICES INCOME**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	Management should ensure that detailed procedures are in place for the sale of recycled waste.	Medium	Service Manager – Waste	A corporate policy on selling will be drawn up – service areas to develop procedures.		To be confirmed
3.2.1	Management should ensure that a clear audit trail exists for all recyclates. All materials collected, uplifted and dispatched for sale should be recorded and a weighbridge ticket held.	High	Service Manager – Waste	Agreed		In Place
3.3.1	Management should ensure adequate separation of duties. The existing practice whereby all key tasks relating to the sale of recyclates are undertaken by the same member of staff should cease with immediate effect.	High	Service Manager – Waste	Agreed – to be implemented through Service Review Completion.		March 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	<p>With the exception of self-billing, Management should ensure that debtor invoices raised are based on source information initiated by the Council.</p> <p>Management should ensure that rates for recyclates are formally agreed with the buyer – a copy of the agreement should be retained on file.</p> <p>Management should ensure that debtor invoices issued by the Council clearly set out the quantity of waste (supported by a weighbridge ticket) and the agreed rates.</p> <p>Management should ensure that evidence is held to demonstrate that the Council has obtained best value from the sale of recyclates.</p> <p>Management should ensure that a retrospective invoice is raised to recover the amounts due to the Council from the sale of glass.</p>	Medium	Service Manager – Waste	<p>Agreed</p> <p>Not always possible due to private sector/market changes.</p> <p>Agreed</p> <p>This is already done however evidence is not always possible. Audit need to understand the market place.</p> <p>Agreed</p>	<p>In Part</p> <p>Yes</p>	<p>March 2017</p> <p>January 2017</p> <p>January 2017</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.2	Management should ensure that VAT is properly accounted for where income is received directly to the Council's bank account as part of self-billing arrangements.	Medium	Service Manager – Waste/Finance	Agreed		In Place
3.5.1	Management should ensure that regular reconciliations are undertaken between the general ledger and the waste services record of income received from recyclates.	Medium	Service Manager – Waste/Finance Business Partner	Agreed		March 2017
3.6.1	Management should review the current approach adopted for the sale of recyclates to ensure that a consistent approach is applied throughout the Council.	Medium	Corporate	To be confirmed		

Grading of Recommendations

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

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

REPORT TO: Audit and Governance Committee

MEETING DATE: 24 January 2017

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Charter

10

1 PURPOSE

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require an Audit Charter to be in place in each local authority.
- 1.2 The PSIAS require the Internal Audit Charter to be reviewed periodically and presented to Senior Management and to the Audit and Governance Committee for approval.
- 1.3 East Lothian Council's Draft Internal Audit Charter was initially submitted to the Audit and Governance Committee for information purposes in January 2015. The draft Internal Audit Charter has now been finalised and is being presented to the Audit and Governance Committee for approval.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee approves the Internal Audit Charter.

3 BACKGROUND

- 3.1 The Internal Audit Charter has been drawn up in line with the PSIAS requirements and is a formal document that defines the Internal Audit activity's purpose, authority and responsibility. The Internal Audit Charter is attached as Appendix A.
- 3.2 The Internal Audit Charter establishes Internal Audit's position within the organisation, including the nature of the Internal Audit Manager's functional reporting relationship with the Audit and Governance Committee and defines the scope of Internal Audit's activities.

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.

AUTHOR'S NAME	Mala Garden
DESIGNATION	Internal Audit Manager
CONTACT INFO	01620 827326
DATE	12 January 2017

**EAST LOTHIAN COUNCIL
INTERNAL AUDIT**



**INTERNAL AUDIT
CHARTER**

INTERNAL AUDIT CHARTER

1. Introduction

- 1.1 The work of East Lothian Council's Internal Audit activity is governed by the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013.
- 1.2 The Internal Audit Charter is a formal document that defines the Internal Audit activity's purpose, authority and responsibility. The Internal Audit Charter establishes Internal Audit's position within the Council, including the nature of the Internal Audit Manager's functional reporting relationship with the Audit and Governance Committee and defines the scope of Internal Audit's activities.

2. Definitions

- 2.1 The PSIAS comprise a revised definition of internal auditing, a Code of Ethics for internal auditors working in the public sector and the Standards themselves. The PSIAS are mandatory for all internal auditors working in the UK public sector.
- 2.2 The PSIAS require that the Internal Audit Charter defines the terms "Board" and "Senior Management" in relation to the work of Internal Audit. For the purposes of Internal Audit work in East Lothian Council, the Board refers to the Audit and Governance Committee which has responsibility for overseeing the work of Internal Audit. Senior Management is defined as the Council Management Team (Chief Executive, Depute Chief Executives and Heads of Service).
- 2.3 The PSIAS also refer to the 'Chief Audit Executive' which in East Lothian Council is the Internal Audit Manager. The Internal Audit Manager is responsible for the effective review of all aspects of risk management, control and governance processes, throughout the full range of the Council's activities.

3. Purpose

- 3.1 Internal Audit's purpose is to provide an independent, objective assurance and advisory service designed to add value and improve the Council's operations. Internal Audit helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In carrying out its activities Internal Audit aims to contribute to:
 - building strong and effective risk awareness and control consciousness within East Lothian Council;
 - continuously improving the risk management, control and governance processes so they operate at optimum effectiveness and cost efficiency and reflect best practice.

4. Scope

- 4.1 Internal Audit's scope of work extends to the entire control environment of the Council. Internal Audit determines what areas within its scope should be included within the annual Internal Audit Plan by adopting an independent risk based approach, and through engagement with Senior Management.
- 4.2 Internal Audit provides assurance as to whether the Council's network of risk management, control and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:
- Achievement of the Council's strategic objectives.
 - Compliance with policies, standards, procedures and applicable laws and regulations.
 - Reliability and integrity of financial and operational information.
 - The safeguarding, verifying and accounting for assets.
 - Economic and efficient use of resources.
- 4.3 Internal Audit is also responsible for carrying out ad-hoc investigations into potential irregularities involving cash, stores, equipment or other property of the Council, and for providing advice as and when required in relation to control and compliance issues.

5. Authority

- 5.1 The PSIAS require that the Internal Audit Charter establishes Internal Audit's rights of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as is considered necessary to fulfil its responsibilities. Internal Audit's rights of access to records, information and explanations are set out in Section 7, paragraphs 2(a) and 2(b) of The Local Authority Accounts (Scotland) Regulations 2014.

6. Responsibility

- 6.1 Internal Audit is accountable for developing and delivering a programme of assurance aimed at validating the effective management of key business risks.
- 6.2 The annual Internal Audit Plan takes cognisance of the areas of greatest risk within the Council. The planning approach includes consideration of any risks or concerns identified by management.
- 6.3 The annual Internal Audit Plan is approved by the Audit and Governance Committee. The Audit Plan is reviewed to identify any amendments needed to reflect changing priorities and emerging risks.
- 6.4 Internal Audit is accountable for reporting its findings, conclusions and recommendations to the Audit and Governance Committee and to Senior Management. In addition, Internal Audit is responsible for ensuring timely follow-up on management actions.

- 6.5 Internal Audit assists as needed in the investigation of significant suspected fraudulent activities within the Council and notifies management and the Audit and Governance Committee of the results of any investigations.

7. Independence

- 7.1 Internal Audit must be independent from management at all times in order to be effective in executing its work freely and objectively. In this regard:

- Internal Auditors will have no responsibility or authority over any operating activities reviewed;
- Internal Audit is prohibited from performing management activities, including performing operational duties;
- Internal Audit is authorised to allocate resources, set frequencies, select areas, determine audit scopes and apply tools and techniques, and to obtain the necessary assistance and specialised services within or outside the Council to accomplish its objectives;
- Internal Audit has the right to be informed by management, on a timely basis, of any significant control failures identified by management.

8. Accountability

- 8.1 Day to day management of the Internal Audit team will be performed by the Internal Audit Manager. The Internal Audit Manager reports administratively to the Depute Chief Executive – Resources and People Services and has unrestricted access to the Chief Executive, the Monitoring Officer, Section 95 Officer and the Chair of the Audit and Governance Committee.

- 8.2 The Internal Audit Manager shall be accountable to the Audit and Governance Committee for:

- providing at least annually an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the Council's framework of risk management, control and governance;
- reporting significant issues relating to the processes for controlling the activities of the Council, including recommendations and status of implementation of improvements;
- periodically providing information on the status and results of the annual audit plan and the sufficiency of the Internal Audit function's resources;
- co-ordination with other significant assurance functions.

9. Management Responsibilities

- 9.1 An Internal Audit function can only be effective if it receives the full cooperation of management. By approving this Internal Audit Charter, the Audit and Governance Committee and the Depute Chief Executive – Resources and People Services are mandating management to cooperate with Internal Audit in the delivery of the service by:

- providing Internal Audit with full support and cooperation, including complete access to all records, assets, personnel and premises relevant to the performance of their responsibilities at all levels of operations,

without unreasonable delay, subject to all relevant legal obligations and restrictions;

- responding to draft Internal Audit reports including provision of management responses to recommendations;
- implementing agreed management actions in accordance with the agreed timescales and updating Internal Audit with progress made on management actions;
- informing Internal Audit of proposed changes and developments in processes and systems and of newly identified risks.

9.2 Management is responsible for the effective identification of risk and the maintenance of adequate systems of controls. Management is responsible for corrective actions on reported weaknesses.

9.3 Managing the risk of fraud and corruption is the responsibility of management; Internal Audit will assist management in the effective discharge of this responsibility.

9.4 In accordance with the Council's Strategy for the Prevention and Detection of Fraud and Corruption, Management will notify Internal Audit of all suspected or detected fraud, corruption or impropriety, to inform the annual audit opinion and the risk-based plan.

10. Advisory Work

10.1 Public Sector Internal Audit Standards (PSIAS) recognise that Internal Audit effort may sometimes be more usefully focused towards providing advice rather than assurance over core controls. Where appropriate, Internal Audit will act in a consultancy capacity by providing guidance and advice for strengthening the control environment within the Council, providing:

- the objectives of the consulting engagement address governance, risk management and control processes to the extent agreed upon with the Council;
- the request has been approved at Corporate Management level;
- Internal Audit is considered to have the right skills, experience and available resources;
- Internal Audit's involvement will not constitute a conflict of interest in respect of maintaining an independent stance, and Internal Audit will not assume a management role in providing this advice.

10.2 When performing consulting services, Internal Audit staff must maintain objectivity and not take on management responsibility.

10.3 The Internal Audit Manager is responsible for ensuring that all requests for consulting engagements are reviewed in accordance with the above criteria and for making the final decision.

11. Quality Assurance

- 11.1 Public Sector Internal Audit Standards (PSIAS) require that the Audit function is subject to a Quality Assurance and Improvement Programme (QAIP) that must include both internal and external assessments.

Internal assessments

- 11.2 On an annual basis an internal review is undertaken to ensure that the Internal Audit function is fully compliant with the PSIAS. All Internal Audit engagements are subject to a thorough review of quality to ensure that the work meets the standards expected from all Internal Audit staff. For example the internal file quality reviews undertaken by the Internal Audit Manager cover the following:

- All work undertaken is in accordance with PSIAS.
- The work is planned and undertaken in accordance with risks associated with areas under review.
- Sampling is undertaken in accordance with a methodology agreed with External Audit.
- The conclusions are fully supported by the detailed work undertaken and appropriate audit evidence is held on file to support the conclusions reached.

External assessments

- 11.3 An external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council. The Internal Audit Manager will discuss options for the external assessment with the Depute Chief Executive – Resources and People Services and with the Audit and Governance Committee.

12. Approval

- 12.1 Final approval of the Internal Audit Charter resides with the Audit and Governance Committee.

Updated: January 2017

REPORT TO: Audit and Governance Committee

MEETING DATE: 24 January 2017

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Progress Report 2016/17

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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

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DESIGNATION	Internal Audit Manager
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DATE	12 January 2017

INTERNAL AUDIT PROGRESS REPORT 2016/17

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
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	Completed
Road Services Contracts	We will examine the arrangements in place for the procurement and monitoring of contracts within Road Services.	November 2016	Completed
Public Services Network (PSN)	We will evaluate the Council's security arrangements, policies and controls to ensure PSN compliance.	November 2016	Completed
Property Maintenance – Housing Repairs	Our review will cover both housing repairs undertaken directly by Property Maintenance and work allocated to external contractors.	November 2016	Completed
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	Completed

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by Management have been properly managed.	November 2016	Completed
Schools Audit	We will examine the internal controls operating within one secondary school in East Lothian.	January 2017	Completed
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	Completed
Income – Waste Services	We will review the current arrangements in place for the collection and re-sale of recycled materials.	January 2017	Completed
PPP Contract Monitoring	A review will be undertaken of the arrangements in place for the performance monitoring of the PPP contract.	January 2017	Ongoing
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	

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	
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.	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	