



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

**TUESDAY 24 JANUARY 2017  
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

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**Committee Members Present:**

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

**Council Officials Present:**

Mr A McCrorie, Depute Chief Executive – Resources and People Services  
Mrs M Patterson, Depute Chief Executive – Partnerships and Community Services  
Mr J Lamond, Head of Council Resources  
Mr R Montgomery, Head of Infrastructure  
Mr D 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 P Forsyth, Team Manager – Assets & Regulatory  
Mr S Kennedy, Risk Officer

**Clerk:**

Ms F Currie

**Visitors Present:**

Ms E Scoburgh, Audit Scotland  
Ms C Foster, Audit Scotland

**Apologies:**

Councillor S Brown  
Councillor F McAllister

**Declarations of Interest:**

None

The Convener advised Members that Agenda Item 11 had been withdrawn to allow further consideration of the implications of the recommendations contained within the report.

## **1. MINUTES OF THE AUDIT & GOVERNANCE COMMITTEE MEETING HELD ON 29 NOVEMBER 2016 (FOR APPROVAL)**

The minutes of the Committee's meeting on 29 November 2016 were approved.

The Convener and Councillor Currie sought an update on the review of the Council's PFI contracts and clarification of the ownership of these contracts.

Jim Lamond, Head of Council Resources, said he had recently attended a meeting in December 2016 with CIPFA and other local authority Directors of Finance to discuss the PFI contracts. CIPFA had advised that there was some scope for reviewing contractual arrangements but less so for significant restructure and buy out of contracts. Mr Lamond added that the Council would be looking to get a 'health check' of all its PFI contracts to ensure they were getting best value and that this should take place over the next few months.

On the issue of ownership of PFI contracts, Mr Lamond advised that the Council's Legal Team had made initial enquiries of the contractors and he would provide members with an update of progress.

## **2. INTRODUCING THE NEW CODE OF AUDIT PRACTICE**

A report was submitted by Audit Scotland informing the Committee of the new Code of Audit Practice.

Esther Scoburgh, Audit Manager, presented the report. She explained that the Code was reviewed every 5 years and that the Auditor General, the Accounts Commission and Audit Scotland had agreed four audit dimensions to be used when planning and reporting public audits: financial sustainability, financial management, governance and transparency and value for money. She also summarised the key aspects of the Code including the framework, scope and reporting of public audits.

Responding to questions from Members, Ms Scoburgh explained that the new Code would ensure that, as well as focussing on financial statements, the audit process would also take into account wider matters such as financial and workforce planning and the four audit dimensions. She added that completed audit reports would be published on Audit Scotland's website making them more accessible to the public.

Councillor Currie emphasised the need for longer term financial planning and referred to the current development at Wallyford as an example of a large capital project which would stretch over a number of years with significant implications for infrastructure, transportation, education and other services. He added that he would look forward to reading Audit Scotland's opinion on the adequacy or otherwise of the Council's financial planning.

Ms Scoburgh confirmed that the audit process would take account of these and other issues and she advised Members that the audit plan would be presented to the Committee at its March meeting.

## **Decision**

The Committee agreed to note the contents of the Code of Audit Practice.

### **3. INFRASTRUCTURE 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 6 High risks, 26 Medium risks and 15 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, Ray Montgomery, Head of Infrastructure, outlined progress on headstone safety works and securing additional land for burial sites. He also agreed to provide additional information on the new mobile working platform within property Maintenance.

Responding to further questions, Mr Kennedy confirmed that the impact of planned control measures and residual risk scores would be reviewed within the timescales laid out in the Register and that comparison information was available where a risk had changed within the last 3 years.

## **Decision**

The Committee agreed to note the Infrastructure 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 Infrastructure 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 Infrastructure and were likely to be a feature of the risk register over a number of years.

### **4. RISK MANAGEMENT STRATEGY**

A report was submitted by the Chief Executive advising the Committee of the revised and updated Risk Management Strategy.

Mr Kennedy presented the report outlining the content of the Strategy. He advised Members of a correction to the report recommendations: the Committee was being asked to 'note' rather than 'approve' the Strategy. Approval of the Strategy would be a matter for full Council.

Paolo Vestri, Service Manager – Corporate Policy, responded to questions from Councillor Currie regarding the tracking of resource implications by individual service areas.

Mr Lamond acknowledged the importance of providing sufficient information when reporting to Council or Cabinet and ensuring that there was a clear financial and policy rationale to support the decisions being made.

### **Decision**

The Committee agreed to note the revised Risk Management Strategy and to note that it was a live document which would be reviewed by the Corporate Risk Management Group.

## **5. MAINTAINING SCOTLAND'S ROADS: A FOLLOW-UP REPORT (ACCOUNTS COMMISSION)**

A report was submitted by the Depute Chief Executive – Partnerships & Community Services informing the Committee of the main findings of the Audit Scotland report *Maintaining Scotland's Roads: a follow up report* (August 2016); providing further information and detail relevant at a local level; providing context to the findings and providing a basis for discussion, comment and noting.

Alan Stubbs, Service Manager – Roads, presented the report. He summarised the background to the Accounts Commission report and recommendations and detailed the key messages from an East Lothian perspective.

Both Mr Stubbs and Peter Forsyth, Team Manager – Assets & Regulatory, responded to questions from Members. Mr Stubbs provided some additional background on the Council's Roads collaboration programme with neighbouring local authorities over short and longer term priorities. He advised that this work was ongoing and had generated moderate savings and it was anticipated that this would increase over the longer term. He also explained the use of the velocity patcher for temporary road repairs.

Mr Forsyth advised that the Council had completed a full survey of its roads in the last year. This had provided a good indicator of the overall condition of the roads and he expected this to remain constant over the next few years, based on the current level of investment in roads. He stated that a number of factors were taken into account when assessing priorities for repairs, including the level of customer complaints and the number of potholes observed on a particular stretch of road.

In response to further questions Mr Forsyth explained the definition of 'steady state value' and the Council's current steady state investment of £3.2 million to ensure the roads were maintained in their current condition. He acknowledged that some roads do have to be repaired more than once and that this can often relate to the volume of traffic, gradient of the road, general condition and other factors. The needs assessment allowed them to identify roads with heavy usage and high levels of repairs and to develop strategies for getting the most out of them and the wider road network.

Mr Stubbs added that decisions on major capital investments on roads where heavy development was taking place, such as Wallyford, would be taken into account as part of the works programming and a decision would be taken on whether it would be wise to spend money on maintenance while this development was ongoing.

Councillor Goodfellow welcomed the report; in particular that the Council was investing more than the steady state value in its roads and that it was taking advantage of opportunities to work with neighbour local authorities.

### **Decision**

The Committee agreed to:

- (i) note progress on the development and action of the recommendations made by Audit Scotland in the context of maintaining Scotland's roads and the detailed analysis of local progress;
- (ii) 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.

## **6. INTERNAL AUDIT REPORT – PRESTON LODGE HIGH SCHOOL**

A report was submitted by the Depute Chief Executive – Resources and People Services informing the Committee of the recently issued audit report on Preston Lodge High School.

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 the timescale for implementation of certain recommendations, petty cash limits and the management of bank accounts.

Alex McCrorie, Depute Chief Executive, added that Fiona Robertson, the Council's Head of Education, would be meeting with Head Teachers to share examples of best practice. Mr McCrorie also agreed to review the timescales for implementation of the audit recommendations.

### **Decision**

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

## **7. INTERNAL AUDIT REPORT – PREVENTION OF TENANCY FRAUD**

A report was submitted by the Depute Chief Executive – Resources and People Services informing the Committee of the recently issued audit report on the Prevention of Tenancy Fraud.

Ms Garden presented the report and advised that, for the purposes of the audit report, tenancy fraud included discrepancies relating to succession, assignation and sole to joint tenancies. She outlined the report findings and referred Members to the recommendations contained in the Action Plan which had been agreed by Management.

Ms Garden responded to questions from Members regarding false information on application forms, applications for Right to Buy following a change in tenancy and the checklists to be completed upon receipt of an application form.

Tom Shearer, Head of Communities and Partnerships, also responded to questions relating to changes in the legislation, subletting and completion of Electoral Roll returns. He added that although the procedures in place were robust the audit report had identified some gaps which needed to be addressed.

Councillor Currie commented that tenancy fraud had a negative impact on the public's perception of the Council and it was crucial that the necessary checks and balances were in place to allow both Members and residents to have confidence in the system. He welcomed the findings of the report and the timescales for implementation of the Action Plan.

Councillor Goodfellow agreed that tenancy fraud undermined the confidence of residents on the housing waiting list. He welcomed the introduction of new legislation and the greater need for evidence to support applications.

### **Decision**

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

## **8. INTERNAL AUDIT REPORT – CONTRACTS**

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

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

Mr Allan responded to questions from Councillor Currie on the Quick Quote process. Ms Garden confirmed that the contractors from the Council's Framework Agreement who had submitted a tender under the Quick Quote process had not been awarded the contract.

## **Decision**

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

### **9. INTERNAL AUDIT REPORT – WASTE SERVICES INCOME**

A report was submitted by the Depute Chief Executive – Resources and People Services informing the Committee of the recently issued audit report on Waste Services Income.

Ms Garden 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.

Mr Montgomery provided Members with some context to the report outlining the processes for separating and selling on scrap and other recyclates. He advised that the current recycling rate was 57% and it was hoped that this could be increased to 60%. Mr Montgomery welcomed the audit report and its findings and confirmed that the recommendations contained in the Action Plan would be put in place.

## **Decision**

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

### **10. INTERNAL AUDIT CHARTER**

A report was submitted by the Depute Chief Executive – Resources and People Services presenting to the Committee the Internal Audit Charter for approval.

Ms Garden presented the report outlining the key areas of the Charter. She advised Members that the Public Sector Internal Audit Standards (PSIAS) required that an Audit Charter was in place in each local authority and that it should be reviewed periodically and presented to Senior Management and to the Audit & Governance Committee for approval.

## **Decision**

The Committee agreed to approve the Internal Audit Charter.

### **12. 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.

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

Councillor Currie acknowledged the significant amount of work involved in these audits and the level of assurance they provided to Councillors and members of the public. The Convener echoed these comments.

Mr McCrorie thanked members for their comments on the audit reports presented during the meeting which would be taken on board. He accepted that there was some work still to be done in certain areas and agreed that the audit process added value to the Council.

**Decision**

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

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Signed .....

Councillor Kenny McLeod  
Convener of the Audit and Governance Committee



# East Lothian Council

Annual Audit Plan 2016/17

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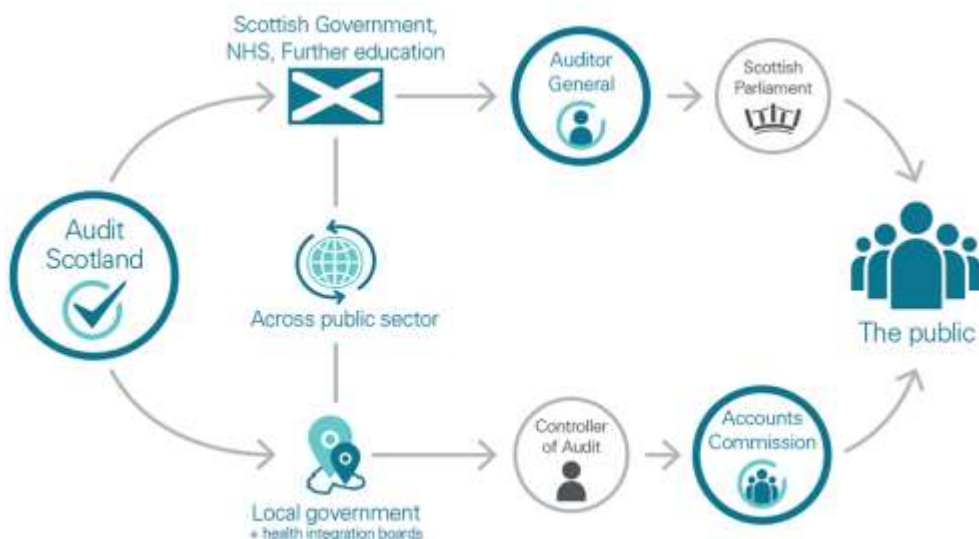
 AUDIT SCOTLAND

Prepared for East Lothian Council  
February 2017

## 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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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit including the new approach to Best Value. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for East Lothian Council. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1: Key audit risks

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<p>Detailed testing of journal entries.</p> <p>Review of significant management estimates and evaluation of the impact of any variability in key assumptions.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income</b></p> <p>East Lothian Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>All income is reviewed monthly.</p> <p>Monthly monitoring and performance reporting for council tax and rental income.</p> <p>Specific grant/account codes used for other income and verified via monthly monitoring and bank reconciliations.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>

Audit Risk	Management assurance	Planned audit work
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Financial Reporting Council's <a href="#">Practice Note 10 (revised)</a> requires consideration of the risk of fraud over expenditure. The extent and nature of expenditure, for example, welfare benefits, social care payments and grants means that there is an inherent risk of fraud.</p>	<p>Clear procedures in place for staff.</p> <p>Financial authorisation limits in place for authorising and approving expenditure.</p> <p>Budget monitoring and review with significant variances investigated and discussed with budget holders.</p>	<p>Audit work on the National Fraud Initiative matches.</p> <p>Assessing the high level key controls in areas of significant expenditure.</p> <p>Focused substantive testing of expenditure and housing benefit transactions.</p>
<p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Valuations carried out every 5 years for all assets (as part of rolling revaluation programme).</p> <p>Procurement and contract criteria ensure valuations are carried out by reputable valuers.</p> <p>Detailed discussions between valuers and ELC estates team.</p> <p>Detailed working papers retained to support asset reviews and impairments.</p>	<p>Review and comment on the appropriateness of the Council's policy with regard to useful lives.</p> <p>Completion of 'review of the work of an expert' in accordance with ISA500 for the professional valuer.</p> <p>Focused substantive testing of asset valuations and asset useful lives.</p> <p>Focused substantive testing of provisions</p>
<p><b>5 Group accounts</b></p> <p>East Lothian Council has a range of interests in other entities which require consolidation in the group accounts. For 2016/17 this includes the East Lothian Integrated Joint Board. The complexity of the group arrangements leads to a risk over the accuracy and completeness of the group accounts.</p>	<p>Bodies reflected in Group are assessed and updated annually as part of detailed review.</p> <p>All parties are made aware of ELC timescales for accounts preparation.</p> <p>For the East Lothian Integrated Joint Board (IJB), continuous dialogue held with the IJB CFO on accounts preparation.</p>	<p>Review of the group boundary assessment undertaken by the council.</p> <p>Component audit questionnaires and, where appropriate, meetings with the auditors of material components in accordance with ISA 600.</p> <p>Review and testing of the consolidation process.</p>
<p><b>6 Universal credit</b></p> <p>The Council has reported a significant increase in the level of rent arrears since the introduction of Universal Credit in East Lothian from March 2016 (£157k or 12% increase).</p> <p>There is a risk that assets could be overstated if the provision for doubtful debts is not revised in light of rising rent arrears. There is also an increased risk to the overall delivery of services in line with the Council's strategic objectives.</p>	<p>Impact of universal credit subject to monthly monitoring.</p> <p>High level scrutiny group established to monitor the impact of rent arrears and rent collection.</p> <p>Bad debt provision level monitored to ensure it remains at reasonable and prudent level.</p>	<p>Monitor rent arrears levels and provision for doubtful debts.</p>
<p><b>7 Developer contributions</b></p> <p>Internal Audit carried out a review of developer contributions</p>	<p>Developer Contributions Framework in place.</p> <p>New Planning Obligations</p>	<p>Review of Developer Contributions framework.</p> <p>Focussed substantive testing of</p>

Audit Risk	Management assurance	Planned audit work
<p>during 2016/17 and identified a number of risks which were fundamental to the system and required immediate action. Due to the significant level of development taking place in East Lothian, there is an increased risk of misstatement or incorrect accounting treatment in the financial statements due to the infrequency of these transactions.</p>	<p>Officer has recently been established with post-holder due to start shortly.</p>	<p>income and associated accounting treatment from developer contributions.</p>
<p><b>Wider dimension risks</b></p>		
<p><b>8 Financial sustainability</b> ELC's Council Plan recognises that it faces a challenge to achieve financial sustainability, due to factors including reducing income levels and increased demand for services. In the past, funding gaps have been filled by the use of reserves however the council recognises the need to develop a more sustainable budget in the medium term.</p>	<p>Financial strategy for 2017-20 recently approved setting out strategic direction for reserves policy. Transformational Programme Board established to drive forward transformational change. On-going engagement with Corporate Management Team (CMT) around delivery of enhanced programme of efficiencies.</p>	<p>Undertake specific audit work on financial planning. This will include assessing the robustness of the council's financial plans.</p>
<p><b>9 Financial management</b> The Quarter 2 financial report for 2016/17 identifies two services (Adult Wellbeing and Children's Wellbeing) as high risk of not operating within approved budgets. Members were asked to approve a £1million non-recurring budget virement from Corporate Management budgets to support Adult Wellbeing pressures and delivery of efficiencies. There is a risk that the council will not achieve a balanced year end position and also of future budget overspends if a sustainable budget is not developed timeously.</p>	<p>2016/17 financial position reported to management monthly. Quarterly financial review provided for Members/Cabinet with year end reporting to full Council. Main variances are identified with actions to address where required. Two main service areas within the Health and Social Care Partnership (Adult Wellbeing and Children's Wellbeing) are both operating enhanced financial controls including review over vacancy management and expenditure commitments. Working with CMT / SMT and budget holders to ensure expenditure commitments across all service areas can be contained within overall 2016/17 Council resources.</p>	<p>Review of financial monitoring reports and the council's financial position. Undertake specific audit work on financial governance and resource management.</p>
<p><b>10 Timeliness of financial reporting</b> The previous external auditor raised a recommendation in the 2015/16 annual audit report that</p>	<p>The timing of the Quarter 1 report previously reported to Council in August is being reviewed to bring forward in line with accounts submission.</p>	<p>Monitor the council's progress towards implementing timelier financial reporting.</p>

Audit Risk	Management assurance	Planned audit work
<p>there was scope for improvement in the timeliness of financial reporting (specifically the quarter 4 report and subsequent timing of the following quarter 1 report to Cabinet.)</p> <p>There is a risk that the budget monitoring process may not be operating due to information not being made available in a timely manner to make decisions.</p>	<p>Subsequent quarterly reports will be reported to Cabinet taking into consideration period close down and committee schedules.</p>	
<p><b>11 Capital slippage</b></p> <p>The 2016/17 quarter 1 and 2 financial reports highlight significant capital underspends of £13.8m (HRA) and £17.3m (general services) however there is a lack of actions noted to address this.</p> <p>There is a risk that available capital funding may not be utilised efficiently and that plans may not reflect actual practice (e.g. borrowing is based on unrealistic or unachievable capital plans).</p>	<p>Quarterly reports demonstrate actual position of capital spends with supporting narratives setting out expected outturn across programmes.</p> <p>Capital programme for both GS and HRA is subject to on-going review and is updated accordingly.</p> <p>Reporting is on in-year position, the majority of this is slippage in-year and not an underspend in expenditure commitments.</p>	<p>Monitor capital slippage and assess any actions taken to reduce slippage.</p> <p>Focussed substantive testing of capital expenditure.</p>
<p><b>12 IT Strategy</b></p> <p>The Council's current IT strategy covers the period 2011- 2014. It is due to be replaced by a new Digital Strategy which is to be considered at the Cabinet meeting in March 2017.</p> <p>The Council's IT strategy is outdated and there is a risk that this could impact on the delivery of services or on corporate initiatives, such as savings plans, which depend on ICT improvements.</p>	<p>New digital strategy has been developed and is to be considered by Cabinet on 14 March 2017.</p> <p>IT strategy will be reviewed following the approval of the wider digital strategy.</p>	<p>Monitor progress in preparation and approval of the new IT strategy.</p> <p>Review the new strategy when available and comment on it's appropriateness.</p>
<p><b>13 Business Continuity</b></p> <p>The council recognises a Medium level risk in respect of Business Continuity in its risk register. During Audit &amp; Governance committee discussions, members were informed that the disaster recovery testing plan is not up and running yet nor has it been tested.</p> <p>There is a significant risk that business continuity arrangements may not be sufficiently robust if they have</p>	<p>All service users to prepare an updated business continuity plan.</p> <p>Updated software training currently being rolled out across all service areas which requires training plans to be undertaken and reflected within the business continuity plans.</p>	<p>Monitor progress in preparation and approval of the business continuity testing arrangements.</p> <p>Check results of disaster recovery testing/BCP testing to ensure it is fit for purpose.</p> <p>Review the testing arrangements when available.</p>



Audit Risk	Management assurance	Planned audit work
not been properly tested.		
<p><b>14 Highways network asset (HNA)</b></p> <p>HNA are to be recognised for the first time in councils' 2017/18 financial statements. While this is not a risk to the 2016/17 financial statements, it is a new and complex area and if sound arrangements are not put in place there is a risk of misstatement in the 2017/18 financial statements.</p>	<p>Arrangements are in place. Working with the Roads / SCOTS service around preparedness for Highways Network Assets to be reflected in 2017/18 accounts.</p>	<p>Assess the arrangements in place to implement the new requirements.</p> <p>Review and assess the valuation methodology for HNA.</p>

## Reporting arrangements

**3.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed, and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**4.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

**5.** We will provide an independent auditor's report to East Lothian Council and the Accounts Commission summarising the results of the audit of the annual accounts. We will provide the Section 95 Officer and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit and Governance Committee Date
Interim Audit Report	30 June 2017	20 June 2017
Annual Audit Report including ISA 260 requirements	By 29 September 2017	By 29 September 2017
Signed Independent Auditor's Report	By 29 September 2017	By 29 September 2017

## Audit fee

**6.** The agreed audit fee for the 2016/17 audit of East Lothian Council (including the audit of the charitable trust, Dr Bruce Fund) is £236,070. In determining the audit fee we have taken account of the risk exposure of East Lothian Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 30 June 2017.

**7.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the



work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Responsibilities

### Audit and Governance Committee and Chief Executive

**8.** 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.

**9.** The audit of the financial statements does not relieve management or the Audit and Governance Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

**10.** Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 Act and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

**11.** Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**12.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of East Lothian Council and the associated risks which could impact on the financial statements
- obtaining assurances from the outgoing auditors for the opening balances in the financial statements
- Completing initial system evaluations and assessing the operation of key internal controls
- identifying major transaction streams, balances and areas of estimation and understanding how these will be included in the financial statements
- assessing the risks of material misstatement in the financial statements and the impact of consolidation of the Integration Joint Board into the group accounts
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement including exploring the use of data analytics.

**13.** We will give an opinion on the financial statements as to whether they:

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2017 and of the income and expenditure for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, and the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

## Materiality

**14.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for East Lothian Council are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 17 based on the latest audited accounts and the 2016/17 budget.	£3.4 million
<b>Performance materiality</b> - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of planning materiality.	£1.7 million
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£0.034 million

15. We also set separate materiality levels for the council's charitable trust, the Dr Bruce Fund, and this has been set to 1% of gross expenditure (£11).

16. It should also be noted that we continue to exercise our professional judgement in certain areas of the financial statements such as the management commentary, annual governance statement and the remuneration report. Any issues identified will be reported to the Audit and Governance Committee.

### Timetable

17. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The authority (or a committee whose remit includes audit or governance) is required to consider the unaudited annual accounts at a meeting by 31 August.

18. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period.



19. The 2014 regulations require the local authority (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.

20. East Lothian Council is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The council is also required to publish a copy of the accounts of its subsidiaries. The annual audit report is required to be published on the website by 31 December.

21. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Governance Committee dates :

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	20 June 2017
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with Head of Council Resources	15 September 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	By 29 September 2017
Independent auditor's report signed	By 29 September 2017
Latest date for signing of WGA return	2 October 2017

### Internal audit

**22.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by an East Lothian Council Internal Audit section overseen by an Internal Audit Manager.

#### Adequacy of Internal Audit

**23.** We seek to rely on the work of internal audit wherever possible and as part of our planning process we carried out an early assessment of the internal audit function and concluded that it has sound reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS). Further review of the internal audit working papers will be undertaken for the planned areas of reliance.

#### Areas of reliance

**24.** To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Housing Rents
- Housing Benefit and Council Tax Reduction

**25.** In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Contracts audit
- Review of performance indicators
- Information Security

## Audit dimensions

26. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

### Exhibit 5

#### Audit dimensions



27. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

#### Financial sustainability

28. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

#### Financial management

29. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on whether East Lothian Council:

- has arrangements in place to ensure systems of internal control are operating effectively
- can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance
- has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

We will also review, conclude and report on how East Lothian Council has assured itself that its financial capacity and skills are appropriate

### **Governance and transparency**

**30.** 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. We will review, conclude and report on:

- whether the council can demonstrate that the governance arrangements in place 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 the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

### **Value for money**

**31.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether East Lothian Council can:

- provide evidence that it is demonstrating value for money in the use of its resources.
- demonstrate that there is a clear link between money spent, output and outcomes delivered.
- demonstrate that outcomes are improving.

We will also review, conclude and report on whether there is sufficient focus on improvement and the pace of it.

### **Best Value**

**32.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincides with the new five year audit appointments. As such, auditors will use the framework for their audit work from October 2016.

**33.** A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five year audit appointment, both through the on-going annual audit work, and also through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report for each council, that will provide a rounded picture of the council overall
- an Annual Assurance and Risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports
- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five year period.

**34.** The first six councils on which a BVAR will be published during the first year of the new approach are listed in [Exhibit](#) below. Reports will be considered by the Accounts Commission in the period between May 2017 and March 2018.

## Exhibit 6

### 2016/17 Best Value Assurance Reports

Clackmannanshire Council	Orkney Islands Council
East Renfrewshire Council	Renfrewshire Council
Inverclyde Council	West Lothian Council

**35.** The work planned in East Lothian Council this year will focus on the Council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. The work will be integrated into the audit approach and will be reported in the Annual Audit Report.

### Independence and objectivity

**36.** Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

**37.** The engagement lead for East Lothian Council, including the charitable trusts, is Gillian Woolman, Assistant Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of East Lothian Council or the trusts.

### Quality control

**38.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**39.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**40.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

# East Lothian Council

## Annual Audit Plan 2016/17

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)



**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 14 March 2017

**BY:** Chief Executive

**SUBJECT:** Development Risk Register

**3**

---

## **1 PURPOSE**

- 1.1 To present to the Audit and Governance Committee the Development Risk Register (Appendix 1) for discussion, comment and noting.
- 1.2 The Development 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 Development Local Risk Working Group (LRWG).

## **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Audit and Governance Committee notes the Development 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 Development 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 Development 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 Development 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 Development Risk Register includes 13 High risks, 29 Medium risks and 12 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 Development 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 – Development Risk Register

7.2 Appendix 2 – Risk Matrix

<b>AUTHOR'S NAME</b>	Scott Kennedy Paolo Vestri
<b>DESIGNATION</b>	Emergency Planning and Risk Officer Service Manager - Corporate Policy and Improvement
<b>CONTACT INFO</b>	<a href="mailto:skennedy@eastlothian.gov.uk">skennedy@eastlothian.gov.uk</a> 01620 827900 <a href="mailto:pvestri@eastlothian.gov.uk">pvestri@eastlothian.gov.uk</a> 01620 827320
<b>DATE</b>	2 March 2017



# Development Risk Register

Date reviewed: 3rd March 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				
D 1	<p>BREXIT – potential loss of funding</p> <p>East Lothian Council directly benefit from European funding interventions as outlined below. In addition, advice given to businesses in relation to the export of goods and services and European legislation impact on businesses and public sector are other considerations. Local farming businesses will have access to outstanding £360m Scottish Common Agricultural Policy (CAP) funding and Scottish fishing businesses to the £60m European Maritime and Fisheries fund. There are a number of other programmes to which the public sector, further and higher education and small businesses can access – including Interreg, COSME, Life, Horizon 2020, Erasmus.</p> <p><b>In relation to the 2014-20 European Structural and Investment monies for East Lothian Council:</b></p> <p>The <b>Business Gateway Plus</b> programme provides range of consultancy and financial support and business growth seminars from 1 January 2016 for 3 years. The total financial investment is £1.03m with £621,942 from East Lothian Council and ERDF (European Regional Development Fund) of £414,628. The target outputs of 739 interactions and engagements with East Lothian small- and medium-sized businesses – grant support to 121 companies, consultancy support to 123 and 495 attending events and workshops.</p> <p>An <b>enhanced employability service</b> is delivered through a <b>European Social and Investment Fund Strategic Investment Grant</b> to East Lothian Council. The pipeline is characterised by five stages and a range of available support for different groups of young people and adults on their journey towards and into sustained employment. Activity focuses on specific support for people facing multiple barriers to employment within the strategic pipeline. Project activity is until the end of December 2018 and funding is via three operations:</p> <ul style="list-style-type: none"> <li>• Lead Partner Management Costs – £236,462 (ESF grant £94,585)</li> <li>• Employability Pipeline - £1,182,800 (ESF grant £473,120)</li> <li>• Challenge Fund - £300,000 (ESF grant £180,000)</li> </ul> <p>The Tyne/Esk LEADER programme aimed at rural economic development applies to all of East Lothian, except Musselburgh but including Wallyford and Whitecraig, as well as</p>	<p>There appears to be a tacit commitment by the UK Government that this funding will continue to be provided. It is not yet clear whether this will be transferred to Scottish Government to allocate nor how they may choose to distribute the funding.</p> <p>Keep in close contact with COSLA to ensure up to date with latest Brexit developments and participate and influence direction of travel, where possible.</p>				Assess future impact of funding changes on service as specific changes become clearer.				Head of Development  Service Manager EDSI	Ongoing monitoring		New risk added February 2017 by Service Manager
			4	4	16		4	4	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
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			L	I	L x I		L	I	L x I				
	<p>rural Midlothian; £3.14m is available from 2014 to 2020. Fund management is rotated and is currently managed by Midlothian Council on behalf of the community-run Local Action Group. Community and council projects in the eligible area can apply for up to 60% funding, maximum £250,000 and minimum grant of £10,000.</p> <p>The European Maritime and Fisheries Fund, Fisheries Local Action Group (FLAG), is a programme of support to fishing communities with the East Lothian fishing communities (Cockenzie &amp; Port Seton, Dunbar, North Berwick) together with East Berwickshire and East Neuk of Fife communities covered. It is managed by Scottish Borders Council on behalf of three local authority area fishing communities. Total available funding of £1m across the programme area.</p>												
D 2	Risk of adverse financial implications for the Councils capital programme in the light of unpredictable tender price indices following Brexit. This could result in tender returns being higher than cost plans.	Monitoring Tender prices and benchmarking with other authorities.	4	4	16	Incorporate risk allowance within cost planning.	2	4	8	Service Manager - Strategic Asset & Capital Plan Mgmt  Corporate Finance Manager	June 2017 then ongoing monitoring		New risk added February 2017 by Service Manager
D 3	Failure to Manage Solid Fuel safety on all Solid Fuel Installations in ELC Housing Properties leading to potential CO poisoning of tenants and increased risk of house fires with potential risk of prosecution. Chimneys are generally in poor condition and ELC are unable to control fuels being burnt in solid fuel appliances.	Programme of Solid Fuel Servicing exists. Heating replacements to energy efficient, low carbon alternative fuels are available and being installed with available RHPP /RHI funding but implementation is difficult. Servicing contractor in place for removal and replacement of solid fuel systems.	3	5	15	Programme for removal and replacement of solid fuel systems ongoing. Gas supplies now being installed to all Council houses in gas areas to enable rapid replacement when consent received.	2	5	10	Service Managers - Engineering Services & Building Standards (ESBS) & Community Housing	February 2018 to review	7,9	Risk refreshed February 2017 with no change to assessment of risk scores.  Feb'15 - risk score increased from 12 to 15 and residual score from 0 to 10.

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
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			L	I	L x I		L	I	L x I				
D 4	<p>Supply of affordable housing is outstripped by need and demand impacting on rising numbers on the Councils Housing Register and increased risk of arising Homeless applications.</p> <p>Insufficient land in control of affordable housing providers due to limited amount of Council owned land and difficulty in competing on the open market to purchase land due to high land prices. Much of the land in East Lothian is tied up in options to private housing developers, leading to an inability to control provision of new affordable housing and reliance on planning policy for affordable housing to deliver land.</p> <p>Government Resource Planning Assumptions (RPAs) for 2017/18 programme are due to be announced early 2017 with further year's allocations to follow. The Scottish Government have announced a target of 50,000 affordable homes in the lifetime of this Parliament (35,000 of these to be social rent). This has been accompanied by an increase in funding at a national level allocated to support this.</p>	<p>Regional Housing Programme proposed through South East Scotland City Region Deal.</p> <p>The Council continues to pursue opportunities to acquire land/bring forward private projects for affordable housing.</p> <p>Sites purchased by HRA from General Services.</p> <p>Section 75 Co-ordinator recruited to project manage delivery of strategic sites, including affordable housing contribution.</p> <p>Contribute to and influence review of planning system.</p> <p>Accessed Scottish Government Infrastructure Fund.</p> <p>The Council continues to deliver and to discuss with RSLs and other organisations unsubsidised affordable housing models.</p>	5	3	15	<p>Implement Regional Housing Programme through South East Scotland City Region Deal.</p> <p>Likely increase in Scottish Government funding over the next 3-4 years.</p> <p>Cross-party member event to explore additional activities to support acceleration of delivery of affordable housing.</p>	3	3	9	<p>Head of Development</p> <p>Service Manager - EDSI</p>	<p>April 2027 (10 year programme)</p> <p>March 2017</p> <p>March 2017</p>	9	Risk refreshed by Service Manager February 2017 with residual score reduced from 12 to 9.
D 5	<p>Failure to maintain non-operational properties in compliance with statutory legislation – particularly in relation to Public Buildings Statutory Electrical Testing and inspections – due to insufficient resources may expose the Council to legal proceedings, financial loss, service reduction, damage to its reputation and potential Health and Safety incidents in properties resulting in injury/loss of life of public building users and legal action against the Council.</p> <p>Failure to make sufficient finance available to carry out testing and implement recommendations may result in all of the above.</p>	<p>Performance monitored through the Condition SPIs, Asset Performance monitoring and Electrical Test results. Funding required from limited Property Renewals budget to address identified remedial works in public buildings.</p> <p>Full programme of Portable Appliance Testing and Fixed Electrical Installation Condition Reporting in place for all public buildings.</p> <p>Contractors' reports reviewed on an ongoing basis.</p> <p>Close liaison with and monitoring performance of framework electrical contractor to ensure inspections, reports, cost estimates, works and certification are completed timeously.</p>	3	5	15	<p>Programme for dealing with remedial works identified during EICR testing in place for all public buildings.</p> <p>Review and identify inspection and management resource required within SACPM and Engineering Services.</p>	2	4	8	<p>Service Manager –ESBS</p> <p>Service Manager – Strategic Asset &amp; Capital Plan Mgmt</p>	<p>February 2018</p> <p>February 2017 and review monthly until satisfactory arrangements are in place</p>	7	<p>Risk refreshed February 2017 with no change to assessment of risk scores although non-operational properties information added.</p> <p>Risk Refreshed February 2016 by Head of Service and residual risk score reduced from 10 to 8.</p>
D 6	<p>Increase in fuel poverty due to a variety of factors:</p> <ul style="list-style-type: none"> <li>- Increase in fuel prices</li> <li>- Impact of welfare reform</li> <li>- Changing householder economic/financial situation</li> </ul> <p>Scottish Government to review definition of fuel poverty and are due to consult on Regulation of Private Sector housing in respect of energy efficiency.</p>	<p>Home Energy Efficiency Programme for Scotland: Area Based Scheme (HEEPS:ABS) in place, offering targeted energy efficiency measures and fuel poverty advice to private sector stock.</p> <p>Energy advice and fuel debt support in place.</p> <p>Capital Programmes in place for council housing and Registered Social Landlords to increase energy efficiency</p>	4	3	12	<p>Improve knowledge of the levels, extent and nature of fuel poverty and target resources to the worst affected areas.</p> <p>Continue to implement HEEPS: ABS programme.</p> <p>Commence preparation for transition to SEEPS Programme (programme to deliver energy efficiency measures across public, commercial and private sector stock</p>	3	3	9	<p>Service Manager – Economic Development &amp; Strategic Investment (EDSI)</p>	<p>June 2017</p> <p>Rolling annual programme</p> <p>SEEPS implementation in 2020/2</p>	6, 10	Risk refreshed by Service Manager February 2017 with current score reduced from 15 to 12 and residual score from 12 to 9.

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			L	I	L x I		L	I	L x I				
	The impact of living in fuel poverty can place additional pressure on existing services – health, social care, advice, rent income.	measures. Social rented tenure must meet EESH by 2020. Additional funding to accelerate measures secured in 2016/17.				as part of National Infrastructure Priority for Energy Efficiency.  Review strategic approach through production of new Local Housing Strategy in particular taking into account current Scottish Government policy review in this area.					Autumn 2017		
D 7	Recruitment constraints faced by the Council could lead to the Building Standards Team not being able to maintain a level of staff that is adequately qualified, trained and competent to carry out the Building Standards duties of verification, enforcement, licensing etc. to the targets expected BSD's new performance framework. This could impact on service levels and result in an audit by the BSD that could lead to the Council losing the verification role. A Service Review was carried out during 2016 and implemented. However there is an ongoing inability to recruit suitably qualified BS Surveyors resulting in inability to meet targets.	Monitoring of workload to fee income, performance to staffing levels and project complexity to staff abilities and training. Involvement with the Local Authority Building Standards Scotland (LABSS) and the BSD to influence delivery of the new performance framework of 9 performance outcomes and a risk based inspection regime for Reasonable Inquiry to deliver compliance with the building regulations. Preparation of the Building Standards Team and review of its resources to align with the requirements and implementation of the new performance framework. Agency support staff in place.	3	4	12	Measure impact of BSD's new performance framework, workload, employee costs for appraisal of warrants, acceptance of completion certificates and enforcement duties for varying project size and complexity to compare against fee income.	2	4	8	Service Manager –ESBS	February 2018	7	Risk refreshed February 2017 with no change to assessment of risk scores.  Risk Refreshed November 2014 and residual risk score reduced from 12 to 8.
D 8	Higher enforcement workload in terms of dangerous buildings for Officers due to various reasons (including increasing instances of severe weather and owners unable to maintain their properties) resulting in increased risk to members of the public. A Service Review was carried out during 2016 and implemented. However there is an ongoing inability to recruit suitably qualified BS Surveyors resulting in inability to meet targets.	Climatic and financial factors are outwith East Lothian Council's control. No contractual obligation for staff to provide an out of hours dangerous buildings service which therefore relies on the goodwill of the BS Manager and two Principal BS Surveyors to provide cover outwith office hours. Agency support staff in place.	3	4	12	Working with HR to try and recruit by alternatives means or by re-Training of alternative disciplines.  Continue to advertise and contact agencies with a view to filling posts.	2	4	8	Service Manager –ESBS	February 2018  March 2017	7	Risk refreshed February 2017 with no change to assessment of risk scores.  Risk Refreshed February 2015 with current score reduced from 15 to 12 and residual score from 10 to 8.
D 9	Repairs and maintenance cost pressures and adoption of new facilities e.g. school extensions mean a real term reduction in resource and availability.  This could ultimately result in a failure of building elements with the risk of closure or enforcement by Statutory or Regulatory authorities.	Annual update of programme of works based on Condition, Suitability and Statutory Compliance assessments to inform budget requirement.	3	4	12	Ensure Condition and other data is maintained up to date to inform the planned delivery of works required to ensure buildings comply with statutory and legal requirements and are maintained in good condition.  Work with other managers/community planning partners to reduce building/accommodation asset base.	2	4	8	Service Manager –ESBS	February 2018  Ongoing – long term	7	Risk refreshed February 2017 with no change to assessment of risk scores.  Current Risk scores reduced from 16 to 12 February 2015.
D 10	Asset data for operational properties is not current resulting in insufficient information to prioritise planned investment in buildings and potential risk to occupants, contractors and members of the public at risk from failure of building elements or systems.	Limited annual desktop updates carried out on existing data informed by feedback from maintenance team.	3	4	12	2 <sup>nd</sup> Phase of 3 Phase building survey now underway. External resources allocated to enable ongoing surveys and comprehensive 5 yearly reviews.	2	4	8	Service Manager –ESBS	February 2018	7	Risk refreshed February 2017 with no change to assessment of risk scores.



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			L	I	L x I		L	I	L x I				
D 11	Risk to uncertainty with forward planning for the expansion of the school estate, where school capacities may be breached earlier than anticipated. This could result in insufficient accommodation for pupils within schools, with consequent appeals from parents and reputational damage.	School roll projections are reviewed against school capacities. School expansion programme prepared and costed to inform Capital Plan.  Changes in established roll projections are highlighted to Education if school capacities are projected to be breached and strategy for managing risk agreed if no provision or budget is in place for school expansion.	3	4	12	Scheduled meetings with Education where the baseline demographic information and the impact of development on school rolls and capacities are reviewed.  Review underway of S75 co-ordination.	2	4	8	Service Manager - Strategic Asset & Capital Plan Mgmt	June 2017	9.10	Risk refreshed February 2017 with no change to assessment of risk scores.  New risk added February 2015 by Service Manager and further reviewed February 2016.
D 12	Impact on resources of part 5 – Community Asset Transfer - of the Community Empowerment (Scotland) Act. This will require the preparation and publication of a separate schedule of Common Good land and properties. The Act is anticipated to result in significant additional property enquiries and requests for information, in advance of potential formal noting of interest for transfer of Council assets to community organisations. The Act came into effect in January 2017.	Service Manager named as ELC contact for CAT  List of assets available if requested	4	3	12	Council Community Asset Transfer procedures and Policy being developed.	4	2	8	Service Manager - Strategic Asset & Capital Plan Mgmt	March 2017		Risk reviewed February 2017 by Service Manager-current score increased from 8 to 12.
D 13	Failure to comply with statutory Water & Air Hygiene monitoring and testing may expose the Council to legal proceedings, financial loss, service reduction, damage to its reputation and potential injury or loss of life to building users through Legionella. Failure to make sufficient budget available to carry out testing and implement recommendations may result in the above. Now sharing framework agreement for Advanced Procurement for Universities & Colleges (APUC) giving us a further means of procurement to enable further works to take place and reduce the risk Risks to be updated when assessments received but concerns over likely significant budget requirement to deal with remedial works identified.	Performance will be monitored through risk assessment and regular inspection and testing. Funding required from the Property Renewals budget to address identified remedial works in public buildings.  Existing contractors risk assessments and reporting being reviewed on ongoing basis. Programme of risk assessment, maintenance and testing tendered and accepted 2017. Contract extended to cover all buildings.  Transition of Housing Management areas to new Housing Asset team.	2	5	10	Work commencing February 2017 for Risk assessment with ongoing measures.	2	4	8	Service Manager –ESBS	February 2018	7	Risk refreshed February 2017 with no change to assessment of risk scores.  Risk Refreshed February 2015 with current score reduced from 15 to 10 and residual score from 10 to 8.

<b>Original date produced (V1)</b>	6 <sup>th</sup> May 2014											<b>Risk Score</b>	<b>Overall Rating</b>
<b>File Name</b>	Development Risk Register											20-25	Very High
<b>Original Author(s)</b>	Scott Kennedy, Risk Officer											10-19	High
<b>Current Revision Author(s)</b>	Scott Kennedy, Risk Officer											5-9	Medium
												1-4	Low
<b>Version</b>	<b>Date</b>	<b>Author(s)</b>	<b>Notes on Revisions</b>										

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				
1	06/05/2014	S Kennedy	Former Housing and Environment Risk Register altered to become the Development Risk Register with risks transferred in and out following realignment.			Original Version							
2	28/10/2014	S Kennedy	Testing & Regulation Risks updated										
3	November and December 2014	S Kennedy	Economic Development & Strategic Investment Risk Updated along with Planning Risks and Engineering Services & Building Standards Risks										
4	January-February 2015	S Kennedy	Trading Standards and Environmental Health Partnership risks refreshed along with Strategic Asset & Capital Plan Management risks. Further refresh of Engineering Services & Building Standards and Economic Development & Strategic Investment Risk Risks. Final review undertaken by Head of Development 24-2-15.										
5	December 2015 – January 2016	S Kennedy	Environmental Health, Economic Development & Strategic Investment, Engineering Standards & Building Services and Planning risks refreshed.										
6	February 2016	S Kennedy	Review and refresh by Head of Development.										
7	January – February 2017	S Kennedy	All risks reviewed and refreshed by Service Managers and further reviewed by Head of Development and CMT.										

**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%
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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:** 14 March 2017  
**BY:** Chief Executive  
**SUBJECT:** Communities and Partnerships Risk Register

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**4**

## **1 PURPOSE**

- 1.1 To present to the Audit and Governance Committee the Communities and Partnerships Risk Register (Appendix 1) for discussion, comment and noting.
- 1.2 The Communities and Partnerships 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 Communities and Partnerships Local Risk Working Group (LRWG).

## **2 RECOMMENDATIONS**

- 2.1 It is recommended that the Audit and Governance Committee notes the Communities and Partnerships 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 Communities and Partnerships 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 Communities and Partnerships 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 Communities and Partnerships 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 Communities and Partnerships Risk Register includes 1 Very High risk, 4 High risks, 33 Medium risks and 16 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 Communities and Partnerships 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 – Communities and Partnerships Risk Register

7.2 Appendix 2 – Risk Matrix

<b>AUTHOR'S NAME</b>	Scott Kennedy Paolo Vestri
<b>DESIGNATION</b>	Emergency Planning and Risk Officer Service Manager - Corporate Policy and Improvement
<b>CONTACT INFO</b>	<a href="mailto:skennedy@eastlothian.gov.uk">skennedy@eastlothian.gov.uk</a> 01620 827900 <a href="mailto:pvestri@eastlothian.gov.uk">pvestri@eastlothian.gov.uk</a> 01620 827320
<b>DATE</b>	2 March 2017





**Communities and Partnerships Risk Register** Date reviewed: 3rd March 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				
C&P 1	<p>Homelessness</p> <p>Abolition of priority need in 2012 placed an obligation on the council to accept re-housing responsibility for an additional c. 300 homeless cases per year (these are mostly single people seeking 1 bed roomed size accommodation). The legislation also placed an obligation for the provision and funding of temporary accommodation until that responsibility is delivered.</p> <p>This has placed considerable pressure on the Community Housing Service and has increased Homeless demand, particularly for smaller sized properties.</p> <p>Reduced turnover has also resulted in fewer lets available and longer average time spent in temporary accommodation. This has been noted by the Scottish Housing Regulator.</p> <p>There is a higher financial cost burden for the general services budget due to additional demand for temporary accommodation.</p> <p>A shortage of temporary homeless accommodation could result in an inability to accommodate those in need, forcing use of B+B outwith East Lothian.</p> <p>There is also the risk of the breach of Unsuitable Accommodation Orders due to a shortage of family sized temporary accommodation.</p> <p>Reduced supply of private lets as a result of landlords' concerns about new Private Tenancy legislation and welfare reform impacts.</p> <p>Increased evictions due to rent arrears will lead to increased workload for Homeless team.</p> <p>Uncertainty over future funding of supported housing (DWP).</p>	<p>Housing Options preventative approach to provision of advice.</p> <p>Increasing use of private rented sector via Rent Guarantee Scheme to prevent/deal with homelessness. B+B accommodation used for single people at capacity.</p> <p>Additional properties for temporary accommodation commissioned through Private Sector Leasing contract with Orchard and Shipman.</p> <p>Continued monitoring of Registered Social Landlord nomination process (new build and routine turnover).</p> <p>Allocation Policy reduced number of offers for each Homeless applicant to 1, to encourage quicker throughput in temporary accommodation.</p> <p>Housing Access team established to co-ordinate delivery of ELC's Housing Options advice service, including statutory homelessness duties.</p> <p>Private Sector lets promoted via Local pad portal through Housing Options approach.</p>	5	4	20	<p>Continue new build activity to increase housing stock.</p> <p>Open Market Acquisitions to increase supply prioritising the western part of the county, where demand is highest.</p> <p>Explore potential to further increase supply of Private Sector Landlord accommodation, re-tendering of Orchard and Shipman contract.</p> <p>Cabinet report on recommended actions to address pressures relating to a lack of affordable housing supply.</p> <p>Increased supply of temporary accommodation, through OMAs and RSLs.</p> <p>Revised allocations targets to increase % allocations to general needs / homeless applicants will assist.</p> <p>Allocations Policy Review.</p> <p>Exploring flat-share model to increase options for single persons.</p> <p>Housing Options advice service to be rolled out via area housing teams in 2017/18. Scottish Government funding for staff training to support Housing Options.</p>	4	4	16	Service Manager – Community Housing	<p>Ongoing year on year.</p> <p>2017/18</p> <p>October 2017</p> <p>March 2017</p> <p>March 2018</p> <p>March 2017</p> <p>Jan –Oct'17</p> <p>October 2017</p> <p>November 2017</p>	9, 10	<p>Risk refreshed February 2017 with no change to assessment of risk scores.</p> <p>Risk refreshed February 2016 - current risk score increased from 16 to 20 and residual score increased from 12 to 16.</p> <p>Risk refreshed February 2015 to combine risks together - current risk score reduced from 20 to 16.</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				
C&P 2	<p>Welfare Reform Impacts</p> <p>Universal Credit full digital service introduced in March 2016 has led to increased rent arrears amongst Council tenants. Delayed payments of UC have resulted in more people experiencing financial hardship.</p> <p>Under-occupancy charge (known as 'Bedroom tax') has resulted in some increased rent arrears. Limited ability to downsize due to shortage of one-bedroom properties.</p> <p>The DWP Welfare Reform agenda has had a negative impact on the use of the private sector for single people between 25 and 35.</p> <p>The impact of the introduction of the "bed-room" tax and the council's action to mitigate this by increased transfer activity into small house sizes also reduces housing availability for those homeless cases benefitting from the legislative change.</p> <p>Reduced income to HRA due to increase in rent arrears, could potentially impact on future investment programme.</p> <p>Staff morale affected by challenges of dealing with more tenants in difficult financial circumstances.</p>	<p>Closer joint working between housing and Revenues teams to ensure best possible service provided to tenants in rent arrears and preventative approach.</p> <p>Tenancy Support Staff, including additional SLAB funded resource, assisting claimants completing online applications.</p> <p>Discretionary Housing Payments (DHPs) being made to mitigate against losses due to 'Bedroom Tax'.</p> <p>DHP payments via Scottish Govt offering some mitigation.</p> <p>Impacts of welfare reform being monitored and reported to elected members.</p> <p>Rent arrears impact monitored via Rents Scrutiny group.</p> <p>Training, 1-2-1s and team meetings.</p>	4	4	16	<p>Pre-tenancy checks process to help identify vulnerable people and target tenancy support when required.</p> <p>Longer term impact of future status of Under-occupancy charge uncertain; Scottish Govt's new welfare benefit 'flexibilities' not fully confirmed.</p> <p>Fife Council's flat-sharing model being considered on a pilot basis in East Lothian to provide an alternative option to young single people.</p> <p>Lobbying of Scottish Govt., via ALACHO and Chartered Institute of Housing.</p>	4	4	16	<p>Depute Chief Executive – Partnerships &amp; Community Services</p> <p>Service Manager - Community Housing</p>	<p>April 2017</p> <p>Ongoing / Cannot influence</p> <p>April</p> <p>Ongoing</p>	<p>9, 10</p>	<p>Risk refreshed February 2017 - current score increased from 12 to 16 and residual score from 9 to 16.</p> <p>Risk refreshed by Service Manager – Community Housing February 2016.</p>
C&P 3	<p>I.T. Systems (Customer Services)</p> <p>Major failure of IT systems (inc Telephony)</p> <ul style="list-style-type: none"> <li>Unable to deliver services</li> <li>Data unable to be inputted onto databases</li> <li>Activation of Business Continuity plan including Tunstall divert</li> <li>Customers unable to access self service and get on-line</li> </ul> <p>A number of our I.T. systems which Customers Services uses are not PSN compliant and in some cases there has been no budget identified to replace i.e. CRM &amp; CCTV.</p> <p>All of the above would result in the Council being unable to meet customer expectations resulting in reputational damage and poor publicity.</p>	<p>Test business continuity plan and ensure realistic processes and timescales.</p> <p>Business continuity plan improved and developed based on lessons learned from test environment - 3<sup>rd</sup> Party BC plan walk/talk through achieved and repeated once a year for service areas.</p> <p>Ensure software updated regularly.</p> <p>Regular meetings with staff to ensure they are aware of business needs.</p> <p>3rd party provider support and BC plans held (Tunstall/IRBS/Qnomy/Capita/Bolinda/People's network/MODES).</p> <p>Manual procedures in place to support service provision, where possible.</p> <p>Alternative backup solutions identified where possible e.g. Tunstall divert, Netcall 2nd server, Assure (libraries) etc.</p> <p>Staff procedure up to date, staff trained and aware of outcomes and controls.</p>	4	4	16	<p>IRB system (bookings) is currently in a procurement queue to go out to tender in March 2017</p> <p>New Library Management System (LMS) has been procured (June 2016) and is currently being implemented.</p> <p>Capital plan bid for 2017/18 submitted for the replacement of the CRM system.</p> <p>CCTV system not PSN compliant and is awaiting decision on cost reduction fund bid submitted August 2016</p> <p>Replacement of staff ID cards system as existing freeze frame system is no longer PSN compliant. Currently awaiting decision on replacement.</p> <p>Netcall Call Management System contract expires September 2018. Reviewing procurement options.</p> <p>Programme of review and re-commissioning of systems to be introduced including box office system as a matter of priority. This is going through procurement.</p>	2	3	6	<p>Service Manager – Customer Services</p> <p>Customer Service Managers</p>	<p>March 2018</p> <p>June 2017</p> <p>February 2017</p> <p>February 2017</p> <p>February 2017</p> <p>September 2017</p> <p>December 2017</p>	<p>3,6,7,10</p>	<p>Risk refreshed by Customer Service Managers January 2017 with current score increased from 9 to 16 and residual score reduced from 9 to 6</p> <p>Refreshed November 2015</p> <p>Risk Control measures refreshed to include library services and updated software– May 2014</p> <p>Reviewed by CSMT – December 2014</p>

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			L	I	L x I		L	I	L x I				
						Tendering for PNC6 replacement at the moment. Preferred supplier to be identified by March 2017 with system in place by December 2017.  Wi-Fi, Peoples Network and Library Booking System contracts terminate March 2017. Currently hoping to change Wi-Fi supplier and go out to tender for Peoples Network and LBS.					December 2017  December 2017		
C&P 4	<p>Housing Quality</p> <p>Our houses are required to meet the Scottish Housing Quality Standard. Delivery of the Standard is a significant contribution to the achievement of several of the National Outcomes the Scottish Government aims to achieve.</p> <p>The Scottish Housing Regulator (SHR) is monitoring progress towards achieving the target and failure to clearly demonstrate good progress may involve intervention by the SHR on the management of stock quality.</p> <p>Failure to deliver on the SHQS would also lead to loss of reputation to the Council as a service provider and the largest landlord in East Lothian.</p> <p>Failure to meet new enhanced Energy Efficiency Standard in Social Housing (EESH) by December 2020.</p> <p>Stock condition survey information needs updated.</p> <p>Remaining Solid Fuel systems (no. 80) present serious health and safety risks for tenants – fire and CO risk.</p>	<p>Annual monitoring and reporting to SHR (via the Social Housing Charter) and Audit Scotland.</p> <p>Annual Housing Capital Investment Programme review. The Capital Programme funds planned programmes of work has been targeted at meeting the requirements of the SHQS.</p> <p>Keystone software system now in place ensuring robust information held on the condition of Council housing stock.</p> <p>New Housing Asset Management Team established to oversee delivery of HRA Capital programme including modernisation, adaptations and new build programmes although these are not permanent posts thus creating a risk of temporary staff/turnover.</p> <p>Monthly monitoring and reporting as part of Balanced Scorecard.</p> <p>Continued investment in targeted capital programme works.</p> <p>Keeping SHR regularly updated on progress towards meeting the SHQS. Keystone informs future planning of annual programme of modernisation work.</p> <p>Surveyor posts (x2) established to undertake Stock Condition Surveys and energy assessments.</p>	3	4	12	<p>Housing Asset Management Strategy to be developed.</p> <p>Programme targeted to address failures and improve reported performance against targets.</p> <p>Data validation checks of information held on Keystone.</p> <p>Rolling programme of stock condition surveys required to keep data up to date.</p> <p>Policy required on solid fuel systems replacement process.</p>	2	4	8	Service Manager - Community Housing	April 2017  March 2017  April 2017  April 2017  June 2017	9	Risk refreshed January 2017 with no change to assessment of risk scores.
C&P 5	<p>A failure in Community Response processes could result in:</p> <ul style="list-style-type: none"> <li>• Serious injury to customers</li> <li>• Fatality of customers</li> <li>• Loss in confidence by stakeholders/partners/customer</li> <li>• Financial loss due to liability claims</li> <li>• HSE involvement</li> <li>• The Council could become unable to respond to customer requests at the first point of contact.</li> </ul> <p>All of the above could lead to reputational damage to the council and poor publicity.</p>	<p>Staff recruited for key qualifications, skills &amp; attributes. Continual training and staff development which is aligned to good practice, industry standards and service delivery levels.</p> <p>Monitor performance and service provision e.g. call monitoring.</p> <p>Solo Operating risk assessment and working procedure in place.</p> <p>Regular communication with staff and Trade Unions.</p>	3	4	12	<p>Reviewing staffing to increase flexibility within the CRT.</p> <p>Exploration of Telecare Services Association accreditation.</p> <p>Exploration of joint working with other Local Authorities to increase capacity.</p>	2	4	8	Service Manager – Customer Services  Contact Centre Manager	September 2017  March 2018  March 2018	6	<p>Risk refreshed January 2017 – current score increased from 8 to 12.</p> <p>Risk refreshed November 2015 - current risk score reduced from 12 to 8 due to no regular solo working in new rotas.</p> <p>Risk refreshed February 2015 - current risk score increased from 10 to 12 and residual score increased from 4 to 8.</p>

Risk ID	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Risk Owner	Timescale for Completion / Review Frequency	Single Outcome Agreement Outcome Number Link	Evidence held of Regular Review
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		<p>Maintain highly skilled staff base through continual review and assessment e.g. PRD's.</p> <p>Encourage inclusive communication with staff.</p> <p>Lessons learned report from incidents.</p> <p>Ongoing development of closer working between colleagues and stakeholders.</p> <p>Part of national review of Telecare Staff Training Requirements.</p>											
<b>Original date produced (Version 1)</b>		06 May 2014											
<b>File Name</b>		Policy and Partnerships Risk Register											
<b>Original Author(s)</b>		Scott Kennedy, Risk Officer											
<b>Current Revision Author(s)</b>		Scott Kennedy, Risk Officer											
<b>Version</b>		<b>Date</b>		<b>Author(s)</b>		<b>Notes on Revisions</b>							
1		May/June 2014		S Kennedy		Former Policy and Partnerships Risk Register altered to become the Communities and Partnerships Risk Register with risks transferred in and out following realignment.							
2		November/December 2014		S Kennedy		Community Partnerships, CP&I (Occupational Development, Health & Safety, Policy & Customer Feedback Risks refreshed)							
3		February 2015		S Kennedy		CP&I (EP, BC &RM) risks updated and all CP&I risks reviewed by Service Manager and Customer Services Risks reviewed by Service Manager. Community Housing Risks updated by Service Manager. Final review undertaken by Head of Service with minor changes made.							
4		November 2015		S Kennedy		Customer Service and Community Partnerships Risks updated by managers.							
5		January 2016		S Kennedy		Corporate Policy & Improvement Risks Reviewed							
6		February 2016		S Kennedy		Community Housing Risks Reviewed.							
7		December - February 2017		S Kennedy		Area Partnership Risks created and refreshed. Customer Feedback Risks transferred to Council Resources Risk Register. All risks refreshed by Service Managers, reviewed by Head of Service and CMT.							
											<b>Risk Score</b>	<b>Overall Rating</b>	
											20-25	Very High	
											10-19	High	
											5-9	Medium	
											1-4	Low	

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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:** 14 March 2017

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

**SUBJECT:** Audit Scotland Review of Housing Benefit Fraud Investigation Liaison Arrangements in Scotland, (December 2016)

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**5**

## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recent Review of Housing Benefit Fraud Investigation Liaison Arrangements in Scotland carried out by Audit Scotland, (in December 2016).

## **2 RECOMMENDATIONS**

- 2.1 That the Audit and Governance Committee notes the content of the review and the Executive Summary contained within this report.
- 2.2 That the Audit and Governance Committee notes that the ELC benefits and Financial Assessments Service is continuing to liaise with the DWP's Fraud and Error Service though its involvement in the HB Fraud Issues Progression Group, (HBFIPG).

## **3 BACKGROUND**

- 3.1 Traditionally the investigation of Housing Benefit, (HB) fraud was the responsibility of the local authorities administering Housing Benefit on behalf of the Department for Work and Pensions, (DWP). However, a decision taken by the DWP in 2014 saw the creation of a Single Fraud Investigation Service, (SFIS). In November 2014 the responsibility for investigating Housing Benefit fraud passed from East Lothian Council to the DWP's Fraud and Error Service, (FES).
- 3.2 The creation of this new service saw 2 ELC Investigation Officers transfer to the DWP Fraud and Error Service where they continued to work from Musselburgh Job Centre investigating HB, (and other DWP & HMRC fraud) as part of a larger FES team operating from Sylvan House in Edinburgh.

- 3.3 Whilst Audit Scotland previously included HB Fraud Investigation as part of its regular local authority HB Performance Risk Audit, this ceased to be part of this audit's remit following the transfer of responsibility. More recently, concerns about the efficacy of the new counter fraud arrangements have been the catalyst for Audit Scotland to undertake a review of the Housing Benefit investigation liaison arrangements which have been set up since 2014 between local authorities and the DWP's Fraud and Error Service.
- 3.4 This Audit Scotland review report has established that whilst there is generally good liaison between local authorities and FES, (particularly where the local authority previously employed the investigators) there is a risk that the current process does not provide sufficient assurance that public funds administered by local authorities are being adequately protected. Key issues identified in the report include:
- Potentially fraudulent claims are not always being dealt with appropriately
  - Fraudulent claimants are not always being subject to sanction or prosecution action
  - Fraudulent overpayments are not consistently being created and recovered where appropriate
  - Performance against the liaison agreement between local authorities and FES is not being routinely monitored and reported
  - Numbers of fraud cases referred to FES by local authorities being reported on to the Procurator Fiscal for prosecution have declined.
  - The UK-wide referral form used by the DWP's Central Referral Service (CRS) needs to be reviewed and updated.
  - Local authority decision makers need to provide clear guidance to FES on what information is required to allow an HB overpayment decision and calculation to be made.
  - DWP should consider reviewing the funding methodology to ensure local authorities are suitable resourced and encouraged to make high quality referrals.
- 3.5 The Audit Scotland report welcomed the establishment of the HB Fraud Issues Progression Group, (HBFIPG) as a forum for local authorities and FES to discuss, prioritise and resolve issues and acknowledged that FES had held a seminar for Scottish local authorities in July 2016.



## The East Lothian Council Perspective

- 3.6 During the last full year that the ELC was responsible for its own HB fraud investigations 2013/14 ELC Investigations Team referred 25 cases to the Procurator Fiscal, of which 23 resulted in guilty outcomes. In doing so ELC provided greater level of assurance that public funds it administered were being protected.
- 3.7 Since HB fraud investigations became the responsibility of FES in November 2014, ELC are unaware of any HB Fraud cases resulting in a prosecution. As a consequence, both the deterrent effect of prosecutions and the assurance gained through prosecuting Benefit fraudsters has been diminished.
- 3.8 The Audit Scotland review report highlights some of the key issues and shortcomings which may be affecting FES's current counter fraud performance. However, it should be noted that at least 3 further factors have also had significant impacts on counter HB fraud activity in East Lothian:
- **Key differences between ELC and DWP fraud prosecution policies:** Previously ELC referred all fraud cases with a potential overpayment value of over £1,500 for prosecution. However, the DWP policy features a higher threshold and favours "compliance" measures which include alternative sanctions such as the appliance of "Administrative Penalties" instead.
  - **The closure of Haddington Sheriff Court:** This has meant that since December 2014 any/all potential Benefit fraud cases have had to be routed through the busier Edinburgh Sherriff Court.
  - **The rollout of the Universal Credit "Full Service" (UCFS) across East Lothian:** From April 2015 to-date, his has seen 20% of ELC Housing Benefit claimants migrate over to receive their "Housing Costs" from Universal Credit, (UC). Given that UC is claimed by people of working age, (the group where majority of fraud referrals are found) this is reducing the potential pool of HB cases from which fraud investigation referrals can be drawn from.
- 3.9 Whilst the ELC Benefits Service acknowledges the findings of the Audit Scotland review report it also considers that the current arrangements for HB fraud investigation have been made more complex by the transfer of the investigation responsibility to FES. Whilst the Council is often left unaware of the outcomes of investigations, the small number which have come to fruition have invariably resulted in ELC decision makers being asked to apply additional administrative penalties which the Council is then required to collect, (in addition to the resulting HB overpayment).
- 3.10 In an effort to help implement some of the recommendations for improvement Benefits Service has committed to attend HB Fraud Issues Progression Group, (HBFIPG). Both the Service Manager and the designated "Single Point of Contact" are engaged with this group.

#### **4 POLICY IMPLICATIONS**

- 4.1 The main implications of the Audit Scotland review report relate to the Council's Housing Benefit Overpayments Recovery Policy, (see copy attached). Other implications may exist for DWP policies relating to sanctions and prosecutions.

#### **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 – If FES counter fraud performance continues at its current level, the deterrence of potential HB fraudsters (previously achieved through prosecutions) may be diminished thereby increasing the risk of financial loss due to fraudulent HB overpayments.
- 6.2 Financial – The DWP's current policy of applying the sanction of administrative penalties, (as opposed to prosecuting HB fraudsters) may increase the amount of HB debt that the Council would then have to raise and pursue. Opportunities to recover debts from HB claimants will be further reduced due to migration of HB caseload to UC.
- 6.3 Personnel – 2 FTEs already transferred to FES November 2014.
- 6.4 Other - None

#### **7 BACKGROUND PAPERS**

- 7.1 Audit Scotland Report – “A Review of Housing Benefit Fraud Investigation Liaison Arrangements in Scotland” (attached).
- 7.2 East Lothian Council's Housing Benefit Overpayments Recovery Policy (attached).

<b>AUTHOR'S NAME</b>	John Cunningham
<b>DESIGNATION</b>	Service Manager – Benefits & Financial Assessments
<b>CONTACT INFO</b>	Tel: 01620827706 <a href="mailto:jcunningham@eastlothian.gov.uk">email: jcunningham@eastlothian.gov.uk</a>
<b>DATE</b>	16 February 2017

# A review of housing benefit fraud investigation liaison arrangements in Scotland



ACCOUNTS COMMISSION 

Prepared by Audit Scotland  
December 2016

**Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.**

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# Executive summary

1. The Department for Work and Pensions (DWP) recently estimated that overpayments of housing benefit (HB) due to fraud and error increased between 2014/15 and 2015/16 from 5.3% to 6% of HB expenditure. This amounts to a rise in monetary terms from £1.28 billion to £1.46 billion, the highest rate recorded.
2. The prevention, detection and investigation of fraudulent HB claims are important aspects of a secure and effective benefit service. Counter-fraud activities help to protect public funds by ensuring that fraudulent claims are identified and sanctions are applied where appropriate.
3. Since November 2007, Scottish local authority HB counter-fraud arrangements have been reviewed as part of Audit Scotland's HB risk assessment process. This report provides the findings from a review of the efficacy of the arrangements between local authorities and DWP since the responsibility for HB counter-fraud work transferred from local authorities to DWP's Fraud and Error Service (FES).
4. This process commenced in July 2014 and concluded in March 2016, and our report is intended to highlight areas of good practice, while identifying issues affecting performance, and recommending where improvements could be made. The key messages from our review are as follows:
  - There is generally good liaison between local authorities and FES, particularly where the local authority previously employed the investigator.
  - There is a risk that the current process does not provide sufficient assurance that public funds administered by local authorities are being protected as:
    - potentially fraudulent claims are not always being dealt with appropriately
    - fraudulent claimants are not always being subject to sanction or prosecution action
    - fraudulent overpayments are not consistently being created and recovered, where appropriate.
  - Performance against the performance indicators contained within the UK 'Local agreement' is not being routinely recorded, monitored, and reported by FES or local authorities.
  - There is no standard approach for local authorities, using internal IT systems, or via DWP's Fraud Referral and Incident Management System (FRAIMS), to record and monitor the progress of fraud referrals sent to FES, and consequently there is a lack of management information nationally and locally that could be used to:
    - measure the outcomes from local authority fraud referrals
    - determine the effectiveness of the fraud referral process against UK performance indicators

- help identify and resolve recurring issues
- highlight good practice.
- As part of the review of management information, the effectiveness of the new arrangements in respect of the number of local authority referrals that result in a referral to the Procurator Fiscal should be undertaken. Analysis of the questionnaire data suggests that numbers have declined significantly since responsibility transferred to DWP.
- The UK fraud referral form should be reviewed and updated to ensure that it captures a minimum level of information to allow DWP's Central Referral Services (CRS) staff to make a fully informed decision on appropriate further action.
- Local authority decision makers need to provide clear guidance to FES on what information is required to allow an HB overpayment decision and calculation to be made.
- In order to encourage high quality referrals, and ensure that local authorities are being suitably funded, DWP should consider reviewing the funding methodology to take account of the number of referrals made that meet a pre-defined and agreed quality standard, that are subsequently accepted for compliance or investigation action.
- DWP and local authorities in Scotland are committed to delivering process improvements and changes to procedures, and to implementing a structured and regular approach to local liaison. These activities included the establishment of the HB Fraud Issues Progression Group (HBFIPG) as a forum to discuss, prioritise and resolve issues.
- In addition, a FES seminar was held for Scottish local authorities in July 2016 with a view to understanding and addressing the issues that were affecting performance, and developing a strategy for improved liaison and joint working.

## Background

5. The Local Government in Scotland Act 2003 introduced statutory duties relating to Best Value and Community Planning. The key objective of this review is to determine the extent to which benefit services are meeting their obligations to achieve continuous improvement in respect of HB counter fraud activities. Information for this review was gathered from officers in Scottish councils and the DWP.

### Development and pilots

6. In 2010, the joint DWP/HM Revenues and Customs (HMRC) fraud and error strategy proposed a Single Fraud Investigation Service (SFIS) to address fraud across all benefits and tax credits, whether administered by DWP, HMRC, or local authorities. The main objective of

the policy was to ensure that all types of social security benefit and tax credit fraud are investigated according to a single set of guidance and priorities.

7. In preparation for this change, in early 2013 a number of local authority pilots in the UK, which included Glasgow City Council, tested a variety of partnership approaches and a single set of policies and procedures in order to identify the best delivery model. The pilots also tested the different attributes of the service, including how SFIS worked in a Universal Credit environment, and how it worked as part of counter-fraud processes to help combat crime.
8. As a result of the success of these pilots, in the 2013 Autumn Statement, the Chancellor of the Exchequer formally announced the formation of SFIS (now FES), under the auspices of the DWP, with responsibility for investigating HB fraud and tax credit fraud. Previously, local authorities and HMRC were responsible for these investigations. The Crown Prosecution Service in England and Wales and the Procurator Fiscal in Scotland conduct prosecutions arising from fraud investigations.

## FES objectives

9. The main objectives of FES are to:
  - operate under a single policy and set of operational procedures for investigating all welfare benefit fraud
  - conduct single investigations covering all welfare benefit fraud
  - rationalise existing investigation and prosecution policies in order to create a more coherent investigation service that is joined up, efficient, and operates in a more consistent and fair manner, taking into account all offences that are committed
  - enhance closer working between DWP, HMRC and local authorities, and bringing together the combined expertise of all three services drawing on the best practices of each
  - support the fraud and error integrated strategy of preventing fraud and error getting into the benefit system by detecting and correcting fraud and punishing and deterring those who have committed fraud.
10. The transfer of counter-fraud work from local authorities commenced nationally in July 2014 and concluded in March 2016 (see *Appendix 1*). In total, over 70 local authority fraud investigation staff also transferred to DWP during this period, and since March 2016, FES has conducted single welfare benefit fraud investigations to one set of policies and procedures for all local authorities.

## Current arrangements

11. While local authorities have not been conducting HB fraud investigations since March 2016, there remains an ongoing need for close working with FES in respect of the exchange of data.



Local authorities can refer cases to FES for investigation and, when a case is accepted, will be required to provide FES with evidence, such as copies of claim forms and other supporting documentation.

12. When a fraud or error has been established, local authorities may also be asked to provide FES with details of the amount of overpayment that has arisen as a result, attend court if required, and take appropriate action to recover the HB overpayment.
13. In addition, FES are required to provide the local authority with information to allow them to monitor the progress of an investigation, and to take appropriate action as required, for example, to suspend a claim.
14. The requirements of the exchange of data are set out in the UK local agreement, which was agreed and signed by FES and local authorities as part of the transfer of responsibility for HB fraud investigations to DWP. The local agreement contains ten key performance indicators, the name of a single point of contact (SPOC) for each organisation, and details of the escalation route to address any issues.

## Funding

15. Local authorities receive subsidy payments from DWP at the end of each financial year in order to reclaim most of the HB paid to claimants. For overpayments of HB due to fraud or claimant error, local authorities receive 40% of the value paid. For overpayments due to local authority error, subsidy is paid at a rate between 0% and 100%.
16. In line with DWP's new burdens doctrine, local authorities receive an agreed payment to help mitigate the financial impact of the administration involved with the transfer of counter-fraud work to FES. In 2014/15, all Scottish local authorities where counter-fraud work transferred to FES between 1 July 2014 and 31 March 2015 were paid an amount dependant on the proportionate average size of the local authority HB caseload (based on the previous 12 months), and the number of months between the 'go live' date and the end of the financial year.
17. As 2014/15 was the first year of transfer, all local authorities that did not transfer during the year received a one off payment of £562 towards costs relating to human resource or other miscellaneous activity arising from the transfer project.
18. In 2015/16, payments to local authorities were based on the same methodology as the previous year, but also took into account DWP's expectation that 77,000 referrals would be made to FES from across the UK during the year.
19. In 2016/17, payments to local authorities were based on the same methodology as the previous year but also took account of FES management information for 2015/16 when 40,538 referrals were received by FES, from across the UK.

20. However, following discussions with local authority representatives, it was agreed that the number of referrals was lower than expected as local authorities adopted and became familiar with new processes. Consequently, the number of referrals used to calculate the new burdens payment for 2016/17 was increased to 45,000.
21. When we analysed the funding data in respect of the 27 local authorities that recorded referral data, for the period 1 July 2014 to 31 May 2016, we found a disproportionate amount of funding was provided to local authorities per case referred as detailed in Exhibit 1 below.

<b>Exhibit 1: New burdens payments 1 July 2014 to 31 May 2016</b>			
	<b>Number of cases referred</b>	<b>Amount of subsidy received</b>	<b>Subsidy per referral</b>
<b>All local authorities</b>	4,427	£297,324	£67
<b>Local authority A</b>	479	£9,772	£20
<b>Local authority B</b>	24	£2,417	£101
<b>Local authority C</b>	2	£2,525	£1,263

*Source: DWP subsidy circulars S9/2014, S8/2015 (revised), and S5/2016*

22. As the current funding methodology does not take account of the number of cases referred, or the quality of referrals received by FES, we consider that this approach is financially detrimental to authorities that are referring more cases, and could act as a disincentive, as the amount of resource required to manage the referral process would be significantly greater than in local authorities that refer fewer cases.
23. In order to encourage high quality referrals, and ensure that local authorities are being appropriately funded, DWP should consider reviewing the funding methodology to take account of the actual number of referrals made per local authority that meet a pre-defined and agreed quality standard, that are subsequently accepted for compliance or investigation action.

## Our work

24. In June 2016, Audit Scotland issued a questionnaire to each of the 32 Scottish local authorities in order to determine the effectiveness of the liaison arrangements. The questionnaire requested performance information, details of local good practice, local issues, and suggestions for improvement. To ensure a holistic approach, we also met with the FES Group Manager for Scotland and a FES Fraud team leader, and had discussions with senior officers from DWPs Housing Delivery Division.

25. Since we commenced our study, it is acknowledged that DWP had recognised that the current arrangements were not effective overall, had identified, and was working on a number of activities to address the issues in order to improve performance and procedures.
26. These activities included the establishment of the HB Fraud Issues Progression Group (HBFIPG) as a forum to discuss, prioritise and resolve issues, including changes and recommendations arising from previous reviews of the HB counter-fraud process, and commissioning its Performance Development Team (PDT) to produce reports on:
  - the issues associated with the rollout of FES
  - a review of the end-to-end fraud referral process.
27. In addition, a FES seminar was held for Scottish local authorities in July 2016 with a view to understanding and addressing the issues that were affecting performance, and developing a strategy for improved liaison and joint working.
28. As outcomes, the reports produced by the PDT provided a number of recommendations, which DWP are taking forward through the HBFIPG, and FES (Scotland) has established a programme of liaison meetings as the platform for raising issues and the sharing of good practice. As a minimum, a DWP and a local authority representative from each District (North, East, West and Central) will attend these meetings.
29. This report is therefore intended to complement and support the work of DWP and our findings and recommendations are set out below.

# Findings

## Good practices

30. A number of working practices, which have helped improve efficiency and effectiveness, have been introduced in some local authorities. These include:
  - Dundee City Council monitors and tracks the electronic local authority information exchange form (LAIEF) between the local authority and FES on their benefits workflow system. The council has also been working closely with FES officers, and has provided training to local FES staff in order to help improve FES and local authority processes.
  - A separate team in Glasgow City Council deal with all adjudications. This allows learning from previous adjudications that may be similar. This team also attend court, as required, and there is a dedicated administrator who works with the local authority's decision makers.
  - A senior HB officer at Inverclyde Council vets all referrals before submission to FES to ensure they would have reached the standard for investigation by the local authority.

- Aberdeen City Council fraud officers input the date the case was opened by FES on the LAIEF in order to monitor progress of an investigation.
- The Scottish Borders Council is considering providing access to the local authority benefits IT system for its ex-fraud officers that transferred to FES. This would allow these officers to gather evidence for investigations independently. The local authority is also setting up sessions for FES officers to provide local authority staff with fraud and compliance awareness training.

## Key issues and areas for improvement

31. A number of recurring issues and suggested improvements to the fraud referral process and the measurement of outcomes were identified during this review.
32. As previously mentioned, the FES (Scotland) seminar in July 2016, which was well attended by Scottish local authorities, was held in recognition of the need to improve the relationship between DWP and local authorities, and to identify areas for improvement in order to deliver a more cohesive investigation process across Scotland.
33. The types of issues raised in response to our questionnaire included:
  - cases being closed or transferred to DWP's compliance team for non-criminal action without local authorities being informed, and investigation outcomes not being provided resulting in local authorities not knowing if customers had been sanctioned or prosecuted
  - the lack of sufficient information provided to local authorities to allow adjudication officers to make robust overpayment decisions
  - issues when sending supporting documentation by e-mail as size restrictions mean that documentation cannot always be sent in one e-mail. This provides additional work for FES who need to ensure that separate emails in respect of the same referral are identified and collated
  - local authorities being asked to provide FES with all 'relevant' information when it is not clear what FES considers to be relevant
  - a lack of regular liaison meetings between local authorities and FES to discuss policy and operational matters
  - the LAIEF document does not include the space or functionality to allow local authorities to update relevant sections
  - referrals being lost by FES resulting in additional workloads and cost for local authorities to re-refer the case, and the potential increase in any resultant overpayment.
34. The following section looks in detail at the fraud referral process and the local agreement, which contains the key performance measures that set the parameters for joint working.

## The referral process

35. In order to ensure a consistent approach, FES and each local authority nominate a SPOC to manage the fraud referral and investigation process. In local authorities the SPOC is responsible for ensuring that a fraud referral and supporting evidence is submitted to FES in the prescribed manner, responding to FES enquiries, and ensuring that appropriate action is taken at the conclusion of investigation or compliance activity. In FES, the SPOC is the person that the local authority would contact if there was a query, or an issue to be resolved.
36. Generally, where there is an allegation that an HB claim is potentially fraudulent and the local authority has sufficient information to support an investigation, a standard fraud referral form is completed and e-mailed to a dedicated FES email account. When received by FES, the local authority receives an automated response from the FRAIMS system acknowledging receipt.
37. Once received, DWPs Central Referral Services (CRS) carries out checks on DWP systems to provide as much background information as possible to enhance the referral. These checks include:
  - establishing if the customer is in receipt of benefit
  - the value of any potential overpayment
  - whether there has been a previous fraud
  - details of the household composition.
38. As part of this process, CRS complete a 'routing minute', which contains the details of the allegation from the fraud referral form and background information from the referral enhancement checks of DWP systems. This process allows CRS officers to make a routing decision based on the potential value of the overpayment as follows:
  - Generally, where the potential overpayment is less than £2,000, the case is routed to the FES Compliance (non-criminal) team.
  - Where the potential overpayment is £2,000 or above, or less than £2,000 and where there is fraudulent intent and/or it is a repeat offence, the case is routed to FES Local Service Investigation (LSI) to conduct a criminal investigation.
  - Where there is insufficient information to support either criminal or non-criminal action, the case is closed on the FRAIMS system and removed after 14 weeks as part of a data cleansing routine.
39. Once the routing process is complete, the electronic LAIEF is used by FES to keep the local authority informed on the progress of a referral, to request further information, as appropriate, and to advise the local authority on the outcome at the conclusion of investigation or compliance activity. The LAIEF is also used by the local authority to provide FES with HB information throughout the course of an investigation.

## FES Local Service Compliance

40. FES Local Service Compliance teams carry out face-to-face interviews with customers where the level of potential fraud is less than £2,000, or there is insufficient evidence or extenuating circumstances that would not support a prosecution or administrative penalty.
41. The compliance interview is not a criminal investigation and therefore not carried out under caution. The purpose of the interview is to:
  - ensure that the customer is receiving the correct benefit entitlement
  - obtain the necessary information to enable a potential overpayment/underpayment to be calculated
  - establish the causes of the potential overpayment/underpayment
  - advise the customer how to stop any future overpayment/underpayment from recurring
  - explain the possible consequences of not complying in future, where appropriate.
42. Where it has been established following a compliance interview that there has been a failure to report a change of circumstances, where there is an HB implication, the information is referred to local authority decision makers, to create an overpayment and initiate recovery action, as appropriate.

## FES Local Service Investigations

43. Where the potential fraud is £2,000 or more, and/or where there is fraudulent intent, and/or it is a repeat offence, a fraud referral will be dealt with by FES local service investigation officers. These staff are highly trained in fraud investigation techniques and carry out interviews under caution. Where fraud is established a customer could be sanctioned or prosecuted.

### Recommendations for improvement

- |   |  |
|---|--|
| 1 | The fraud referral form should be reviewed and updated to ensure it captures all relevant information at the point of completion. This should include the name of the local authority sending the referral, the amount of the potential fraud, and the full contact details of the SPOC.   |
| 2 | Local authorities and FES should work together to define and agree a minimum quality standard for local authority fraud referrals, and to ensure that the SPOC is fully trained to deliver this standard. In addition, local authorities and FES should develop a programme of management checks to ensure that only high quality referrals are sent to FES. |
| 3 | Local authorities and FES should establish a more robust method for recording and monitoring referrals, the outcomes, and the exchange of information between both   |

### Recommendations for improvement

- |   |  |
|---|--|
| 4 | <p>organisations that provides for a complete audit trail of actions taken that is open to scrutiny.</p> <p>In HB only cases, where an overpayment is estimated to be less than £2,000, and the local authority has the required level of evidence to support this, in consultation with FES, consideration should be given as to whether the action to create and recover the overpayment is best placed with the local authority, therefore reducing the number of cases referred for compliance action.</p> |
|---|--|

## Local agreement

44. The local agreement has six key performance indicators for local authority activity that FES should be monitoring, and four key performance indicators for FES activity that local authorities should be monitoring.
45. The aim of these performance indicators, which cover the end-to-end investigation process, is to provide for an efficient and effective relationship between each organisation to ensure that investigation and compliance activity is conducted in a professional and timeous manner. Exhibit 2 sets out the performance indicators in detail.

### Exhibit 2: Local agreement performance indicators

Local authority performance indicators	Timescale
<b>Local authority</b> - CRS referral routing	Within five working days
<b>Local authority</b> - during case build, respond to requests for claim forms etc. prior to Interview Under Caution (IUC)	Within 10 working days
<b>Local authority</b> - during an investigation, where identified, inform FES of changes to entitlement to HB or council tax reduction	Within two working days
<b>Local authority</b> - following IUC, respond to requests for further information, for cases appropriate for prosecution action	Within 10 working days
<b>Local authority</b> - during an investigation, inform FES of the amount of any overpayment which will include any underlying entitlement	Within 10 working days
<b>Local authority</b> - consider offering an Administrative Penalty as an alternative to prosecution and advise FES of the decision	Within 10 working days
<b>FES performance indicators</b>	
<b>DWP</b> - FES investigator to inform local authority of decision to investigate	Within two working days



**Exhibit 2: Local agreement performance indicators**

<b>DWP</b> - FES to contact local authority for consideration of claim suspension	Within two working days of establishing factual evidence
<b>DWP</b> - FES to advise the local authority of the outcome of an Administrative Penalty offer	Within five working days
<b>DWP</b> - FES to notify the local authority of the outcome at the conclusion of the investigation	Within five working days

46. In order to monitor these performance indicators, local authorities and FES should have procedures and systems in place to ensure that the recording of referrals to FES is consistent and robust, and that regular monitoring is carried out to ensure compliance. However, from our analysis of the returned questionnaires from the 32 Scottish local authorities, and our discussions with FES (Scotland) senior management, it is clear that neither organisation is routinely recording or monitoring performance.
47. We were told by FES that the FRAIMS system is limited in respect of the management information that is available, and that it is not possible to determine FES or local authority performance against any of the performance indicators. In addition, although 27 of the 32 Scottish local authorities recorded the number of cases referred to FES, none had sufficient management information to determine local authority or FES performance against all of the indicators.
48. Consequently, our analysis is limited to the information provided by local authorities on our questionnaire in respect of the four performance indicators in the local agreement that FES should be meeting to keep them informed on the progress of a referral from receipt to outcome.

**Recommendation for improvement**

5	The UK local agreement should be reviewed and updated to ensure that performance indicators are relevant and achievable, and are recorded and routinely monitored to allow FES and local authorities to report on performance in a consistent and robust manner.
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**FES performance indicators**

49. It is acknowledged that our analysis provides an indication of performance from a local authority perspective and is not based on a complete dataset, as some local authorities did not capture the necessary performance information. However, as FES are currently unable to



provide any national MIS to challenge these figures, or provide performance from a FES perspective, we consider that our analysis is representative of the issues being experienced.

50. It also provides an opportunity for both organisations to learn and improve current processes and procedures to ensure that future performance management is robust, consistent and open to scrutiny. The recent recognition and significant work already carried out by DWP into the current arrangements supports these findings.

### FES investigator to inform the local authority of decision to investigate

51. The purpose of this performance indicator is to notify the local authority that an investigation has commenced which could lead to a sanction and/or overpayment. In notifying the local authority, it enables them to deal with any subsequent enquiries from the customer, and helps to ensure that a FES investigation is not compromised. In such cases, FES should send a LAIEF to the local authority within two working days of receiving the case.
52. In respect of the 32 local authorities that completed our questionnaire, a total of 4,427 referrals to FES were made between 1 July 2014 and 31 May 2016. Of these, we found that 16 local authorities were not fully capturing information in respect of this performance indicator and were unable to report on how many cases FES had advised of a decision to investigate within the required timeframe.
53. Details of performance against this indicator in respect of the 16 local authorities that recorded this information is provided at Exhibit 3 below.

**Exhibit 3: FES investigator to inform local authority of decision to investigate (within two working days from receipt of referral)**

	Number of cases	Number advised	Number advised within timescale
<b>2014/15</b>	1,599	191 (12%)	32 (17%)
<b>2015/16 (31 May 16)</b>	688	145 (21%)	17 (12%)
<b>Totals</b>	<b>2,287</b>	<b>336 (15%)</b>	<b>49 (15%)</b>

Source: Scottish local authorities

### FES to contact local authority for consideration of claim suspension

54. The purpose of this performance indicator is to request the local authority to suspend a claim under investigation within two working days of establishing factual evidence, to ensure that the local authority does not continue to pay HB where there is no entitlement. It is also important that FES provide the local authority with sufficient information in order to support a suspension request.

55. Details of performance against this indicator in respect of the five local authorities that recorded this information is provided at Exhibit 4 below.

**Exhibit 4: FES to contact local authority for consideration of claim suspension (within two working days of establishing factual evidence)**

	Number of cases	Number advised	Number advised within timescale
2014/15	Data not available	6	4 (67%)
2015/16 (31 May 2016)	Data not available	8	1 (13%)
<b>Totals</b>		<b>14</b>	<b>5 (36%)</b>

Source: Scottish local authorities

56. In the period 1 July 2014 to 31 May 2016, analysis of the questionnaire returns from the 32 Scottish local authorities showed that 4,427 cases had been referred to FES. It is therefore unlikely that in only 14 cases (0.3%) FES had contacted the local authority to suspend a claim.
57. However, as there is no record of the date that FES had established factual evidence on the LAIEF, and FES and local authorities are not routinely recording this information, this performance indicator cannot be accurately measured.

**FES to advise local authority of the outcome of an administrative penalty offer**

58. The purpose of this performance indicator is to provide the local authority with sufficient information to determine the impact on a customer's HB claim in the event that fraud has been established by FES. This is particularly important as the local authority is required to pursue any subsequent HB overpayment, and early intervention would help the local authority to initiate recovery action in respect of the fraudulent overpayment and the administrative penalty in a timely manner.
59. Full details of performance against this indicator in respect of the eight local authorities that recorded this information is provided at Exhibit 5 below.

**Exhibit 5: FES to advise the local authority of the outcome of an administrative penalty offer (within five working days)**

	Number of cases	Number advised	Number advised within timescale
2014/15	Data not available	98	41 (42%)
2015/16 (31 May 2016)	Data not available	8	4 (50%)

### Exhibit 5: FES to advise the local authority of the outcome of an administrative penalty offer (within five working days)

<b>Totals</b>		<b>106</b>	<b>45 (42%)</b>
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Source: Scottish local authorities

### FES to notify the local authority of the outcome at the conclusion of the case

60. This performance indicator provides the local authority with details of the outcome of an investigation in order for appropriate action to be taken. For example, to calculate and initiate the recovery of a fraudulent overpayment.
61. Full details of performance against this indicator in respect of the eight local authorities that recorded this information is provided at Exhibit 6 below.

### Exhibit 6: FES to notify local authority of the outcome at the conclusion of the investigation (within five working days)

	<b>Number of cases</b>	<b>Number advised</b>	<b>Number advised within timescale</b>
<b>2014/15</b>	Data not available	203	199 (98%)
<b>2015/16 (31 May 2016)</b>	Data not available	74	26 (35%)
<b>Totals</b>		<b>277</b>	<b>225 (81%)</b>

Source: Scottish local authorities

## Investigation outcomes

62. In order to compare the effect of the transfer of responsibility for HB counter-fraud work to FES in respect of fraud investigation outcomes, we asked each local authority to provide information on the number of cases referred to the Procurator Fiscal, and the number of administrative penalties offered in the last full financial year before responsibility transferred to FES. We also sought similar information from FES.
63. However, although the majority of local authorities provided this information, we were unable to establish the same details from FES and therefore a comparison was not possible. However, analysis of the questionnaire data suggests that numbers have declined significantly since responsibility transferred to FES.

### Recommendation for improvement

<b>6</b>	FES should seek to develop management information to determine the effectiveness of fraud investigations that it conducts on behalf of local authorities and consider
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**Recommendation for improvement**

- reporting performance on a regular basis. Such information could include:
- the number and percentage of local authority referrals dealt with by Compliance that resulted in an overpayment
  - the number and percentage of local authority referrals dealt with by Compliance that resulted in no further action
  - the number and percentage of local authority referrals dealt with by Local Service Investigation that resulted in an administrative penalty
  - the number and percentage of local authority referrals dealt with by Local Service Investigation that resulted in a prosecution.

# Endnotes

[Housing Benefit Good Practice Guide: Initiatives which deliver best value](#), Audit Scotland April 2016

[Benefit performance audit: Annual update 2015/16](#), Audit Scotland June 2016

[Review of housing benefit subsidy certification issues 2014/15](#), Audit Scotland January 2016

[Review of activity to reduce fraud and error in housing benefit](#), Audit Scotland September 2015

[Benefits performance audit: Annual Update 2014/15](#), Audit Scotland June 2015

[Review of auditors' housing benefit subsidy claim reported errors 2013/14](#), Audit Scotland, February 2015

# Appendix 1: Timetable of FES rollout in Scotland

64. The table below details the order that HB counter-fraud work was transferred from local authorities to FES.

Local authority	Date transferred
East Ayrshire	July 2014
Dumfries and Galloway	October 2014
South Ayrshire	October 2014
East Dunbartonshire	October 2014
North Lanarkshire	October 2014
Falkirk	October 2014
Glasgow	November 2014
South Lanarkshire	November 2014
Edinburgh	November 2014
East Lothian	November 2014
Fife	December 2014
North Ayrshire	February 2015
West Lothian	February 2015
Stirling	February 2015
Scottish Borders	March 2015
West Dunbartonshire	March 2015
Aberdeen City	April 2015
Aberdeenshire	May 2015
Angus	May 2015
Dundee	June 2015
Perth and Kinross	July 2015
Western Isles	July 2015

Local authority	Date transferred
Highland	August 2015
Moray	August 2015
Orkney	August 2015
Shetland	September 2015
Midlothian	October 2015
Argyll and Bute	October 2015
Clackmannanshire	October 2015
East Renfrewshire	December 2015
Inverclyde	February 2016
Renfrewshire	March 2016



**Department of Council Resources**

# **Housing Benefit Policy**

## **HOUSING BENEFIT OVERPAYMENTS RECOVERY**

## **1. Introduction**

- 1.1 East Lothian Council 's Housing Benefit overpayments policy is designed to set out guidelines for Housing Benefit staff when dealing with overpayments. It is recognised that each case should be reviewed on its merits and that the appropriate action should be taken only after considering all the facts. However this guidance is intended to set a framework within which recovery decisions can be made.
- 1.2 As a Council we have to ensure that we are fair in our treatment of claimants who have unwittingly been overpaid whilst maintaining our responsibility to the local taxpayer.
- 1.3 Having identified that an overpayment has occurred, the authority must determine:
- The cause of the overpayment;
  - Whether or not the overpayment is recoverable;
  - Whether or not recovery should be sought;
  - From whom the recovery should be sought;
  - Method of recovery.

## **2. The Cause of the Overpayment**

- 2.1 Benefit overpayments arise for a number of reasons: -
- a claimant does not inform the authority of a change of circumstances until after the event or not at all - claimant error. (Note - there is a legal requirement for claimants and landlords to provide information on changes in circumstance);
  - a claimant or landlord has knowingly claimed benefit or falsified a claim to obtain benefit to which they are not entitled - fraudulent error;
  - a mistake has been made by the Local Authority – Local Authority error;
  - a mistake has been made by DWP or Jobcentreplus - official error.

## **3. Whether an Overpayment is recoverable**

- 3.1 Where an overpayment has arisen, a decision must be taken as to whether the overpayment is recoverable.



#### **4. Whether Recovery should be Sought**

4.1 An overpayment may be recovered at the authority's discretion. Regard should be given to individual circumstances when deciding if recovery is appropriate.

4.2 There is no obligation for the Council to recover all recoverable overpayments. However, subsidy arrangements penalise us if we do not recover most recoverable overpayments, and we would bear the cost of the overpayment in full.

#### **5. From Whom Recovery should be Sought**

5.1 An overpayment may be recovered from the claimant or the person to whom it has been paid. Overpayments may be recovered from a landlord where Housing Benefit has been paid direct. Guidelines also state that the authority must act reasonably in recovering the amount due.

#### **6. Method of Recovery**

6.1 The Council may recover the overpayment by any lawful method. The following are the main methods that are adopted -

- Deductions from ongoing benefit;
- Issuing of an invoice through the Financial Ledger Sundry Debt system;
- By recovering overpayments from a landlord through a third party benefit for an overpayment in respect of another claimant;
- Deductions from other benefits paid by DWP;
- For council tax benefit only, by adding overpaid council tax benefit, onto a claimant's council tax account as an amount of council tax owed.

#### **7. Policy statement regarding all Overpayments**

7.1 The rates set out within the policy are the rates that Benefits /Overpayments Officers must use when negotiating instalments. However, where a claimant can demonstrate that these levels of overpayment will cause hardship to themselves/their family then negotiation of lower payments is acceptable. Any reduced instalment payments are to be approved by the Team Leader.

## **8. Policy statement re: Fraud Overpayments & Administrative Penalties**

- 8.1 Where appropriate, recovery rates for fraud overpayments should be set at higher level to ensure effective recovery of fraudulently overpaid Benefit. In addition to this, greater priority should be given to the calculation, notification and monitoring of these cases to ensure that the recovery process maintains a deterrent effect.
- 8.2 Administrative Penalties will be recovered through the Council's corporate debt recovery process. Once accepted, these sums will either be recovered through this process or passed over to a debt recovery service to collect on the Council's behalf.
- 8.3 All cases, where a recommendation is made to recover at a weekly level higher than the standard rates set out in this policy.

## **9. Recovering Overpayments from existing claimants**

### **9.1 Deductions from ongoing benefit**

Recovery Of Benefit Overpaid from existing claimants

Regulation 102 of the Housing Benefit (General) Regulations 2006 and Regulation 83 of the State Pension Credit regulations 2006 prescribe the maximum weekly deduction that can be made to recover an overpayment from on-going entitlement. There are two prescribed rates of deduction depending on whether the overpayment has arisen as a result of fraud or not.

The prescribed rates are:

- in the case of a claimant who has been found guilty of an offence whether under statute or otherwise;
- made an admission under caution of deception or fraud for the purpose of obtaining benefit; or
- agreed to pay a penalty under section 115A of the Administration Act and the agreement has not been withdrawn,

four times five percent of the personal allowance, uprated, usually annually, for a single claimant aged not less than 25 rounded to the nearest 10 pence or if it is a multiple of 5 pence but not 10 pence, the next higher multiple of 10 pence.

in any other case

three times five per cent of the personal allowance, uprated usually annually, for a single claimant aged not less than 25 rounded if it is not a multiple of five pence to the next higher such multiple.

In addition to these two deductions where a disregard is being applied to income or earnings up to half the disregarded amount may be added to the amount to be deducted.

It is necessary in each case to have regard to any special health or financial circumstances of the claimant before deciding the level of deduction, or when to commence deduction, to avoid causing undue hardship to the claimant or their dependants.

#### **10. Collection through Sundry Debtor invoices**

In the first instance, an invoice should be issued for the full amount of the overpayment. The first principle should be to seek repayment in full. Where the claimant can show that this is unaffordable, then instalments shall be negotiated by the Overpayments Officer. If the former claimant is in receipt of income support / job seekers allowance then recovery shall be at the annual prescribed rate. Where this is not the case, the claimant will have to provide evidence of earnings in order to pay by instalments.

#### **Benefits paid by Department for Work and Pensions (DWP)**

The third option for recovery will be weekly deductions from Benefit paid by the DWP, (where appropriate). Recovery will again be in line with the prescribed recovery rates.

#### **11. Collection of overpayments from landlords**

- 11.1 The collection of overpayments in respect of current claimants will be undertaken by deducting amounts from future payments to the landlord unless the landlord has agreed to pay the account direct. If a decision is taken that the landlord could not reasonably be expected to know about the change of circumstances that led to the overpayment, then recovery will be from the claimant

The Social Security Administration (Fraud) Act 1997, allows recovery of an overpayment of benefit from a current tenant in respect of another claimant. This arises where the benefit has been paid direct to the landlord and an overpayment has arisen. The current tenant's rights are protected and the deduction counts as their rent payment. This will be used to recover overpayments direct to the landlord in respect of claimants no longer entitled to claim benefit within our area.

The first principle will be to seek settlement in full from the landlord for all overpayments received. In exceptional circumstances, the Landlord may negotiate a repayment arrangement with the Council.

## **12. Guidance to Officers on non-recovery of recoverable overpayments and negotiating with claimants and their representatives**

- 12.1 All overpayments are recoverable including 'official error' overpayments where a claimant could reasonably have been expected to know that they were not entitled to the benefit.
- 12.2 Government guidance allows Councils to exercise judgement when deciding whether to collect a recoverable overpayment. However the guidance explains that this should only be exercised in exceptional circumstances, otherwise, councils may be severely restricted in its ability to recover overpayments.
- 12.3 For claimants who incur an overpayment and social factors indicate that the recovery of a recoverable overpayment would be unreasonable and likely to cause distress – no recovery shall be sought and the amount written off in accordance with council policy. Further guidance is shown in 12.6 below.
- 12.4 These cases can be highlighted in a number of ways, for example, either claimants or their advisors will make representations if they feel that their social circumstances are exceptional and the overpayment should not be recovered or officers will suggest to the Benefits Manager that the overpayment be written off. Officers may interview the claimant to establish full information, either at the offices or at their home or rely on other evidence and reports at their disposal.
- 12.5 For claimants who incur an overpayment (Housing Benefit and/or Council Tax Benefit) in excess of £1,000, and where there is no immediate arrangement for full repayment, officers will consider interviewing the claimant at the offices or through a visit to their home. The purpose will be to advise them of the overpayment and establish their ability to pay. The officer will also provide help and guidance on negotiating repayments having due regard to the levels set out within this policy.
- 12.6 Officers should consider not pursuing recovery of a recoverable overpayment where the claimant's social factors are exceptional, **and** the claimant has no funds to repay. Categories include: -
- Category 1 - Claimant suffering terminal illness
  - Category 2 - Claimant entering nursing home
  - Category 3 - Claimant suffering mental illness

### **Category 1 – example**

A claimant, in receipt of Income Support, with no assets i.e. house, car etc. who is diagnosed as suffering from a terminal illness and has a life expectancy of less than 6 months.

### **Category 2 – example**

A pensioner, in receipt of state benefits, with no assets i.e. house, car etc. who has or will, within 1 month, enter a nursing home on a permanent basis – the cost of which is being met in full, or in part, by the state.

**Category 3 – example**

A claimant, in receipt of state benefits, who is suffering from severe mental illness and where the overpayment has been caused by an inability to understand the claim regulations and where to recover the overpayment would lead to additional mental or financial stress.

Medical and social reports should be obtained from specialists and professionals in support of the recommendation not to pursue the debt.

- 12.7 All cases, where a recommendation not to recover or to recover at a weekly level less than that set out in this policy is made, will be referred to the Team Leader for confirmation. The Team Leader will determine cases where the reduced weekly recovery is recommended and will refer non-recovery cases to the Benefits Manager.
- 12.8 All decisions to write off a recoverable overpayment should be approved by Members of East Lothian Council as required by Financial Regulations



**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 14 March 2017  
**BY:** Depute Chief Executive – Resources & People Services  
**SUBJECT:** Internal Audit Report – Freedom of Information

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**6**

## **1 PURPOSE**

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

## **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 within the Council to ensure compliance with the Freedom of Information (Scotland) Act 2002.
- 3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	2 March 2017



## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT FREEDOM OF INFORMATION**

### **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 responding to Freedom of Information requests received by the Council. A summary of our main findings is outlined below.

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

- The Council has adequate arrangements in place to ensure compliance with the Freedom of Information (Scotland) Act 2002.
- A designated member of staff is responsible for coordinating all Freedom of Information requests received by the Council.
- A clear audit trail exists of all Freedom of Information requests received – a detailed log is maintained of all key information in respect of the requests received.
- Adequate monitoring arrangements are in place to ensure that service areas provide relevant information to the Council's Information Governance Officer within the specified timescales – requests are monitored and reminders are issued where there are delays in information being received.
- Regular reports are prepared for Cabinet on Freedom of Information, detailing the total number of requests received and the Council's compliance with the 20 working day timescale for issuing responses.
- For Freedom of Information requests where exemptions had been applied these were in accordance with legislation.
- A mandatory online Freedom of Information training module is available to all staff members and is required to be completed every two years.

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

- The existing policies in place require review to ensure that they accurately reflect the current arrangements within the Council. *Risk – information may be incomplete or out of date.*
- In some cases, there had been delays in service areas providing the required information within the specified timescales. *Risk – failure to meet the 20 working day timescale.*
- At present, details of all Freedom of Information requests and responses have not been fully updated on the Council's website. *Risk – information available may be incomplete.*

#### **1.4 Summary**

Our review of the arrangements in place within the Council for ensuring compliance with the Freedom of Information (Scotland) Act 2002 highlighted some areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

**Mala Garden**  
**Internal Audit Manager**

**March 2017**

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT  
FREEDOM OF INFORMATION**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.2.1	Management should ensure that the existing policy documents in place are reviewed and updated to accurately reflect the current arrangements within the Council.	Medium	Service Manager – Licensing, Administration and Democratic Services	Agreed		April 2017
3.4.1	Management should review the existing arrangements in place within service areas for responding to FOI requests, with a view to ensuring that the Council is able to respond to all requests within the specified timescales.	Medium	Depute Chief Executive – Resources and People Services	Agreed on behalf of the CMT.		April 2017
3.8.1	Management should ensure that the database of FOI requests and responses available on the Council’s website is updated timeously.	Medium	Service Manager – Licensing, Administration and Democratic Services	Not agreed – there is no requirement to publish FOI requests and responses and that is something that ELC undertakes on a voluntary basis.		

### **Grading of Recommendations**

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

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



**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 14 March 2017  
**BY:** Depute Chief Executive – Resources & People Services  
**SUBJECT:** Internal Audit Report – Performance Indicators 2015/16

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**7**

## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Performance Indicators 2015/16.

## **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 systems and processes in place for the preparation and reporting of performance information for 2015/16.
- 3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	2 March 2017

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT  
PERFORMANCE INDICATORS 2015/16**

**1. EXECUTIVE SUMMARY**

**1.1 Introduction**

As part of the Audit Plan for 2016/17 a review was undertaken of the systems and processes in place for the preparation and reporting of performance information for 2015/16.

**1.2 Areas where Expected Controls were Met**

- Detailed guidance is in place to assist officers with responsibility for the preparation and reporting of performance information.

**1.3 Areas with Scope for Improvement**

- The current approach adopted for calculating the net cost of parks and open spaces requires review – at present internal recharge adjustments are made based on historical, estimated or provisional sums. *Risk – reported figures may be understated.*
- For the average length of time taken to complete non-emergency repairs, a number of areas were identified requiring review including the adjustments being made for ‘non contact’ days and the reliance being placed by the Council on an external contractor to provide information for one repairs category (gas) for inclusion in the performance indicator – we note that this information is not currently recorded on the Orchard system. *Risk – reported performance information may be inaccurate.*
- For the net cost of waste collection per premise, areas identified for further review include the allocation of income between waste collection and waste disposal on the Local Financial Return (LFR) prepared by Business Finance and the number of premises used in the calculation by the service area. *Risk – reported figures may be inaccurate.*
- For the net cost per attendance of sport and leisure facilities, there was a failure to retain documentation to support the number of attendances used in the calculation of the performance indicator. *Risk – lack of a clear audit trail.*
- For the cost of trading standards per 1,000 of population, the calculation requires review – for 2015/16 there was a lack of clarity in the LFR guidance on the treatment of third party payments, resulting in the reported figures being significantly lower than previous years. *Risk – reported figures may be understated.*

**1.4 Summary**

Our review of Performance Indicators for 2015/16 has identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

**Mala Garden  
Internal Audit Manager**

**March 2017**

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT  
PERFORMANCE INDICATORS 2015/16**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.2.1	Management should review the internal recharge adjustments currently being made in the calculation of the net cost of parks and open spaces.	Medium	Service Manager – Business Finance	Agreed – to be reviewed in conjunction with the service area.		September 2017
3.3.1	Management should ensure that the income received by waste services is properly allocated between waste collection and waste disposal.  Management should ensure that the number of premises used in the calculation of the net cost of waste collection per premise is consistent with the performance indicator definition.	Medium	Service Manager – Business Finance  Service Manager – Waste	Agreed – to be reviewed in conjunction with the service area.  Agreed		September 2017  March 2017
3.4.1	Management should review the treatment of third party payments in the calculation of the cost of trading standards per 1,000 population.	Low	Service Manager – Business Finance	Agreed		September 2017



<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.5.1	Management should review the current arrangements in place for the calculation of the average length of time taken to complete non-emergency repairs.	Medium	Service Development and Support Manager	Agreed		July 2017
3.6.1	Management should ensure that a clear audit trail exists to support the attendance figures used in the calculation of the performance indicator for the net cost per attendance of sport and leisure facilities.	Medium	Service Manager – Sport, Countryside and Leisure	Agreed		April 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
<b>High</b>	Recommendations which are fundamental to the system and upon which Management should take immediate action.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 14 March 2017  
**BY:** Depute Chief Executive – Resources & People Services  
**SUBJECT:** Internal Audit Report – PPP Contract Monitoring

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**8**

## **1 PURPOSE**

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

## **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 PPP Contract Monitoring 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 monitoring of the PPP Contract were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	2 March 2017

## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT PPP CONTRACT MONITORING**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

A review of the internal controls surrounding the monitoring of the PPP contract 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**

- A detailed Project Agreement is in place between the Council and Innovate East Lothian Limited in respect of the PPP contract.
- All Unitary Charge payments made by the Council are properly authorised and submitted by the due date.

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

- The arrangements in place for applying deductions for performance failures by the Contractor require review – in a number of cases examined, the deductions had not been applied in accordance with the Project Agreement. *Risk – failure to recover all amounts due to the Council.*
- There was a lack of adequate checking procedures in place to ensure that the benchmarking exercise for cleaning was carried out in accordance with the Project Agreement. *Risk – errors may occur and remain undetected.*
- The monitoring arrangements in place for minor works require review – in some instances the spreadsheet used to monitor minor works had not been updated and no documentation had been provided by the Contractor to support the costs charged to the Council. *Risk – errors and irregularities may occur and remain undetected.*
- There had been a failure to ensure that the utilities reconciliation was accurate and complete – a number of errors and inconsistencies were noted in the utilities reconciliation prepared by the Contractor for financial year 2015/16. *Risk – errors and irregularities may occur and remain undetected.*
- The arrangements in place for the monitoring of income collected by the Contractor on behalf of the Council were considered inadequate – income due to the Council for the use of PPP project facilities had not been received since April 2016. In addition a number of errors were found in the figures submitted by the Contractor for financial year 2015/16. *Risk – loss of income to the Council.*

#### **1.4 Summary**

Our review has highlighted a lack of adequate checking and monitoring arrangements in place for the PPP contract. Detailed findings and recommendations are contained in our main audit report.

**Mala Garden**  
**Internal Audit Manager**

**March 2017**

## ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.3	<p>Management should ensure that the spreadsheet used for monitoring minor works is fully completed and is updated with details of the recharge requests sent to Business Finance.</p> <p>Management should ensure that the Contractor provides appropriate documentation to support the costs charged to the Council for minor works.</p>	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		April 2017
3.2.4	Management should review the benchmarking exercise for cleaning undertaken by the Contractor to ensure it was carried out in accordance with the Project Agreement.	Medium	Service Manager – Strategic Asset & Capital Plan Management	Agreed – to be reviewed in conjunction with the current benchmarking exercise.		July 2017
3.2.5	Management should ensure that the PPP Project Officer is given access to the Great Plains general ledger system to enable appropriate checks to be carried out.	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		May 2017
3.3.1	Consideration should be given to ensuring that any changes to the Project Agreement are formally agreed by both parties.	Medium	Depute Chief Executive – Resources & People Services	Agreed		April 2017

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.1 (cont)	Appropriate checks should be carried out to ensure that the insurance rebates due to the Council are correctly calculated – evidence of the checks should be retained on file.	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		July 2017
3.4.1	Management should ensure that all utilities documentation currently held by the Council’s Energy Officer is retained in a shared area with access given to all relevant staff responsible for administering the PPP contract.	Low	Energy Officer	Agreed		April 2017
3.4.3	<p>Appropriate checking procedures should be put in place to ensure that the utilities reconciliation prepared by the Contractor is accurate and complete – where errors are identified the Contractor should be informed and appropriate adjustments carried out.</p> <p>Management should review the current approach adopted for the inclusion of additional equipment in the utilities reconciliation.</p> <p>Management should ensure that sub-meter readings provided by the contractor are validated.</p>	Medium	Service Manager – Strategic Asset & Capital Plan Management	<p>Agreed – current roles to be reviewed and responsibilities identified.</p> <p>Agreed</p> <p>Agreed – random sample to be considered at year end.</p>		<p>June 2017</p> <p>December 2017</p> <p>March 2017</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.4	Management should review the appropriateness of the current approach adopted by the Contractor in excluding all Climate Change Levy from the utilities reconciliation.	Medium	Service Manager – Strategic Asset & Capital Plan Management	Agreed – to be discussed with the contractor.		June 2017
3.4.6	Management should ensure that for utilities consumed by Third Parties a monthly charge is calculated and paid to the Council in accordance with the Project Agreement.	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed – discussions will be held with the contractor.		April 2017
3.5.2	<p>Appropriate checking procedures should be put in place to ensure that information held on the payment mechanism deduction spreadsheet is accurate and complete.</p> <p>Management should ensure that where errors are identified on the payment mechanism spreadsheet appropriate adjustments are carried out.</p> <p>All deductions applied should be properly indexed in line with the Project Agreement.</p>	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		April 2017



<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.5.4	Management should be provided with a report detailing performance failures for which a deduction has not been applied.	Medium	Service Manager – Strategic Asset & Capital Plan Management	Agreed		May 2017
3.6.1	On a regular basis, the Contractor should provide the Council with detailed information in respect of all income received from the use of PPP project facilities.	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		April 2017
3.6.2	Management should ensure that the list of user groups (Authority, Community or Third Party) are reviewed annually and updated.	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		April 2017
3.6.3	Management should ensure that the agreed income in respect of Community use of PPP project facilities is reconciled to amounts received on the Contractor’s credit notes.	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		April 2017
3.6.4	Management should ensure that all income due from the Community use of PPP project facilities is properly deducted as part of the Contractor’s monthly Unitary Charge invoice.	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		April 2017

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.6.5	<p>Management should ensure that the Third Party Income Notice provided by the Contractor is supported by adequate documentation to enable appropriate checks to be carried out.</p> <p>Management should ensure that the Third Party Income Notice is accurate and complete – evidence of the checks should be retained on file.</p>	Medium	Service Manager – Strategic Asset & Capital Plan Management/PPP Project Officer	Agreed		May 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
<b>High</b>	Recommendations which are fundamental to the system and upon which Management should take immediate action.
<b>Medium</b>	Recommendations which will improve the efficiency and effectiveness of the existing controls.
<b>Low</b>	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.



**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 14 March 2017

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

**SUBJECT:** Internal Audit Report – Home to School Transport

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## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Home to School Transport.

## **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 Home to School Transport.
- 3.2 The main objective of the audit was to ensure that the internal controls in place were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	2 March 2017

## **EAST LOTHIAN COUNCIL – INTERNAL AUDIT HOME TO SCHOOL TRANSPORT**

### **1. EXECUTIVE SUMMARY**

#### **1.1 Introduction**

A review of Home to School Transport for Mainstream and Additional Support Needs (ASN) pupils 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**

- A detailed record is maintained by Transport Services of all Home to School routes currently in operation.
- For the sample of invoices examined, all invoices had been authorised by a designated officer prior to being passed for payment.

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

- There was a lack of adequate segregation of duties – all key tasks including route evaluation, agreeing rates with providers, awarding of routes and the checking of invoices are currently being undertaken by the same officer. *Risk – errors and irregularities may occur and remain undetected.*
- An inconsistent approach was adopted for awarding new routes and the re-awarding of existing routes – in a number of cases, there had been a failure to undertake a tendering exercise. *Risk – failure to demonstrate best value.*
- There had been a failure to ensure that the spreadsheet containing agreed rates for each route clearly differentiated between daily rates and rates per journey. *Risk – errors and irregularities may occur and remain undetected.*
- In one case, the provider's invoice recorded a rate per journey which was inconsistent with the daily rate quoted in their tender submission. *Risk – overpayments may occur.*
- For those routes that had not been tendered, there was a lack of a clear audit trail to evidence the rates that were agreed with providers – in a number of cases we are informed that rates had been verbally agreed and no written confirmation was in place between the Council and the provider in respect of these routes. *Risk – difficulties may arise in resolving disputes with providers.*
- There was a lack of adequate procedures in place to ensure that routes awarded following an emergency request from a service area had subsequently been tendered. *Risk – an inconsistent approach may be adopted.*
- In some cases, there was a lack of documentation to evidence the request for pupil transport from service areas – requests had been received by Transport Services verbally. *Risk – lack of a clear audit trail.*

#### **1.4 Summary**

Our review of Home to School Transport for Mainstream and Additional Support Needs (ASN) pupils has identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main audit report.

**Mala Garden**  
**Internal Audit Manager**

**March 2017**

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT  
HOME TO SCHOOL TRANSPORT**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.2.1	<p>Management should ensure that a consistent approach is adopted for the awarding of both new routes and the re-awarding of existing routes – routes should be awarded following a tendering exercise or mini competition being undertaken.</p> <p>Management should ensure that Route Evaluation forms are completed for all changes to routes.</p> <p>Management should ensure that all Route Evaluation forms are checked and authorised by a second member of staff.</p> <p>Management should ensure that appropriate procedures are in place to provide guidance to staff for dealing with emergency requests.</p>	Medium	Service Manager –Transport	Agreed – a consistent approach will be adopted and a clear audit trail will be maintained.		April 2017



<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>GRADE</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
<b>3.2.1 (cont)</b>	<p>The existing practice of verbally agreeing rates with providers should cease with immediate effect.</p> <p>Management should ensure that verbal requests from service areas for additional routes are followed up with a written confirmation – evidence of the request should be held on file.</p>	<p>High</p> <p>Medium</p>	<b>Service Manager –Transport</b>	<p>Agreed – at present these rates are benchmarked against similar routes. This will now be documented.</p> <p>Agreed – Transport Services will confirm verbal requests by e-mail to service areas.</p>		<b>March 2017</b>
<b>3.3.1</b>	<p>Management should ensure adequate segregation of duties for home to school transport – the existing practice whereby all key tasks are undertaken by the same member of staff should cease with immediate effect.</p>	<b>High</b>	<b>Service Manager –Transport</b>	<p>Agreed – subject to resources being identified.</p>		<b>April 2017</b>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	<p>Management should ensure that the spreadsheet containing agreed rates for each route clearly differentiates between daily rates and rates per journey.</p> <p>Rates for individual routes on the spreadsheet should be checked by a second member of staff to confirm accuracy and completeness.</p> <p>Management should ensure that any overpayment identified is promptly recovered from the provider.</p>	High	Service Manager –Transport	<p>Agreed – spreadsheet is being further developed for all routes and is being reviewed by a second member of staff.</p> <p>Agreed</p> <p>Agreed – this is currently being reviewed but will require Procurement and Legal input.</p>		<p>Ongoing</p> <p>April 2017</p>

## **Grading of Recommendations**

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

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



**REPORT TO:** Audit and Governance Committee  
**MEETING DATE:** 14 March 2017  
**BY:** Depute Chief Executive – Resources & People Services  
**SUBJECT:** Internal Audit Plan 2017/18

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**10**

## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of Internal Audit's operational plan for 2017/18.

## **2 RECOMMENDATION**

- 2.1 The Audit and Governance Committee is asked to approve the Audit Plan for 2017/18.

## **3 BACKGROUND**

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

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

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

- 3.3 Internal Audit's primary role is to independently review internal control systems within the Council. Internal Audit will evaluate the adequacy and

effectiveness of controls in responding to risks within the Council's governance, operations and information systems, regarding the:

- Achievement of the Council's strategic objectives.
  - Reliability and integrity of financial and operational information.
  - Effectiveness and efficiency of operations and programmes.
  - Safeguarding of assets.
  - Compliance with laws, regulations, policies, procedures and contracts.
- 3.4 The Internal Audit Manager is required to give an opinion on the Council's control environment in the annual Controls Assurance Statement and the audit work carried out will contribute to this opinion.
- 3.5 The provision of the Internal Audit service is on an in-house basis by the Council's Internal Audit Unit, which is comprised of the Internal Audit Manager, three Senior Auditors and one Senior Audit Assistant.
- 3.6 The resources available have been applied to individual audits and a detailed operational plan has been produced for 2017/18 (see Appendix A).
- 3.7 Internal Audit will adopt a risk based approach to audit assignments as the principal means of providing assurance on the adequacy, reliability and effectiveness of internal controls. Testing of controls will be carried out on a sample basis. A standard sample size basis is used for financial systems audits and the samples are selected to provide coverage for the full financial year.
- 3.8 For each individual audit, a detailed audit report is prepared for the relevant Depute Chief Executive. Copies of the audit report are provided to the Chief Executive, Head of Service, External Audit and to members of the Audit and Governance Committee.
- 3.9 All audit reports will highlight areas where expected controls have been met and areas where there is scope for improvement. A detailed action plan will be attached to each report listing all recommendations made and recording management responses to the recommendations.
- 3.10 Follow-up audits will be carried out to review the implementation of the recommendations made.

## **AUDIT COVERAGE**

### **Financial and Non-Financial Audits**

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

### **Statutory Audits**

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

### **Best Value Audit**

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

### **Investigations**

- 3.14 Time has been allocated to carry out work on the National Fraud Initiative and to undertake fraud and irregularity investigations.

### **Integration Joint Board**

- 3.15 The Committee is asked to note that in 2017/18 internal audit services to the East Lothian Integration Joint Board will be provided by East Lothian Council's Internal Audit team.

- 3.16 For 2017/18, time has been allocated to carry out audit work for the Integration Joint Board.

## **INTERNAL AUDIT PERFORMANCE INDICATORS**

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

## **OTHER FACTORS**

- 3.18 The Committee should note that reactive work may impact heavily on the Internal Audit Unit's ability to complete the audit plan. Contingency days are built in for 2017/18 in the investigations section, but by its nature reactive work is difficult to predict.

- 3.19 The plan and its completion have added importance, given its contribution to the annual Controls Assurance Statement to be prepared at the end of 2017/18.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	2 March 2017



**INTERNAL AUDIT PLAN**

**2017/18**

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## **AUDIT PLAN 2017/18**

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>INTERNAL AUDIT ASSESSED RISK</b>	<b>WEEKS</b>
<b>FINANCIAL AND NON-FINANCIAL AUDITS</b>			
Council Tax – Liability	We will review the arrangements in place for determining Council Tax liability.	Medium	6
Non-Domestic Rates	An audit of Non-Domestic Rates (NDR) will be carried out. The review will focus on the procedures in place for the Billing and Collection of NDR.	Medium	6
Debtors	A review of the systems and processes in place for raising debtor invoices will be carried out to ensure that sundry income due to the Council is properly identified, collected and accounted for.	Medium	6
Review of Overtime	We will review the adequacy and effectiveness of the monitoring arrangements in place for those employees receiving overtime on a regular basis.	Medium	6
Housing Rent Arrears	We will examine the processes and controls in place for the recovery of housing rent arrears.	High	6
Procurement of goods and services – Property Maintenance	We will review the arrangements in place within the Council's Property Maintenance Section for the procurement of goods and services.	High	5
Non-Residential Charging	We will examine the arrangements in place for the assessment and charging of clients receiving non-residential care.	Medium	5

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>INTERNAL AUDIT ASSESSED RISK</b>	<b>WEEKS</b>
Care at Home Payments	We will review the internal controls in place for payments made to care at home providers used by the Council.	Medium	5
Throughcare and Aftercare	We will review the arrangements in place for supporting young people looked after by East Lothian Council who are about to leave care or have recently left care.	Medium	5
Social Care Fund	We will review the arrangements in place within Adult Services for monitoring the use of the Social Care Fund.	Medium	5
Homelessness	We will review the procurement and payment arrangements in place for accommodation provided to homeless clients.	High	5
Counter fraud arrangements	We will examine the counter fraud arrangements operating within the Council with a view to ensuring that these are robust.	Medium	4
Performance Bonds	We will review the processes in place within the Council for the use of performance bonds.	Medium	5
Review of complaints procedure	We will review the procedures in place for the handling of complaints received by the Council.	Medium	5

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>INTERNAL AUDIT ASSESSED RISK</b>	<b>WEEKS</b>
Common Repairs	We will review the systems and processes in place for dealing with common repairs projects where a statutory notice has been issued by the Council and the Council is required to enforce the notice.	Medium	6
Taxicard scheme	We will examine the arrangements in place for the Council's Taxicard scheme, which provides subsidised taxi travel for people with severe and permanent physical disability who don't have regular access to private motorised transport.	Medium	4
School Meals Income	We will examine the arrangements in place for the collection, recording and banking of school meals income.	Medium	6
ALEOs	We will review the governance arrangements operating within an Arms Length Organisation.	Medium	4
Special Projects	Internal Audit will review specific areas that are identified by Senior Officers.	–	6
<b>STATUTORY AUDITS</b>			
Miscellaneous Grants	For grants awarded to the Council by the Scottish Government, Internal Audit is required to provide a statement of compliance with grant conditions on an annual basis.	Medium	4
<b>BEST VALUE AUDIT</b>			
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	Medium	5

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
<b>INVESTIGATIONS</b>			
National Fraud Initiative	Time has been allocated for co-ordinating and reviewing data matches identified following the 2016/17 National Fraud Initiative exercise.	High	6
Fraud and Irregularity	Internal Audit will investigate all instances of suspected fraud or irregularity.	High	10
Whistleblowing	We will investigate concerns raised under the Council's Whistleblowing Policy.	High	6
<b>OTHER AUDIT WORK</b>			
Integration Joint Board	Time has been allocated for work that will be undertaken by Internal Audit for the East Lothian Integration Joint Board (IJB). A separate audit plan will be prepared which will be presented to the IJB Audit and Risk Committee for approval.	Medium	24
Training	We will examine the effectiveness of the controls surrounding training and development activity across the Council including attendance at conferences.	Medium	4
Learning and Development	We will review the arrangements in place for community learning and development and the links to the Area Partnerships/Managers.	Medium	4
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.	Medium	8

<b>AUDITABLE AREAS</b>	<b>SCOPE OF THE AUDIT</b>	<b>INTERNAL AUDIT ASSESSED RISK</b>	<b>WEEKS</b>
Attendance at Stocktakes	Internal Audit will attend the year-end stocktakes at Property Maintenance, Road Services and Waste Services. We will review the final stock sheets.	Medium	1
Community Councils and Management Committees	<p>Community Councils – Internal Audit provide advice and support to Community Councils.</p> <p>Management Committees – Internal Audit will independently examine the annual accounts of Management Committees where applicable.</p>	Medium	4
Advice and Consultancy	<p>Consultation on New Systems – for new systems implemented, Internal Audit will provide advice on internal control matters.</p> <p>Tender Evaluations – attendance at tender openings and evaluations when requested by service areas.</p> <p>Returned Cheques – investigating and recording the reasons for returned cheques.</p> <p>Financial Reports – providing service areas with financial information about companies and offering advice where applicable.</p> <p>Consultancy – providing advice and consultancy on a range of internal control issues.</p>	Medium	6

AUDITABLE AREAS	SCOPE OF THE AUDIT	INTERNAL AUDIT ASSESSED RISK	WEEKS
<b>TRAINING</b>			
Training	An adequate allocation of budget resources and time will be given to maintaining and improving the knowledge base and quality of the staff resource. This includes time for staff to undertake continuous professional development (CPD) and to acquire skills and knowledge required to undertake specialist audit assignments.	–	6
Annual Self Assessment / External Quality Assessment	Time has been allocated for both internal and external assessment of the internal audit function against the Public Sector Internal Audit Standards.	–	5





**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 14 March 2017

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

**SUBJECT:** Internal Audit Progress Report 2016/17

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**11**

**1 PURPOSE**

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

**2 RECOMMENDATION**

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

**3 BACKGROUND**

3.1 This report is prepared to assist the Committee in their remit to evaluate Internal Audit's work and measure progress against the annual audit plan.

3.2 The progress made to date is outlined in the attached report.

**4 POLICY IMPLICATIONS**

4.1 None

**5 INTEGRATED IMPACT ASSESSMENT**

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

## **6 RESOURCE IMPLICATIONS**

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

## **7 BACKGROUND PAPERS**

- 7.1 None

<b>AUTHOR'S NAME</b>	Mala Garden
<b>DESIGNATION</b>	Internal Audit Manager
<b>CONTACT INFO</b>	01620 827326
<b>DATE</b>	2 March 2017

**INTERNAL AUDIT PROGRESS REPORT 2016/17**

<b>AUDIT REPORTS</b>	<b>SCOPE OF THE AUDIT</b>	<b>TARGET COMPLETION DATE</b>	<b>STATUS</b>
Housing Voids	We will assess the arrangements in place for the management and reporting of housing voids.	September 2016	Completed
Contracts Audit	We will examine a sample of contracts to ensure that the Council's Corporate Procurement Procedures have been properly complied with.	September 2016	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	Completed
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	Ongoing

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
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	Completed
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	March 2017	Completed
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	Completed
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	Completed
Review of Previous Years' Work	Internal Audit will review the outcome of our previous years' work to ensure recommendations have been actioned as agreed and that risks accepted by Management have been properly managed.	March 2017	Ongoing
Workforce Planning	We will review the processes and controls in place for managing secondments and 'acting up' roles.	March 2017	Ongoing

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	
Fuel Management	We will review the fuel management arrangements in place at the Council's fuel depots.	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	