



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

**TUESDAY 19 FEBRUARY 2019
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

1

Committee Members Present:

Councillor J Henderson (Convener)
Councillor S Currie
Councillor F Dugdale
Councillor J Findlay
Councillor G Mackett
Councillor K McLeod
Councillor J Williamson

Council Officials Present:

Mr A McCrorie, Depute Chief Executive
Ms M Patterson, Depute Chief Executive
Mr D Proudfoot, Head of Development
Mr J Lamond, Head of Council Resources
Mr T Reid, Head of Infrastructure
Ms S Saunders, Head of Communities & Partnerships
Ms S Fortune – Chief Operating Officer - Finance
Mr P Vestri, Service Manager – Corporate Policy
Mr C Grilli, Service Manager – Legal & Procurement
Mr D Oliver, Service Manager – Protective Services
Mr K Christie, Service Manager – Revenues & Welfare Support
Mr R Baty, Team Leader Business Development
Mr I McFarlane, Planning Service Manager
Mr B Farnsworth, General Manager, Musselburgh Racecourse
Mr D Kennedy, Financial Controller, Musselburgh Racecourse
Mr S Kennedy, Emergency Planning, Risk and Resilience Officer
Mr S Allan, Senior Auditor
Mr A Steven, Senior Auditor
Mr P Moore, Senior Auditor

Clerk:

Miss F Currie

Visitors Present:

Ms E Scoburgh, Audit Scotland
Mr M Duff, Audit Scotland

Apologies:

None

Declarations of Interest:

Item 8 - Councillor Currie declared an interest as a member of MRAC.

Item 8 - Councillor McLeod declared a non-financial interest.

1. MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING ON 19 FEBRUARY 2019

The minutes of the Audit and Governance Committee meeting held on 19 February 2019 were approved as a true record.

2. INTERNAL AUDIT REPORT – JUNE 2019

A report was submitted by the Depute Chief Executive (Resources & People Services) informing the Committee of Internal Audit reports issued and follow-up work completed since the last meeting of the Committee and providing an update on the progress against the 2018/19 annual audit plan.

Stuart Allan, Senior Auditor, presented the report outlining the purpose of the audits and the level of assurance provided to management as a result of this work. Mr Allan, along with Senior Auditors Andrew Steven and Peter Moore, summarised the main findings of each audit, highlighting areas with scope for improvement. Officers responded to questions from Members.

Building Standards

Mr Allan clarified the definitions of the level of assurance provided by Internal Audit and advised that he would shortly be meeting with Ruth Colston to discuss the issue of non-statutory fees for building standards.

Tom Reid, Head of Infrastructure, said that a review of the service was underway with a view to improving outcomes and increasing resilience. Regarding the need for an additional member of staff in the reconciliation process, Mr Reid confirmed that the member of staff would be working across several systems and would require further training.

Council Tax Recovery and Enforcement

Mr Steven stated that while the systems were generally working well, a weakness had been identified with the checks made to the status applied to debt held by the Council. However, staff were beginning to address issues and a service review was in progress.

Kenny Christie, Service Manager – Revenues & Welfare Support, said that the service review would take some time but other work was underway to address areas where improvements were required. His team would be trying to complete as many actions as possible in advance of the agreed dates.

Mr Steven clarified that reasonable assurance had been provided as the processes were working well overall, the current year recovery routines are automated and the Council Tax Team had achieved their target collection rate.

Bank Reconciliations

Sarah Fortune, Chief Operating Officer – Finance, clarified the issues around the timing of reconciliations between the bank balance and cashbook balance. She advised that part of the solution would require upgrades to the Great Plains electronic system and the timing of this work was out with her control. In the meantime, she

assured members that there was a clear audit trail from bank reconciliations to the final ledger and the issues related more to timing than a failure in process.

Performance Indicators

Mr Allan outlined when it might be appropriate to give 'substantial assurance' following an audit review. He acknowledged that the timing of Local Government Benchmarking Framework annual assessments meant there was often a delay in reporting the results. However information on Performance Indicators (PIs) was prepared and reported on a quarterly basis to the Policy & Performance Review Committee.

In relation to residential care costs, Mr Allan said that these were in line with the national care home contract however, in terms of reporting, it would have been helpful to see a commentary attached to the assessment. He advised that an analytical review of PIs was undertaken and any unusual results were investigated. Although PIs were included in each annual audit plan the focus of each review was determined by previous analysis.

Ms Fortune added that the baseline financial data came from local financial returns and a lot of work had been done to ensure the analytical review was valid and to understand the reasons for any anomalies. It was important to get Service Areas to take ownership of their returns and to check and challenge anything unusual.

The Convener commented on the volume of statistics and the importance of getting the correct explanation.

Planning Enforcement

Iain McFarlane, Planning Service Manager, responded to questions on planning enforcement. He advised that the service was recruiting for a new Enforcement Officer and efforts were being made to improve recording of individual cases. He welcomed the audit report which demonstrated that the service was carrying out the actions required of it, though recording processes could be improved. He advised that the report would be useful as a training tool.

Mr McFarlane outlined the constraints around confidentiality of information and GDPR in resolving complaints. In reply to Councillor Findlay, he acknowledged that on occasions the public perception might have been that large developers were not properly held to account for breaches of planning conditions. However, he advised that the key point was proportionality of response and being aware that enforcement is a very legalistic and potentially lengthy process. He said that the Council did not have the power to simply close down a site and to do so may put it at risk of legal action.

Business Grants

Mr Moore advised that in the sample of cases reviewed there were no examples of funding being paid where the recipient was not eligible.

Richard Baty, Team Leader Business Development, responded to questions on the maximum grant funding available and the potential for costs having to be borne by the Council.

Mr Allan then took the Committee through the findings in respect of Internal Audit's recommendations to previously issued audit reports for 6 areas (Gas Servicing and Maintenance, Performance Bonds, Care at Home Payments, Performance Indicators, Throughcare and Aftercare and Non-Domestic Rates). He informed Members that all the recommendations contained in these reports had been implemented. He also drew attention to the Internal Audit progress report for 2018/19 and advised that the 3

outstanding audits would be completed and presented to the Committee's September meeting.

Decision

The Committee agreed to note:

- (i) the main findings and recommendations from Internal Audit reports issued during the period from March 2019 to June 2019;
- (ii) the findings from Internal Audit's follow-up work;
- (iii) Internal Audit's progress against the annual audit plan for 2018/19.

3. ANNUAL INTERNAL AUDIT REPORT 2018/19

A report was submitted by the Depute Chief Executive (Resources & People Services) providing a summary of the work undertaken by the Internal Audit Unit in 2018/19.

Mr Allan presented the report outlining the background to the Internal Audit service and summarising its performance during 2018/19. He drew Members' attention to the list of audits completed, the number of recommendations made and the levels of assurance provided as a result of each review.

Responding to Councillor Williamson, Mr Allan advised that the percentage of staff with CCAB accounting qualifications (3 out of 4 of the staff in the Unit) was in line with other local authorities. Not all staff were required to hold this qualification.

Decision

The Committee agreed to note the contents of the Annual Internal Audit Report for 2018/19.

4. CONTROLS ASSURANCE STATEMENT 2018/19

A report was submitted by the Depute Chief Executive (Resources & People Services) as part of Internal Audit's responsibility to make an assessment of the control environment and report annually on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

Mr Allan presented the report highlighting the key findings: the work of the Internal Audit Unit; the sources which inform its evaluation of the control environment; and the assessment of controls and governance. It was Internal Audit's view that reasonable assurance could be placed on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control during 2018/19.

In reply to a question from Councillor Currie, Mr Allan advised that the Committee should take assurance from the fact that the recommendations made following each audit were accepted by Management and implemented within agreed timescales.

Decision

The Committee agreed to note that the Controls Assurance Statement was a formal confirmation of Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for the year ended 31 March 2019.

5. EAST LOTHIAN COUNCIL – REVIEW OF INTERNAL CONTROLS IN FINANCIAL SYSTEMS 2018/19

A letter was submitted by Audit Scotland outlining the results of their review of internal controls in the Council's financial systems for 2018/19.

Esther Scoburgh from Audit Scotland presented the letter. She summarised the systems covered by the review, the key findings and the overall conclusion. She also indicated that due to staff annual leave the letter was still in draft form, however she would circulate the final version to Members following the meeting. She did not anticipate any significant changes.

Councillor McLeod queried the assessment of 'adequate' in relation to the prevention or detection of material misstatement, error or fraud (*bullet 2, page 65*). Michael Duff from Audit Scotland advised that 'adequate' was towards the higher range of assessment results.

Jim Lamond, Head of Council Resources, commented that both this and the previous item gave him very significant assurance that the framework of systems and controls was working as expected. He said that these particular reviews were a very important part of the financial assurance process and he welcomed the contents of Audit Scotland's letter.

The Convener thanked the officers involved for all of the very useful reports presented to the Committee throughout the year.

Decision

The Committee agreed to note the contents of the letter.

6. ANNUAL TREASURY MANAGEMENT REVIEW 2018/19

A report was submitted by the Depute Chief Executive (Resources & People Services) updating the Committee on treasury management activity during 2018/19.

Ms Fortune presented the report. She informed Members that since preparation of the report there had been a change to the charge to the loan fund and this would be reported to Council as part of the annual review and in the annual accounts. She summarised the key points of the report and advised that the Council had used some reserves instead of borrowing and had ended the year in an under-borrowed position. She also drew attention to the investment strategy and the borrowing and investment activity during 2018/19.

In response to questions from Councillors McLeod and Findlay, Ms Fortune explained that the Council's long-term borrowing was in line with its financial strategy but she did not know how this compared with other local authorities. She confirmed that the

Council could borrow from local authorities on a short-term basis if this was thought appropriate. She also outlined some of the purposes of borrowing and said that it was important to ensure that the Council had sufficient liquidity through the revenue account but within appropriate limits.

Responding to Councillor Currie, Mr Lamond confirmed that the possibility of bringing forward aspects of the capital programme to take advantage of low borrowing rates had been considered as part of the Council's wider financial strategy. He acknowledged that a large capital programme placed strains on revenues, however, the Council was bound by affordability caps and any borrowing had to be paid for through the revenue account.

Councillor Currie welcomed the report which he said demonstrated the importance of the work that goes on throughout the year. He considered the Council to be well placed in terms of its financial strategy and he hoped that this would feed through to its policy decisions regarding future investment in services and infrastructure.

Decision

The Committee agreed to note the report.

7. CORPORATE GOVERNANCE SELF-EVALUATION AND ANNUAL GOVERNANCE STATEMENT 2019

A report was submitted by the Chief Executive advising members of the revised Framework on Delivering Good Governance, the results of the Corporate Governance Self-evaluation 2019 and the proposed Annual Governance Statement to be included in the 2018/19 annual accounts.

Paolo Vestri, Service Manager – Corporate Policy, presented the report outlining the background to the Good Governance framework, its core principles and the key findings from the self-evaluation exercise. He also drew Members' attention to the proposed Annual Governance Statement for inclusion in the 2018/19 annual accounts.

Mr Vestri responded to questions advising that reviews by the external auditors and others such as Recognised for Excellence provided a level of assurance around the validity of the self-evaluation results. He explained the process for evaluation and confirmed that it included reviewing both the processes and outcomes from partnership working.

Ms Fortune added that self-evaluation was a statutory requirement and both the results and the process were reviewed as part of the annual audit.

Councillor Currie emphasised the importance of external validation of the self-evaluation process in providing additional assurance for the Committee, the Council and the wider public. He added that external evaluation may also be helpful in identifying areas missed in the Council's own assessments.

Decision

The Committee agreed to:

- i. Note the adoption of the Delivering Good Governance in Local Government Framework as the Council's Corporate Governance Framework;

- ii. Note the results of the self-evaluation carried out using the Framework and consider whether any additional improvement actions should be added;
- iii. Note the progress made with the actions included in the Council Improvement Plan 2018-2020; and
- iv. The Annual Governance Statement being included in the 2018/19 Annual Accounts.

Councillor Currie declared an interest as a member of the Musselburgh Racing Associated Committee (MRAC) and indicated his intention of leaving the Chamber.

Councillor McLeod declared a non-financial interest but remained in the Chamber.

Sederunt: Councillor Currie left the Chamber. Councillor Dugdale left the meeting.

8. MUSSELBURGH RACING ASSOCIATED COMMITTEE 2018/19 PERFORMANCE

A report was submitted by the General Manager of Musselburgh Racecourse informing the Committee of the performance of the racecourse during 2018/19.

Bill Farnsworth, General Manager of Musselburgh Racecourse, presented the report. He summarised key aspects of performance during 2018/19 and gave an overview of the year with references to the number of abandonments due to adverse weather, additional race meetings and the impact of non-recurring unbudgeted expenditure on the overall financial performance. He concluded by praising the staff who he said had maintained their commitment to the racecourse throughout the year despite the many challenges.

Mr Farnsworth responded to questions. He advised that the costs set out in the report included staffing and he outlined the procedure for calculating prize money and the impact of adding an additional race meeting. He acknowledged that the deaths of four horses on a single day had been very difficult for the racecourse and he defended the racing industry's record on equine safety. He conceded that it was hard to know if the incident had had a negative impact on the racecourse but the attendance at subsequent race meetings, which included two sell-out events, suggested that horseracing remained very popular at Musselburgh.

In reply to questions about non-recurring costs, Alex McCrorie, Depute Chief Executive, explained that the procurement costs were for the benefit of the racecourse and had been incurred in line with instructions from the Musselburgh Racing Associated Committee (MRAC). He confirmed that without these costs the racecourse would have made a profit, however there were a number of factors, both national and local, which had impacted on the financial performance of the racecourse in 2018/19.

Mr Farnsworth added that he would work with Council Officials to attempt to ensure that the racecourse was no longer running a deficit by the time the new operator was scheduled to take over. These proposals would be discussed at the MRAC's June meeting.

Responding to further questions Mr Farnsworth advised that previous issues with the governance structures had caused uncertainty. He explained that the racecourse

was still subject to a temporary licence from the British Horseracing Authority (BHA) which would expire on 15 October 2019 and this had created business challenges, including securing sponsorship. It was expected that the new operator would take over in November 2019 and they could then apply for an extension and thereafter a new, full licence from January 2020.

Regarding the relationship between the golf course and the racecourse, Mr Farnsworth acknowledged that there were sometimes tensions but that, overall, they worked well together. He hoped that the new operator would maintain a good working relationship with the golf course.

The Convener thanked Mr Farnsworth and suggested that in future it would be useful to include the annual accounts as part of the report to Committee.

Decision

The Committee agreed to note the contents of the report.

Sederunt: Councillor Currie returned to the Chamber.

9. CORPORATE RISK REGISTER

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

Scott Kennedy, Emergency Planning and Risk Officer, presented the report outlining the background to the register and the risk matrix, which was used to evaluate individual risks. He advised that the current Corporate Risk Register contained 9 High risks, 9 Medium risks and 1 Low risk. He advised that the Council were looking to move the risk registers from MS Word to specialist software and examples of the new format were included with the report. He also reminded Members that specific risks in relation to the UK's withdrawal from the EU were covered in more detail in the report under Agenda item 11.

Derek Oliver, Service Manager – Protective Services, replied to questions from Councillor McLeod relating to the number and type of locations out with Council premises where lone workers were employed and the safeguarding measures in place. Douglas Proudfoot, Head of Development, provided details of the 'Check and Call' system in use for property maintenance staff.

In response to questions from Councillor Currie regarding Brexit, Ms Fortune advised that the Council had received £50,000 from the Scottish Government to assist with preparing for Brexit but that this was unlikely to cover all costs. The Council would continue to monitor these costs along with the wider implications of Brexit.

Councillor Findlay asked whether the risk associated with early learning and childcare hours took account of the recent closure of a partnership nursery and ongoing issues with recruitment of staff. Mr McCrorie said that the Council was aware of these issues and he would ask the Head of Education to respond to the Councillor in more detail.

The Convener thanked Mr Kennedy for the report and said that the Committee would welcome a briefing session on the new risk register software.

Decision

The Committee agreed to note the Corporate Risk Register and in doing so 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 Corporate 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 Corporate and are likely to be a feature of the risk register over a number of years; and
- the Council Management Team will review all risks in the Corporate Risk Register on a regular basis.

10. LOCAL GOVERNMENT IN SCOTLAND: CHALLENGES AND PERFORMANCE 2019 (ACCOUNTS COMMISSION, MARCH 2019)

A report was submitted by the Depute Chief Executive (Partnerships & Community Services) reviewing East Lothian Council's position in relation to the findings of the Accounts Commission report, '*Local Government in Scotland: Challenges and Performance 2019*'.

Mr Vestri presented the report explaining that this was the second of a two part overview from the Accounts Commission and part 1 (financial challenges) had been discussed at the Committee's last meeting. He outlined how the Council was responding to the seven areas highlighted in the Accounts Commission report and drew attention to the recommendations made by the Commission and to the scrutiny tool checklist for elected members.

Mr Vestri responded to questions regarding the Scottish Government's funding to Council's, as referenced in the report, and advised that collaboration with partners included all partnership working whether community based or through other local authorities and organisations.

The Convener welcomed the report as a helpful point of reference.

Decision

The Committee agreed to:

- i. Note the position of East Lothian Council in regard to the key messages and recommendations in the Accounts Commission report, *Local Government in Scotland: Challenges and Performance 2019*; and
- ii. Use the recommendations in the Accounts Commission report and the questions it posed for elected members to identify any further information or scrutiny activity it would wish to have reported back to future meetings of the Audit and Governance Committee.

11. WITHDRAWAL FROM THE EUROPEAN UNION (AUDIT SCOTLAND, OCTOBER 2018)

A report was submitted by the Depute Chief Executive (Partnerships and Community Services) reviewing East Lothian Council's position in relation to the findings of the Audit Scotland report, *'Withdrawal from the European Union: Key audit issues for the Scottish public sector'*.

Mr Vestri presented the report and advised that it had been a useful tool for the Council's Brexit Working Group. He drew Members' attention to the Council's responses to the 14 questions highlighted in report which should give the Committee assurance that, where possible, the Council was taking action to mitigate against the potential impacts of Brexit.

Mr Oliver responded to questions indicating that the Council had been proactive in providing information to staff. In relation to staff who were EU nationals and who had decided to return home, it was difficult to provide numbers but HR had been actively supporting them through the process.

Mr Lamond said that this proactive approach had been well received by employees who had expressed their gratitude for the signposting drawn to their attention. It had also been recognised by the Trade Unions.

Decision

The Committee agreed to:

- i. Note the position of East Lothian Council in regard to the key messages in the Audit Scotland report, *'Withdrawal from the European Union: Key audit issues for the Scottish public sector'*; and
- ii. Note the Council's responses to the questions posed in the report.

Signed

Councillor Jane Henderson
Convener of the Audit and Governance Committee

REPORT TO: Audit and Governance Committee
MEETING DATE: 17 September 2019
BY: Depute Chief Executive (Resources & People Services)
SUBJECT: Internal Audit Report – September 2019

2

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of Internal Audit reports issued, and follow-up work completed, since the last meeting of the Committee and to provide an update on progress made against the 2019/20 annual audit plan.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note:
- i. the main findings and recommendations from Internal Audit reports issued during the period from July 2019 to September 2019 as contained in Appendix 1;
 - ii. the findings from Internal Audit's follow-up work;
 - iii. Internal Audit's progress against the annual audit plan for 2019/20 as set out in Appendix 3.

3 BACKGROUND

- 3.1 Since the last meeting of the Committee, final reports have been issued in respect of the following audits: Creditors (Duplicate Payments), Area Partnerships and Purchase Cards.
- 3.2 The main objective of the audits was to ensure that the internal controls in place were operating effectively. A summary of the main findings and recommendations from the audits is contained in Appendix 1.
- 3.3 For the audit reviews undertaken, Internal Audit has provided management with the following levels of assurance:
- Creditors (Duplicate Payments) – Moderate Assurance
 - Area Partnerships – Moderate Assurance
 - Purchase Cards – Moderate Assurance

- 3.4 Internal Audit follows-up on recommendations made in previously issued audit reports to ensure that they have been implemented as agreed by Management. Detailed spreadsheets are maintained to monitor progress being made and this report provides a summary of the current status for five audits that were reported in previous years. Our findings are detailed below.

Homelessness

- 3.5 Internal Audit's report on Homelessness was issued in November 2017. Our follow-up review has highlighted that all eleven recommendations made have been implemented.

Overtime

- 3.6 Internal Audit's report on Overtime was issued in February 2018. Our follow-up review has highlighted that all five recommendations made have been implemented.

Complaints Handling Procedure

- 3.7 Internal Audit's report on the Council's Complaints Handling Procedure was issued in February 2018. Our follow-up review has highlighted that all six recommendations made have been implemented.

Council Tax Liability

- 3.8 Internal Audit's report on Council Tax Liability was issued in February 2018. Our follow-up review has highlighted that of the six recommendations made, three have been implemented and three partly implemented. Details of the partly implemented recommendations and the revised dates of completion are shown in Appendix 2.

IT Access Controls

- 3.9 Internal Audit's report on IT Access Controls was issued in November 2018. Our follow-up review has highlighted that all four recommendations made have been implemented.

Progress Report 2019/20

- 3.10 The progress report attached as Appendix 3 is prepared to assist the Committee in their remit to evaluate Internal Audit's work and measure progress against the annual audit plan for 2019/20.

4 POLICY IMPLICATIONS

- 4.1 None

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

7 BACKGROUND PAPERS

7.1 None

AUTHOR'S NAME	Peter Moore / Stuart Allan
DESIGNATION	Senior Auditors
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DATE	5 September 2019

**EAST LOTHIAN COUNCIL – INTERNAL AUDIT
CREDITORS – DUPLICATE PAYMENTS****1. EXECUTIVE SUMMARY****1.1 Introduction**

As part of the Audit Plan for 2018/19, a review was undertaken of Creditors – Duplicate Payments. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Procedures are available for staff inputting invoices – procedures have been developed in individual service areas for each system involved in processing invoices.
- Invoice batches are authorised by staff with the appropriate financial authorisation limits prior to being passed for payment.

1.3 Areas with Scope for Improvement

- Evidence of the checks being undertaken prior to batch authorisation were not retained – in one case, a service area was producing an independent report for checking, however there was no evidence retained of these checks having been carried out. *Risk – duplicate payments may occur.*
- In some cases creditor references are not being confirmed prior to invoices being posted, Great Plains automatically retains the previous creditor reference. *Risk – the wrong supplier is paid.*
- Error messages are being overridden during the input process – invoices are in some cases input a second time by amending the invoice number. *Risk – duplicate payments may occur.*
- Action is not being taken timeously to seek recovery of duplicate payments – in some cases significant delays were identified in the recovery of the overpayment. *Risk – failure to recover amounts due to the Council.*
- Regular monitoring is not being undertaken to identify potential duplicate payments. *Risk – duplicate payments may be made and remain undetected.*

1.4 Summary

Based on our review of Creditors – Duplicate Payments, Internal Audit can provide moderate assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

Peter Moore
Senior Auditor

September 2019

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.2	<p>Management should ensure that regular training updates are provided to all staff with responsibility for processing creditor invoices.</p> <p>Management should ensure that training is provided by an appropriate member of staff.</p>	Medium	Chief Operating Officer Finance	<p>Training manuals are currently being updated for all relevant staff, with responsibility for both processing and authorising invoices.</p> <p>Training sessions are in the process of being developed for new and existing users who process invoices.</p>		In progress – by December 2019
3.2.1	<p>Management should ensure that all staff are aware of the procedures to be followed where error messages are displayed.</p> <p>Management should ensure that investigations are undertaken where an error message is displayed.</p>	<p>Medium</p> <p>High</p>	Chief Operating Officer Finance	<p>Clear reference will be included within training manuals.</p> <p>Reminder notification has been issued to all staff.</p>		<p>In progress – by December 2019</p> <p>In place</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1 (cont)	<p>Management should ensure that staff are aware of the need to change the creditor reference in Great Plains.</p> <p>Management should consider putting a stop on further payments to a supplier where a duplicate payment has been identified.</p> <p>Management should ensure that all details are correct before approving an invoice for payment.</p>			<p>Discussions are ongoing with the software supplier as to whether the default code can be changed.</p> <p>Option is currently being explored by management.</p> <p>Reminder notification issued to all Managers.</p>		<p>Ongoing</p> <p>November 2019</p> <p>In place</p>
3.3.1	<p>Management should ensure that checks are undertaken by a person independent of the processing before a batch is authorised for payment.</p> <p>Management should consider the use of a standard batch header across all services.</p>	Medium	Chief Operating Officer Finance	<p>Reminder notification issued to all Managers and independent check to be carried out where relevant in service areas.</p> <p>Consideration is being given to standardising batch headers across all services to enhance authorisation review.</p>		<p>In place</p> <p>October 2019</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	Management should ensure that prompt action is taken to recover all duplicate payments made.	Medium	Chief Operating Officer Finance	Reminder notification issued to all Managers. Management are exploring options for enhanced identification and monitoring of duplicate payments.		In place In progress – by November 2019
3.5.1	Management should consider undertaking regular monitoring to identify potential duplicate payments.	Medium	Chief Operating Officer Finance	As above – options for additional monitoring are currently being explored, and will be implemented as a matter of priority.		In progress – by November 2019

Grading of Recommendations

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

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

Levels of Assurance – Definitions

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used.

Opinion	Definition
Substantial Assurance	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
Reasonable Assurance	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

EAST LOTHIAN COUNCIL – INTERNAL AUDIT AREA PARTNERSHIPS

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2018/19, a review was undertaken of Area Partnerships. The review focused on the decision making processes in place within Area Partnerships for the planning, allocation and spending of funds. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Appropriate arrangements are in place to ensure compliance with relevant legislation, in particular the Local Government (Scotland) Act 2003 and the Community Empowerment (Scotland) Act 2015.
- The roles and responsibilities of Area Partnerships are clearly set out.
- An application process is in place for organisations seeking funding from Area Partnerships – all organisations are required to submit a Funding Proposal Form, together with supporting documentation.
- Appropriate arrangements are in place for making grant payments to organisations. For the sample tested, we found that the payments made agreed to the amounts approved by the Area Partnerships.
- Each Area Partnership maintains detailed budget monitoring spreadsheets which record all payments made and funding allocated. The spreadsheets are reconciled to the general ledger on a regular basis.

1.3 Areas with Scope for Improvement

- In some cases, there was a lack of evidence of checks being carried out to ensure that organisations had disclosed details of all other funding they were receiving, either externally or from other areas within the Council. *Risk – lack of awareness of total funding being received by organisations.*
- A consistent approach was not being adopted across all Area Partnerships for declaring and recording potential conflicts of interest. *Risk – failure to ensure that all potential conflicts of interest are identified and the risks mitigated.*
- In some cases, funding decisions were not being made at Area Partnership meetings, but were made following email correspondence. *Risk – lack of effective scrutiny and poor decision making.*
- There was a lack of evidence of a consistent approach being taken to the assessment of applications for funding – clear assessment criteria were not always in place, nor was there a scoring system to assist in assessing how applications meet local priorities. *Risk – failure to make best use of the funds available.*
- The operation of the Amenity Services budget allocated to Area Partnerships requires review. *Risk – funding may not be spent in line with agreed priorities.*

1.4 Summary

Based on our review of Area Partnerships, Internal Audit can provide moderate assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

Stuart Allan
Senior Auditor

September 2019

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should ensure that the updated Area Plans are finalised and formally approved by the relevant Area Partnership.	Medium	Service Manager – Connected Communities	Agreed – all Area Plans produced and approved by both the Area Partnership and East Lothian Partnership, and published on website.		October 2019
3.3.1	Consideration should be given to a clear record being maintained of all organisations approaching Area Partnerships for funding and of those that are then sent a Funding Proposal Form.	Medium	Service Manager – Connected Communities	Log of all applicants to be established.		October 2019
3.3.2	Management should ensure that all Funding Proposal Forms are signed and dated by the organisation’s representative. Management should ensure that a fully completed application form is received prior to any decision being made to award funding.	Medium	Service Manager – Connected Communities	Application forms will be reviewed and amended.		October 2019

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.4	<p>Management should ensure that all Funding Proposal Forms received are date stamped to confirm the date of receipt by the Council.</p> <p>Management should ensure that the official section on the Funding Proposal Form is fully completed to record both the date received and if the form is complete or incomplete. The forms should be signed by the member of staff undertaking the checks.</p>	Medium	Service Manager – Connected Communities	Agreed		October 2019
3.3.5	<p>Adequate checks should be carried out to ensure that all other funding received by organisations is being disclosed in their application for funding.</p> <p>Management should ensure that a reporting mechanism is in place to provide a record of all Area Partnership funding awarded.</p> <p>Consideration should be given to preparing an annual report summarising the amounts awarded by each of the Area Partnerships.</p>	Medium	Service Manager – Connected Communities	<p>Agreed</p> <p>Agreed</p> <p>In preparing the Annual Area Plan for an Area Partnership, the Area Partnership Chair and Area Manager will append to that report an overview of the funding decisions approved and progressed in the previous financial year.</p>		<p>October 2019</p> <p>October 2019</p> <p>Production of annual report by June each year.</p>

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	<p>Consideration should be given to adopting a structured approach for the receipt and assessment of funding applications, including establishing an annual timetable outlining key dates for the submission of applications and for making funding decisions.</p> <p>Management should ensure that a consistent approach is taken when assessing applications for funding – clear assessment criteria should be in place and consideration should be given to introducing a scoring system to assist in assessing how applications meet local priorities.</p>	Medium	Service Manager – Connected Communities	Agreed – will review assessment process, in consultation with Area Partnerships.		December 2019
3.5.1	<p>Management should seek to ensure that key funding decisions are made in formal Area Partnership meetings and that Partnerships can demonstrate the effective scrutiny of all funding applications received.</p> <p>In exceptional circumstances, where decisions are made outwith the normal meeting structure, Management should ensure that clear procedures are in place to provide guidance on decision making, including where voting is undertaken by email.</p>	Medium	Service Manager – Connected Communities	Agreed		December 2019

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1 (cont)	For all projects funded from the Education Attainment Fund, Management should ensure that clear evidence is retained of the feedback received from Education.	Medium	Service Manager – Connected Communities	Agreed		September 2019
3.5.2	Management should ensure that the minutes of Area Partnership meetings provide a clear record of all decisions made, including details of amounts awarded and how the decisions were reached.	Medium	Service Manager – Connected Communities	Agreed – review of minute taking and standard template to be adopted, to capture key decisions.		December 2019
3.5.3	Management should ensure that Decision Notices are sent to all organisations who are awarded Area Partnership funding – the declaration of acceptance should be signed by the organisation’s representative and countersigned by the Area Manager.	Medium	Service Manager – Connected Communities	Agreed		October 2019
3.7.1	Management should ensure that a consistent approach is adopted by Area Partnerships for declaring and recording potential conflicts of interest – appropriate guidance should be provided on the actions to be taken to mitigate the risks.	Medium	Service Manager – Connected Communities	Agreed – guidance will be produced.		October 2019

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.8.1	<p>Management should review the operation of the Amenity Services budget to ensure that the principles of devolved budgeting can be clearly demonstrated.</p> <p>Regular meetings should be held between Area Managers and Amenity Services to ensure that the funding is being spent in line with the priorities agreed by the Area Partnerships.</p>	Medium	Service Manager – Connected Communities	Agreed – already under review in conjunction with Head of Communities & Partnerships and Head of Infrastructure.		Ongoing

Grading of Recommendations

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

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

Levels of Assurance – Definitions

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used.

Opinion	Definition
Substantial Assurance	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
Reasonable Assurance	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

EAST LOTHIAN COUNCIL – INTERNAL AUDIT PURCHASE CARDS

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2019/20, a review of purchase cards was undertaken. Our review focused on a sample of 20 high value purchase card users from service areas across the Council.

1.2 Areas where Expected Controls were Met

- The Council has appropriate procedures in place for the use of purchase cards, including a list of purchase card do's and don'ts – all cardholders receive a copy of the procedures when they are issued with their purchase card and are required to sign an acknowledgement confirming that they have received instructions on how to use the purchase card and agree to adhere to the procedures. In addition, the responsibilities of Cardplus Supervisors are clearly outlined.

1.3 Areas with Scope for Improvement

- In a number of cases, there was a failure by cardholders to follow the most appropriate procurement route – purchase cards were being used to pay supplier invoices, to purchase goods for which the Council has contracted suppliers in place or to pay for goods and services, which should have been purchased through the PECOS system. *Risk – inappropriate expenditure may occur.*
- An inconsistent approach was being adopted within service areas for the storage and retention of purchase card statements and supporting invoices/receipts – in some cases, difficulties were encountered in obtaining key documentation. *Risk – errors or irregularities may occur and remain undetected.*
- In a number of cases, VAT was not being properly accounted for, including a failure by cardholders to reclaim VAT on purchases made, even though a valid VAT invoice or receipt was held. *Risk – loss of income to the Council.*
- There was a failure by some Cardplus Supervisors to review purchase card transactions, to ensure that all purchases made related to genuine Council expenditure. *Risk – inappropriate expenditure may occur.*
- In some cases, there was a failure to maintain effective purchase card security – cardholders were allowing other members of staff to use their cards. *Risk – irregularities and misuse may occur.*

1.4 Summary

Based on our review of Purchase Cards, Internal Audit can provide moderate assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

Stuart Allan
Senior Auditor

September 2019

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
5.1	The purchase card procedures in place should be fully complied with – purchase cards should only be used where alternative procurement routes are not available.	Medium	All Cardholders	Updated communication has been issued to all cardholders from Finance and procedures re-issued to all cardholders.		September 2019
	Management should review the use of purchase cards within their service area to ensure that the purchase card procedures are being properly adhered to by all cardholders.	Medium	Service Managers	Cardholder user lists to be issued to all Managers for review and monitoring.		October 2019
5.2	Management should ensure that Cardplus Supervisors review cardholders' transactions on the Cardplus system on a monthly basis to ensure that they relate to valid expenditure.	Medium	Service Managers	Agreed – new review process will make it mandatory for Card Supervisors to review all transactions.		October 2019
5.3	Management should ensure that all key documentation relating to purchase card transactions is easily accessible – a consistent approach should be adopted across service areas for the storage of purchase card statements and supporting invoices/receipts.	Medium	Service Managers	Procedures include the requirement to ensure statements and receipts are stored securely in line with information retention policy. Procedures have been re-issued to all cardholders.		September 2019
				Options are being explored with current card provider to store electronic scanned receipts.		Ongoing

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
5.4	Cardholders should identify all purchase card transactions with VAT and update the Cardplus system to properly reclaim the VAT. A valid VAT invoice/receipt should be retained for all VAT reclaimed on purchases.	Medium	All Cardholders / Service Managers	Reclaiming VAT is already reflected in the procedures. This section has been enhanced and re-issued to all cardholders.		September 2019

Grading of Recommendations

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

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

Levels of Assurance – Definitions

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Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

**OUTSTANDING RECOMMENDATIONS
COUNCIL TAX – LIABILITY**

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	AGREED DATE OF COMPLETION	REVISED DATE OF COMPLETION
3.4.1	<u>Partly Implemented</u> Management should ensure that disability band reductions are only applied to eligible applicants – eligibility should be confirmed via a visit to the property to establish if the relevant criteria are being met.	Medium	Council Tax Team Leader	Agreed – visits to be carried out where possible, however the application form will be updated to request additional information.	April 2018	October 2019
3.4.2	<u>Partly Implemented</u> Management should ensure that adequate evidence is held to support all backdated awards of disability band reduction.	Medium	Council Tax Team Leader	Agreed – additional information will be requested on the application form and evidence will be retained or cross-referenced where applicable.	April 2018	October 2019
3.6.2	<u>Partly Implemented</u> Management should ensure that appropriate arrangements are in place for visiting empty properties – an assessment should be carried out to identify specific categories of empty properties that should be inspected.	Medium	Council Tax Team Leader	Agreed – new Senior Officer's role will include carrying out quality checks and to establish if visits are required.	April 2018	December 2019

INTERNAL AUDIT PROGRESS REPORT 2019/20

APPENDIX 3

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Purchase Cards	We will review the internal controls in place for the use of purchase cards, including the arrangements for monitoring expenditure.	September 2019	Completed
Payroll Deductions	We will review the procedures in place for ensuring the accuracy and completeness of payroll deductions, including Tax, NI and pension contributions.	November 2019	
Domiciliary Care	We will review the in-house delivery of domiciliary care services to Adult Services clients.	November 2019	
IR35	We will check to confirm that adequate arrangements are in place for ensuring compliance with IR35 regulations, in respect of workers who supply their services through an intermediary body.	November 2019	
Schools	We will review the financial arrangements operating within one secondary school to ensure compliance with the financial procedures in place.	November 2019	
Risk Management	We will select a sample of High risks from both the Council's Corporate Risk Register and service area Risk Registers and will review the adequacy and effectiveness of the risk control measures in place.	November 2019	
Non-Domestic Rates (NDR)	We will continue our audit work on Non-Domestic Rates (NDR) – in 2019/20, we will review the arrangements in place for the recovery of NDR arrears.	February 2020	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Direct Payments	We will review the arrangements in place for the administration and monitoring of direct payments made to Children's Services and Adult Services clients.	February 2020	
Records Management	We will review the arrangements operating within service areas for records management including the storage, retention and disposal of records.	February 2020	
Roads Contracts	We will examine the arrangements in place for the procurement, tendering and monitoring of work awarded by Road Services.	February 2020	
Procurement	As part of our annual review of procurement, we will examine work being awarded to suppliers to ensure compliance with the Council's Corporate Procurement Procedures.	February 2020	
Property Maintenance Stores	We will review the arrangements operating at the Property Maintenance stores.	February 2020	
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	February 2020	
National Fraud Initiative	Time has been allocated for reviewing data matches identified by the 2018/19 National Fraud Initiative (NFI) exercise.	February 2020	
Online Payments	We will review the internal controls surrounding the online payments system (SchoolPay), which was recently introduced in East Lothian schools.	June 2020	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Council Tax	We will continue our audit work on Council Tax – for 2019/20, our review will focus on the procedures in place for Council Tax collection and refunds.	June 2020	
Transformation Programme	We will examine the implementation of the Council's Transformation Programme to ensure that the financial savings identified have been achieved.	June 2020	
Treasury Management	We will review the Council's approach to Treasury Management to ensure compliance with the CIPFA Code of Practice on Treasury Management.	June 2020	
Fostering and Kinship Care Allowances	We will review payments made to foster and kinship carers to ensure compliance with Council policies and procedures.	June 2020	
General Data Protection Regulations (GDPR)	We will review the arrangements in place within the Council for ensuring compliance with the provisions of GDPR.	June 2020	
Fleet Management	We will review the arrangements in place for the replacement, purchase and disposal of vehicles to ensure compliance with existing policies and procedures.	June 2020	
Following the Public Pound	As part of our rolling programme of work on Following the Public Pound, in 2019/20 we will review the monitoring arrangements in place for a sample of organisations receiving Council funding.	June 2020	

REPORT TO: Audit and Governance Committee
MEETING DATE: 17 September 2019
BY: Depute Chief Executive (Resources & People Services)
SUBJECT: Annual Accounts 2018-19

3

1 PURPOSE

- 1.1 To provide the Committee with an update on the main changes arising during the audit of the draft financial statements, and to ask the Committee to approve the now audited accounts for 2018-19.

2 RECOMMENDATIONS

- 2.1 Members are recommended to:
- i. Note the main changes arising during the course of the audit.
 - ii. Approve the 2018-19 audited accounts for the Council and its group components.

3 BACKGROUND

- 3.1 The Council's draft financial accounts for 2018-19 were considered by Council on 27 June 2019, and formally submitted to Audit Scotland prior to the statutory deadline of 30 June 2019. The audit commenced early July 2019 and was completed mid-September.
- 3.2 In accordance with statutory requirements, the draft accounts were made available for public inspection for a 3 week period commencing 1 July 2019. No objections were received during this period.
- 3.3 East Lothian Council's statutory accounts includes the financial results for both the Council and its group components. The audited financial accounts are set out in Appendix 1, and include an independent audit opinion on the financial statements, and as also highlighted in the auditor's draft annual audit report, I am pleased to report that an unqualified audit opinion has

been presented signalling that the financial statements presented represent:

- A true and fair view of the affairs of the Council and the wider Group;
- Have been properly prepared in accordance with respective accounting standards.

3.4 In addition to the Council's financial statements, Audit Scotland also provide an audit opinion of the Dr Bruce Trust which is administered by the Council. The final audited accounts are included within Appendix 2, of this report for Members information, and an unqualified audit opinion has been issued.

Main changes to Unaudited Financial Position

3.5 During the course of the audit there were a number of proposed changes to the accounts, the most significant of these are set out below.

- The final accounts include changes relating to updated Pension results which we receive from Lothian Pension Fund, relating to a Supreme Court ruling relating to age discrimination (referred to as McCloud ruling). In addition, and alongside this, the ruling also impacted on the liability relating to the guaranteed minimum pension (GMP). The impact of the adjustment was to increase the employer's liability by £9.4 million and the guaranteed minimum pension by £1.4 million (£10.8 million in total) with a corresponding increase to the pension reserve.
- An adjustment was made to the depreciation charge reflected to the accounts amounting to £1.6 million.
- A movement in the Comprehensive Income and Expenditure account from Health & Social Care Partnership to Resources and People of £1.2 million – which had a neutral impact overall.
- An adjustment of £20 million in the cash flow statement relating to classification of PWLB borrowing. This had a neutral impact overall.
- An adjustment to the Common Good account relating to finance leases and property, plant and equipment additions. This amounted to an increase in Common Good assets of £254,000.

3.6 Whilst overall there have been a number of presentational issues to the draft accounts, the key results which were presented to Council in June 2019 have been maintained and there has been no impact on the usable reserves position which remains at £25.5 million (General Fund including Insurance Fund - £19.432 million and HRA £6.068 million).

3.7 In line with statutory guidance, following approval of the annual accounts by those charged with governance, the 2018-19 accounts will be formally signed by the Council (Chief Executive, Council Leader and Chief Finance Officer) as well as Audit Scotland prior to the statutory deadline of 30 September 2019, and will be placed on the Council's website.

4 POLICY IMPLICATIONS

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

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report has been considered and given there is no change in policy direction, there is no requirement to undertake any further impact assessment.

6 RESOURCE IMPLICATIONS

6.1 Financial – as described above

6.2 Personnel - none

6.3 Other – none

7 BACKGROUND PAPERS

7.1 Council 25 June 2019 –2018-19 End of Year Financial Review

Author's Name	Sarah Fortune
DESIGNATION	Chief Operating Officer Finance
CONTACT INFO	sfortune@eastlothian.gov.uk
DATE	9 September 2019

This document has been circulated separately.

**DR BRUCE FUND
FINANCIAL STATEMENTS**

31 March 2019

Charity Number SC019149

DR BRUCE FUND
FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

Contents

Members of the Board and professional advisers	1
Trustees' Annual Report	2
Statement of Trustees' responsibilities in respect of the Trustees' annual report and the financial statements	5
Independent auditor's report to the trustees of the Dr Bruce Fund and the Accounts Commission	6
Statement of Financial Activities	9
Balance Sheet	10
Notes to the Financial Statements	11

DR BRUCE FUND

Members of the Board and professional advisers

Registered Charity Name	Dr Bruce Fund
Charity Number	SC019149
Trustees	Councillor Stuart Currie Councillor Andrew Forrest Councillor Katie Mackie Councillor John Williamson
Address of Principal Office	John Muir House Haddington East Lothian EH41 3HA
Auditor	G Woolman MA FCA CPFA Audit Director Audit Scotland 102 West Port Edinburgh EH3 9DH
Investment Advisers	Investec Wealth & Investment Limited 2 Gresham Street London EC2V 7QN

DR BRUCE FUND

Trustees' Annual Report Year Ended 31 March 2019

The trustees present their report and the financial statements of the charity for the year ended 31 March 2019.

Reference and administrative details are shown in the schedule of members of the board and professional advisers on page 1 of the financial statements.

OBJECTIVES AND ACTIVITIES

The objective of the trust is to provide for the relief of the poor of Musselburgh.

The Trust furthers its charitable purposes through its grant-making policy, which aims to alleviate the suffering of those in poverty in the Musselburgh area, particularly during Christmas.

GRANT MAKING POLICY

The Trust seeks to alleviate poverty in the Musselburgh area by providing grants during more financially pressing times of the year, especially around Christmas time. The Trust maintains a list of recipients who have been nominated by the Trustees to receive an award.

Each year, the Trustees meet and consider the provision of small grants to nominated residents of the town.

REVIEW OF ACHIEVEMENTS AND PERFORMANCE

During the year 2018/19 the trust made two awards totalling £60 (2017/18: £60)

FINANCIAL REVIEW

The investment portfolio from which the trust is allocated a proportion of assets, income, and expenditure performed reasonably well in the year. The market value of the portfolio increased to £3.39m at 31st March 2019, and the income earned by the portfolio increased by 8.7% in the same period. Overall, the portfolio performed slightly better than the market benchmark, mainly as a result of a higher weighting in both UK and overseas equities.

Full details of the trust's financial transactions during the year ended 31st March 2019 are shown on the attached financial statements.

The trust incurred operational expenditure of £1,146, against income of £1,446. Together with gains on investment assets of £382, this resulted in a transfer of funds to reserves of £682. At March 2019, the trust had unrestricted funds of £10,808.

Dr Bruce Fund does not have a formal reserves policy. However, the trustees' objectives are to maintain the value of its reserves, and to attempt not to incur costs greater than the value of its annual income.

PLANS FOR FUTURE PERIODS

The trustees intend to continue to make annual awards as funds allow. There is an ongoing review of all the small trusts administered by East Lothian Council, and in the future there may be proposals to amalgamate smaller trusts which can then be promoted more widely.

STRUCTURE, GOVERNANCE AND MANAGEMENT

The Dr Bruce Fund was established under the provision in the will of Charles Key Bruce, dated 19th December 1826. A bequest was set up to provide relief for the poor of Musselburgh. The executors of Dr Bruce's will declined to act and his estate was placed in the management of the High Court of Chancery. In 1832, an arrangement was made where two magistrates of Musselburgh, the minister of the parish of Inveresk, and the sheriff of the county of Edinburgh were appointed as a local committee to administer the fund.

Following local government reorganisation in 1973, the trust came under the administration of East Lothian District Council and later, East Lothian Council. Since that time, the elected councillors for Musselburgh have acted in a decision-making capacity for the trust.

Dr Bruce Fund has no employees. The trustees are supported in the discharge of their responsibilities by finance and support staff within East Lothian Council. The trust does not have its own bank account, and all financial transactions are carried out through the bank accounts of East Lothian Council.

There are no related party transactions in the accounts for Dr Bruce Fund.

East Lothian Council maintains a shared portfolio of assets for a number of trusts and bequests which it administers. The portfolio, which is known as "East Lothian Council Charitable Funds" is managed by an external investment management company (currently Investec Wealth and Investment). Each financial year, all of the trusts are allocated a proportion of the assets, income, and expenditure of the total portfolio in accordance with their investment.

The trust's major risks have been identified as the ability to meet financial demands on its funds and the potential loss of the value of its investment assets. Both of these risks are managed by taking financial advice from East Lothian Council staff and investment advice from its investment management advisers.

THE TRUSTEES

The trustees who served the charity during the period were the elected councillors for Musselburgh. These were:

Stuart Currie

Andrew Forrest

Katie Mackie

John Williamson

Signed on behalf of the trustees:

A handwritten signature in black ink, appearing to read 'Stuart Currie', written over a horizontal line.

Councillor Stuart Currie

Chair of Trust

John Muir House

Haddington

East Lothian

05 September 2019

DR BRUCE FUND

Statement of Trustees' responsibilities in respect of the Trustees' annual report and the financial statements

The charity trustees are responsible for preparing a trustees' annual report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The law applicable to charities in Scotland requires the charity trustees to prepare financial statements for each year which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources, of the charity for that period. In preparing the financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the applicable Charities SORP;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and to enable them to ensure that the financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005, the Charity Accounts (Scotland) Regulations 2006 (as amended), and the provisions of the Trust deed. They are also responsible for safeguarding the assets of the charity and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the charity and financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the trustees on 05 September 2019 and signed on their behalf by:



Councillor S Currie

Chair of Trust

Independent auditor's report to the trustees of the Dr Bruce Fund and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the statement of accounts of the Dr Bruce Fund for the year ended 31 March 2019 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Financial Activities, the Balance Sheet and notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the Dr Bruce Fund as at 31 March 2019 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the charity in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about ability of the charity to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the trustees for the financial statements

As explained more fully in the Statement of Trustees' Responsibilities, the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the statement of accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinion on matter prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Gillian Woolman
Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

September 2019

Gillian Woolman is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973

DR BRUCE FUND

Statement of Financial Activities

For the year ended 31 March 2019

	Note	Total Funds 2018/19 £	Total Funds 2017/18 £
Income From			
Donated services	2	1,000	1,000
Income from Investments	3	446	395
Total Income and Endowments		1,446	1,395
Expenditure On			
Management Fees	4	(86)	(87)
Charitable Activities	5	(60)	(60)
Audit Fees	2	(1,000)	(1,000)
Total Expenditure		(1,146)	(1,147)
 Net Income		 300	 248
 Net (Losses)/Gains on investments		 382	 67
Net Movement In Funds		682	315
Reconciliation Of Funds			
Total funds brought forward		17,678	17,363
Total Funds carried forward		18,360	17,678

The Statement of Financial Activities includes all gains and losses in the year and therefore a statement of total recognised gains and losses has not been prepared.

All of the above amounts relate to continuing activities.

DR BRUCE FUND

Balance Sheet

As at 31 March 2019

	Note	2018/19 £	2017/18 £
FIXED ASSETS			
Investments	7	12,291	12,012
CURRENT ASSETS			
Debtors	8	6,069	5,666
TOTAL NET ASSETS		18,360	17,678
THE FUNDS OF THE CHARITY			
Investments Revaluation Reserve		(7,552)	(7,292)
Unrestricted funds	9	(10,808)	(10,386)
TOTAL CHARITY FUNDS		(18,360)	(17,678)

These financial statements were approved by the members of the committee and authorised for issue on 05 September 2019 and are signed on their behalf by:



Councillor Stuart Currie
Chair of Trust
John Muir House
Haddington

Date: 05 September 2019

DR BRUCE FUND

Notes to the Financial Statements

Year ended 31 March 2019

1 ACCOUNTING POLICIES

Dr Bruce Fund (the "Charity") is an unincorporated charity and domiciled in the UK.

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting and Reporting by Charities (Charities SORP (FRS 102)) and the Financial Reporting Standard 102 applicable in the United Kingdom and Republic of Ireland (FRS 102) and the Charities and Trustee Investment (Scotland) Act 2005 and UK Generally Accepted Practice as it applies from 1 January 2015.

The financial statements have been prepared to give a 'true and fair' view and have departed from the Charities Accounts (Scotland) Regulations 2006 (as amended) only to the extent required to provide a 'true and fair' view. This departure has involved following the Charities SORP (FRS 102) issued on 16 July 2014 rather than the preceding Charities SORP (SORP 2005) which was effective from 1 April 2005 and has since been withdrawn.

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1.

In the transition to FRS 102 from old UK GAAP, the Charity has made no measurement and recognition adjustments.

The Charity's parent undertaking, East Lothian Council, includes the Charity in its consolidated financial statements. The consolidated financial statements of East Lothian Council are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from John Muir House, Haddington, East Lothian EH41 3HA. In these financial statements, the charity is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

Cash Flow Statement and related notes

As the consolidated financial statements of East Lothian Council include the equivalent disclosures, the Charity has also taken the exemptions under FRS 102 available in respect of the following disclosures:

The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified at fair value through the statement of financial activities.

1.2 Going Concern

The Trustees consider Dr Bruce Fund to be a going concern as there are appropriate funds to continue meeting its charitable activities

1.3 Basic financial instruments

Trade and other debtors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs.

Investments in preference and ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through the statement of financial activities. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognition in the statement of financial activities. Other investments are measured at cost less impairment in the statement of financial activities.

1.4 Funds Structure

Unrestricted income funds comprise those funds which the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include designated funds where the trustees, at their discretion, have created a fund for a specific purpose. All funds of the trust are unrestricted.

1.5 Income Recognition

All income is recognised once the charity has entitlement to the income, it is probable that the income will be received, and the amount of income receivable can be measured reliably.

Interest on funds held on deposit is included when receivable and the amount can be measured reliably by the charity; this is normally upon notification of the interest paid or payable by the bank.

1.6 Expenditure recognition

Liabilities are recognised as expenditure as soon as there is a legal or constructive obligation committing the charity to that expenditure, it is probable that settlement will be required and the amount of the obligation can be measured reliably.

All expenditure is accounted for on an accruals basis. All expenses, including support costs and governance costs, are allocated or apportioned to the applicable expenditure headings in the statement of financial activities. For more information on this allocation refer to note 5 below.

Grants payable are payments made to third parties in the furtherance of the charitable objects of the Charity. In the case of an unconditional grant offer this is accrued once the recipient has been notified of the grant award. The notification gives the recipient a reasonable expectation that they will receive the one year or multi-year grant. Grants awards that are subject to the recipient fulfilling performance conditions are only accrued when the recipient has been notified of the grant and any remaining unfulfilled conditions attaching to that grant are outside of the control of the Charity.

1.7 Governance costs

Governance costs comprise all costs involving the public accountability of the charity and its compliance with regulation and good practice. Governance costs are included within charitable activities.

2 INCOME FROM DONATIONS

For 2018/19, the external annual audit fee was a donated service of £1,000 from East Lothian Council.

DR BRUCE FUND

Notes to the Financial Statements

Year ended 31 March 2019

3 INVESTMENT INCOME

	Unrestricted Funds 2018/19 £	Unrestricted Funds 2017/18 £
Dividends - equities	391	360
Interest on cash deposits	55	35
Income from Disposal of Investment	-	-
	<u>446</u>	<u>395</u>

4 INVESTMENT MANAGEMENT COSTS

	Unrestricted Funds 2018/19 £	Unrestricted Funds 2017/18 £
Investment and ELC management fees	86	87

5 COSTS OF CHARITABLE ACTIVITIES

	Grant Funding activities 2018/19 £	Grant Funding activities 2017/18 £
Grants of £30 made to 2 individuals	60	60
Accountancy Fees	-	-
	<u>60</u>	<u>60</u>

6 STAFF COSTS AND EMOLUMENTS

Key management personnel received no employee benefits for their services to the charity.

7 INVESTMENTS

Movement in market value

	2018/19	2017/18
	£	£
Market value at 1 April 2018	12,012	12,058
Additions/(Disposals) at cost	19	351
Net (loss)/gain on revaluation	260	(397)
Market value at 31 March 2019	<u>12,291</u>	<u>12,012</u>

	Total Funds 2018/19	Total Funds 2017/18
	£	£
Investments at fair value comprised:		
Quoted shares	<u>12,291</u>	<u>12,012</u>

8 DEBTORS

	2018/19	2017/18
	£	£
Other Debtors	<u>6,069</u>	<u>5,666</u>

ANALYSIS OF 9 CHARITABLE FUNDS

	Balance at 1st April 2018	Income	Expenditure	Gains and (Losses)	Balance at 31st March 2019
	£	£	£	£	£
Revaluation Reserve	7,292	0	0	260	7,552
General Funds	10,386	1,446	(1,146)	122	10,808
Total	<u>17,678</u>	<u>1,446</u>	<u>(1,146)</u>	<u>382</u>	<u>18,360</u>

Audit and Governance Committee (Those Charged with Governance)

17 September 2019

East Lothian Council Audit of 2018/19 annual accounts

4

Independent auditor's report

1. Our audit work on the 2018/19 annual accounts is now substantially complete. Subject to receipt of a revised set of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 18 September 2019 (the proposed report is attached at [Appendix A](#)).

Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Audit and Governance Committee's consideration our draft annual report on the 2018/19 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual accounts.
3. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice.
4. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.
6. One error above our reporting threshold but below materiality was identified and has not been adjusted in the financial statements as agreed with the council. If corrected, this would increase long term assets in the balance sheet by £96,000 and a corresponding increase to current liabilities of the same amount. There is no impact on the comprehensive income and expenditure statement.
7. In presenting this report to the Audit and Governance Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 Officer

8. As part of the completion of our audit, we are seeking written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.
9. A draft letter of representation is attached at **Appendix B**. This should be signed and returned to us by the Section 95 Officer with the signed annual accounts prior to the independent auditor's report being certified.

APPENDIX A: Proposed Independent Auditor's Report

Independent auditor's report to the members of East Lothian Council and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of East Lothian Council and its group for the year ended 31 March 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Group and Council-only Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash Flow Statement, the Council-only Housing Revenue Account, the Common Good Account, the Trust Funds Account, the Council Tax Income Account, the Non-Domestic Rate (NDR) Income Account, and Notes to the Accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the 2018/19 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of affairs of the council and its group as at 31 March 2019 and of the income and expenditure of the council and its group 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 2018/19 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is three years. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Council Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Head of Council Resources and the Audit and Governance Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Head of Council Resources is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Head of Council Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Council Resources is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Audit and Governance Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skillfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. I therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual accounts

The Head of Council Resources is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have

performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Gillian Woolman MA FCA CPFA
Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

September 2019

APPENDIX B: Letter of Representation (ISA 580)

Gillian Woolman, Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

Dear Gillian

17 September 2019

East Lothian Council Annual Accounts 2018/19

1. This representation letter is provided about your audit of the annual accounts of East Lothian Council for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.
2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations given to you in connection with your audit of East Lothian Council's annual accounts for the year ended 31 March 2019.

General

3. East Lothian Council and I have fulfilled our statutory responsibilities for the preparation of the 2018/19 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by East Lothian Council have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (2018/19 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.
6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of East Lothian Council and its Group at 31 March 2019 and the transactions for 2018/19.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2018/19 accounting code where applicable. Where the code does not specifically apply I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to East Lothian Council circumstances and have been consistently applied.
8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed East Lothian Council's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on East Lothian Council's ability to continue as a going concern.

Assets

10. Where a rolling programme of asset valuations has been used, I have satisfied myself that the carrying amount of assets at 31 March 2019 does not differ materially from that which would be determined if a revaluation had been carried out at that date.
11. I carried out an assessment at 31 March 2019 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.
12. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2019.
13. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.
14. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

15. All liabilities at 31 March 2019 of which I am aware have been recognised in the annual accounts.
16. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2019 of which I am aware where the conditions specified in the 2018/19 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2019. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.

17. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2019 or to reflect material changes in the assumptions underlying the calculations of the cash flows.
18. The accrual recognised in the financial statements for holiday untaken by 31 March 2019 has been estimated on a reasonable basis.
19. The pension assumptions made by the actuary in the IAS 19 report for East Lothian Council have been considered and I confirm that they are consistent with management's own view.
20. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent liabilities

21. There are no significant contingent liabilities arising either under formal agreement or through formal undertakings requiring disclosure in the accounts.

Fraud

22. I have provided you with all information in relation to:
 - my assessment of the risk that the financial statements may be materially misstated because of fraud
 - any allegations of fraud or suspected fraud affecting the financial statements
 - fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

23. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

24. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2018/19 accounting code. I have made available to you the identity of all the East Lothian Council's related parties and all the related party relationships and transactions of which I am aware.

Remuneration Report

25. The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Amendment Regulations 2014, and all required information of which I am aware has been provided to you.

Management commentary

26. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

27. I confirm that East Lothian Council has undertaken a review of the system of internal control during 2018/19 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.
28. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2019, which require to be reflected.

Group Accounts

29. I have identified all the other entities in which East Lothian Council has a material interest and have classified and accounted for them in accordance with the 2018/19 accounting code. Any significant issues with the financial statements of group entities, including any qualified audit opinions, have been advised to you.

Events Subsequent to the Date of the Balance Sheet

30. All events subsequent to 31 March 2019 for which the 2018/19 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Jim Lamond
Head of Council Resources (Section 95 Officer)

East Lothian Council

2018/19 Annual Audit Report

5



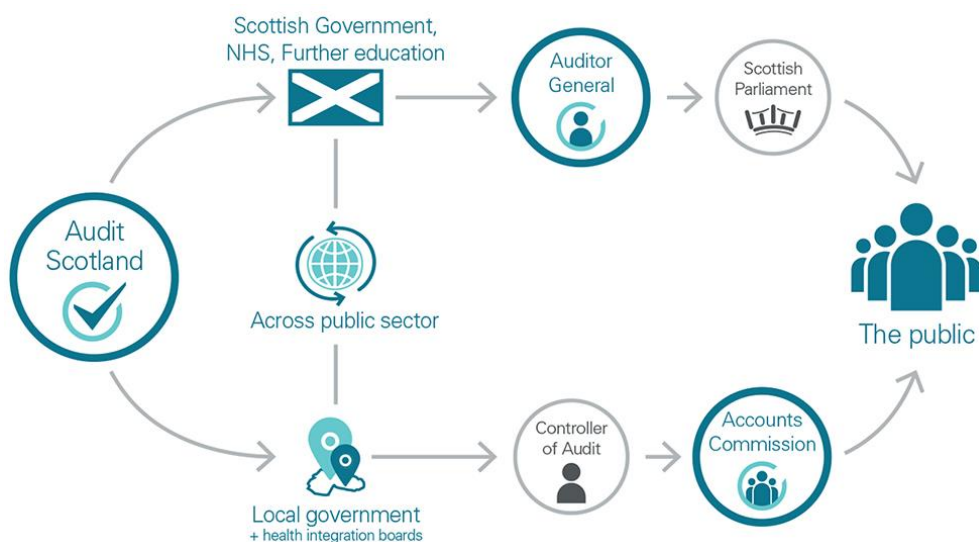
 AUDIT SCOTLAND

Prepared for the Members of East Lothian Council and the Controller of Audit
17 September 2019

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.

Contents

Key messages	4
Introduction	6
Part 1 Audit of 2018/19 annual accounts	9
Part 2 Financial management	14
Part 3 Financial sustainability	22
Part 4 Governance and transparency	25
Part 5 Value for money	28
Appendix 1 Action plan 2018/19	33
Appendix 2 Significant audit risks identified during planning	35
Appendix 3 Summary of uncorrected misstatements	39
Appendix 4 Summary of national performance reports 2018/19	40

Key messages

2018/19 annual accounts

- 1 East Lothian Council and its group financial statements give a true and fair view and were properly prepared.
- 2 The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.
- 3 The statement of accounts of the Dr Bruce Charitable Fund section 106 charity administered by the council is free from material misstatement.

Financial management

- 4 Financial management is effective with a budget process focussed on the council's priorities.
- 5 On the basis of audit work undertaken, we concluded that appropriate and effective internal controls were in place for key financial systems.
- 6 Developer contributions play an increasingly significant role for the fulfilment of the capital expenditure ambitions of the council. Governance arrangements have been put in place to ensure developer contributions are managed in line with the council's capital programme. It will be important to demonstrate that this is all working to plan, as the system matures.

Financial sustainability

- 7 The council and its group financial position is sustainable in the foreseeable future although rising demand for services will continue to place a strain on the council's capacity to deliver services at the current levels.
- 8 There is a five-year financial strategy that is aligned to the council's priorities and demonstrates how it will address future budget challenges.
- 9 The council has made savings over the past few years. However, the size of the future funding gap and a reliance on non-recurring savings means it will struggle to make the required savings in future years.

Governance and transparency

- 10 The council's governance arrangements are appropriate, effective and support good governance and accountability.
- 11 The council demonstrates a commitment to openness and transparency in the way it conducts its business.

Value for money

- 12** A number of activities are underway in response to the Best Value Assurance Report published in November 2018 although several areas are not due for completion until 2020. The council will wish to ensure it can demonstrate the difference they are making in respect of these improvements.

Introduction

1. This report summarises the findings arising from the 2018/19 audit of East Lothian Council and its group (the council).

2. The scope of the audit was set out in our 2018/19 Annual Audit Plan presented to the 19 February 2019 meeting of the Audit and Governance Committee. This report comprises the findings from:

- an audit of the annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2018/19 have been:

- an audit of the council and its group 2018/19 annual report and accounts and the statement of accounts of the Dr Bruce Fund, a section 106 charity administered by the council, including the issue of independent auditor's reports setting out our opinions
- a review of the council's key financial systems
- a follow up of the 2017/18 Best Value Assurance Report

- consideration of the four audit dimensions.

Added value through the audit

4. We add value to the council through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

5. In so doing, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

7. The council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

8. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

9. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements, and financial position,
- the arrangements for securing financial sustainability and,
- best value arrangements.

10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

11. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its

responsibility to address the issues we raise and to maintain adequate systems of control.

12. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2018/19 audit fee of £241,440 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

15. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual accounts



Main judgements

East Lothian Council (the council) and its group financial statements give a true and fair view and were properly prepared.

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with relevant regulations and guidance.

The statement of accounts of the Dr Bruce Fund section 106 charity administered by the council is free from material misstatement.

The council and its group annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

Audit opinions on the annual accounts

16. The annual accounts for the council and its group for the year ended 31 March 2019 were approved by the Audit and Governance Committee on 17 September 2019. We reported, within the independent auditor's report, that the:

- financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

17. We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records, the information and explanations we received, or the achievement of prescribed financial objectives.

Audit opinions on section 106 charity – Dr Bruce Fund

18. Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of East Lothian Council are sole trustees, irrespective of the size of the charity. The Dr Bruce Fund is the only charity for which this applies in East Lothian Council.

19. We received the Dr Bruce Fund accounts on 19 June 2019, in line with the agreed timetable. There were no adjusted or unadjusted audit differences raised. However, the following issue was noted during the audit which has previously been raised in our 2016/17 and 2017/18 annual audit reports:

- The Dr Bruce Fund was set up to provide relief for the poor of Musselburgh. The Dr Bruce Fund awarded the same two individuals £60 in 2018/19 (2017/18: £60, 2016/17: £50). More could be done by East Lothian Council to promote the trust and its availability to the residents in Musselburgh.



Recommendation 1 ([appendix 1, action plan point 1](#)).

The council should review the method(s) used to promote this (and other) charitable trusts as part of the wider trust review to ensure that the potential availability of these funds are known to the wider community.

20. After completing our audit, we reported in the independent auditor's report that:

- the financial statements give a true and fair view for the Dr Bruce Fund's financial position and are properly prepared in accordance with charities legislation
- the trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

Submission of the council and its group annual accounts for audit

21. We received the unaudited annual accounts on 19 June 2019 in line with the audit timetable set out in our 2018/19 Annual Audit Plan.

22. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

23. In 2018/19 the group accounts were prepared on the basis of unaudited accounts of the subsidiaries and associates; this was also the case in 2017/18. Audited accounts have been received for East Lothian Land Ltd, East Lothian Investments Ltd, Brunton Theatre Trust, Lothian Valuation Joint Board and the East Lothian Integration Joint Board with no changes identified. However, we have yet to receive the audited / updated accounts for Musselburgh Racing Associated Committee (expected sign off is 17 September) and Enjoy East Lothian Ltd (expected sign off is 23 September).

24. As previously reported in our 2017/18 annual audit report, the delay in receiving audited accounts from group components impacts on the ability to ensure the most up-to-date audited figures are included in the group accounts and could delay signing the group accounts by the statutory deadline of 30 September.



Recommendation 2 ([appendix 1, action plan point 2](#)).

The council needs to work with the various subsidiaries and associates to plan and agree a suitable timetable for receipt of audited accounts to ensure all group components are fully signed off by the time the group accounts are to be approved.

Whole of Government Accounts

25. In accordance with the WGA guidance, the council submitted a consolidation pack for the whole of government accounts audit on 24 July 2019 in line with the deadline. We will complete the required assurance statement and submit it to the National Audit Office (NAO) by the 28 September 2019 deadline.

Risk of material misstatement

26. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

Materiality

27. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

28. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

29. On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£4.0 million
Performance materiality	£2.4 million
Reporting threshold	£40,000

Source: Audit Scotland, Annual Audit Plan 2018/19

Significant findings from the audit in accordance with ISA 260

30. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. The significant findings are summarised in [Exhibit 3](#).

Qualitative aspects of the audit

31. We have no significant findings to report around the qualitative aspects of the 2018/19 accounting practices.

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. IAS 19 actuarial valuation</p> <p>The actuarial valuation of the IAS 19 pension liability in the unaudited accounts was revised to take account of the McCloud Supreme Court ruling. As a result, a revised valuation was carried out which resulted in an overall increase to the pension liability of £10.8 million.</p>	<p>The Council obtained a revised actuarial valuation which took into account the Supreme Court's ruling and adjusted the financial statements to reflect the revised pension liability. The impact of the adjustment was to increase the employer's liability by £9.4 million and the guaranteed minimum pension by £1.4 million (£10.8 million in total) with a corresponding increase to the pension reserve.</p>
<p>2. Loans fund</p> <p>In December 2018 the council undertook a review of the loans fund based on advice from its external treasury advisors. The work was put on hold pending clarification of prevailing statutory regulations and guidance.</p> <p>In June 2019, Audit Scotland confirmed that the existing regulations allow local authorities to vary the period and repayment of pre 2016 loans fund advances if they consider it prudent to do so.</p> <p>A review of the council's loans fund has now been completed and has been applied to the 2018/19 financial year. This has resulted in changes to the repayment period and value of historical and current loans fund advances. The council feels the revised payment profile of the loans fund now more accurately reflects the period and pattern of benefits from their capital investments.</p>	<p>The reprofiling of loans fund repayments has been applied to the 2018/19 financial year. The overall impact has been a reduction in the charges to General Services and the Housing Revenue Account of £3.6 million and £0.1 million respectively.</p> <p>We have reviewed the reasoning and process behind the re-profiling exercise and have concluded that it is prudent.</p>

How we evaluate misstatements

32. In addition to the IAS 19 adjustment included above, adjustments were made to the draft accounts for depreciation (an increase of £1.6 million) and a movement from Health and Social Care Partnership income to People and Resources income (£1.2 million, no net impact on the Comprehensive Income and Expenditure Statement). An adjustment was made to the cash flow statement for PWLB borrowing (£20 million, no impact on cash and cash equivalents at the end of the period). Adjustments were made to the group accounts for common good finance leases and property, plant and equipment additions, the net impact being an increase in assets of £254,000.

33. One error above our reporting threshold but below materiality was identified but has not been adjusted in the financial statements. [Appendix 3](#) gives details of the unadjusted error and the impact on the financial statements.

34. It is our responsibility to request that all misstatements above the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality. Management do not propose to adjust for the item above as the amount is not considered material in the context of the financial statements.

Follow up of prior year recommendations

35. The council has made some progress in implementing our prior year audit recommendations. Further improvements could be in the areas of: group accounts, review of trust funds and following the public pound. For those recommendations not yet implemented, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

Integration Joint Board

36. The council has included its share of the financial transactions of East Lothian Integration Joint Board (the IJB) within its group financial statements. The IJB is considered a joint venture within the council's accounts. We have completed the audit of the IJB and reported our findings separately to the East Lothian IJB Audit and Risk Committee on 10 September 2019 where the accounts were approved for signing. Assurances were obtained from NHS Lothian and East Lothian council to check the accuracy and completeness of IJB figures included in the accounts. Further commentary on the IJB is provided in [Part 4, paragraph 105](#) of this report.

Other findings

37. Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted for and reflected in the audited annual accounts.

Objections

38. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations and there were no objections to the 2018/19 unaudited annual accounts.

Part 2

Financial management



Main judgements

Financial management is effective with a budget process focussed on the council's priorities.

On the basis of audit work undertaken, we concluded that appropriate and effective internal controls were in place for the key financial systems we reviewed.

Developer contributions play an increasingly significant role for the fulfilment of the capital expenditure ambitions of the council. Governance arrangements have been put in place to ensure developer contributions are managed in line with the council's capital programme. It will be important to demonstrate that this is all working to plan, as the system matures.

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

Financial performance in 2018/19

39. The council approved a General Services budget of £237.3 million in February 2018. The budget was aligned to the council's main priorities and vision.

40. The 2018/19 end of year financial review presented to council on 25 June 2019 reported an overspend of £1.0 million across all services relative to the approved budget. This includes an IJB underspend for council related activity of £0.3 million which has been transferred to the IJB.

41. The overspend across all services has been mitigated by a review of the loans fund and bad debt provisions which resulted in an overall improvement of £3.3 million relative to the council's planned use of reserves. Much of this improvement is non-recurring.

42. While the council's spending has remained in line with its overall budget, there are significant variations in how different services have performed. The more significant under and overspends are summarised in [Exhibit 4](#).

Exhibit 4

Summary of significant under / overspends against budget

Area	Under / over spend (£m)	Reason for variance
Underspends		
Resources and People Services	£0.867	The introduction of additional pre-school provision within Education Group and lower than anticipated expenditure on school technology (TIC) budget, period poverty and school clothing grants within Support Services.
Partnership and Services for the Community	£0.436	Ongoing savings in staff costs, an increased surplus in the Property Maintenance Trading account, and a number of one-off benefits in Economic Development within Development Services.
Overspends		
Health and Social Care Partnership	£2.34	Increased demand and average costs for residential and secure placements within Children's Services.

Source: East Lothian Council 2018-19 End of Year Financial Review

43. The Health and Social Care Partnership (including both Adult and Children services) directorate has overspent against budget in both the current and previous two financial years. Although the overspend has been partially offset by underspends in other services, the council delivered an overspend relative to approved budgets of around £1.0 million in 2018/19.

Housing revenue account

44. The council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to a level which will at least cover the costs of its social housing provision.

45. The 2018-19 End of Year Financial Review, presented to full council in June 2019 reported that the HRA delivered an additional surplus of £673,000, over the planned budgeted underspend of £1.7 million.

46. During the year, employee costs were lower than budgeted due to a high number of vacancies. Income was higher than anticipated. Benefits also accrued from a lower than anticipated increase in the provision for bad and doubtful debt and lower than budgeted debt charges due to a combination of the wider review of debt charges, and lower than expected loans fund repayments.

47. The HRA reserve balance has increased by £0.67 million during the year to £6.07 million at 31 March 2019. This is in line with the council's five-year financial strategy for 2019-24 which has a stated policy of maintaining an HRA reserve balance of at least £1 million, to allow the council to maintain a cushion against any unexpected increase in costs or loss of income, and to protect against the unexpected fluctuations arising from UK welfare reform proposals. Given the uncertainty that exists over the timing and scale of capital investment in new affordable housing, there is no upper limit on the HRA reserve.

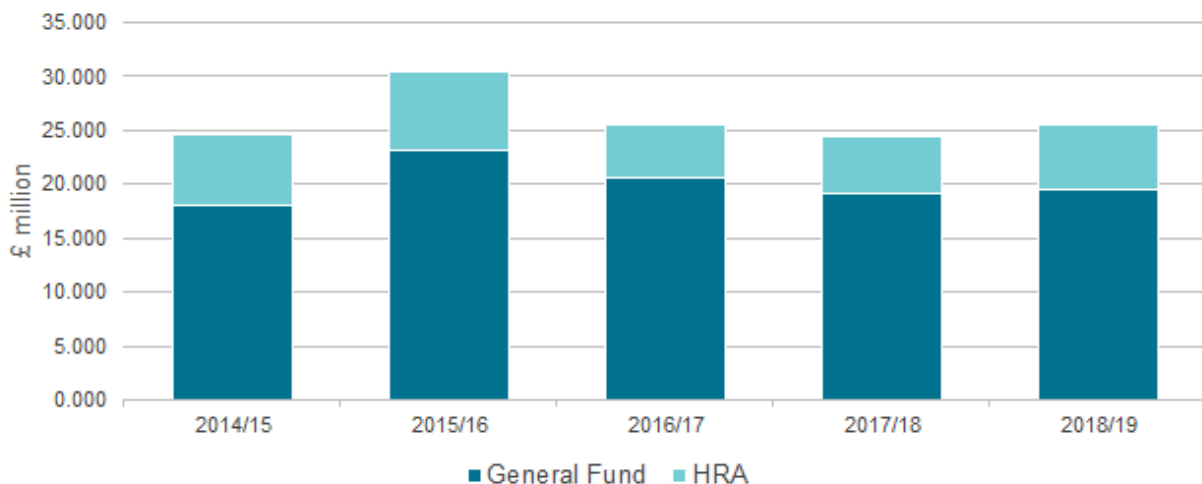
Reserves

48. One of the key measures of the financial health of a local authority is the level of reserves held. The level of usable reserves held by the council increased from £24.4 million in 2017/18 to £25.5 million in 2018/19 as illustrated in [Exhibit 5](#) (£3.2 million more than planned). This was due to a review of the loans fund and a review of bad debt provisions relating to Council Tax and Housing Benefit. However, spending on General Services continues to be higher than total income receivable by around £1 million.

49. The general fund is the largest usable reserve. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows.

50. The council reviews the level of its uncommitted reserves when setting the budget each year. The council's approved reserves strategy recommends that there is now a need to establish a minimum level of uncommitted general reserve balances which can be used to support any unforeseen / unquantifiable event. This level should equate to a minimum of 2% of the council's annual running costs (£4.27 million). Taking into account the Civil Emergency Fund (£2 million) and the General Services Capital Fund (£2.28 million), both earmarked, uncommitted reserves, the council currently meets this minimal required level of balance at just over £4.28 million.

Exhibit 5 Analysis of general fund and HRA over last five years



Source: East Lothian Council Audited Annual Accounts (2015/16, 2016/17, 2017/18) and Draft Annual Accounts 2018/19

Efficiency savings

51. Efficiency savings are an important means of bridging the gap between funding received and spending commitments especially with the increased demand for services.

52. The council is required to submit an annual return to COSLA in respect of recurring / non-recurring efficiency savings. Budget monitoring reports, including risk assessed savings plans, are routinely submitted to council and cabinet.

53. The council had planned to secure efficiency savings of £5.017 million in 2018/19. The council achieved actual savings of £4.037 million (80% of the total).

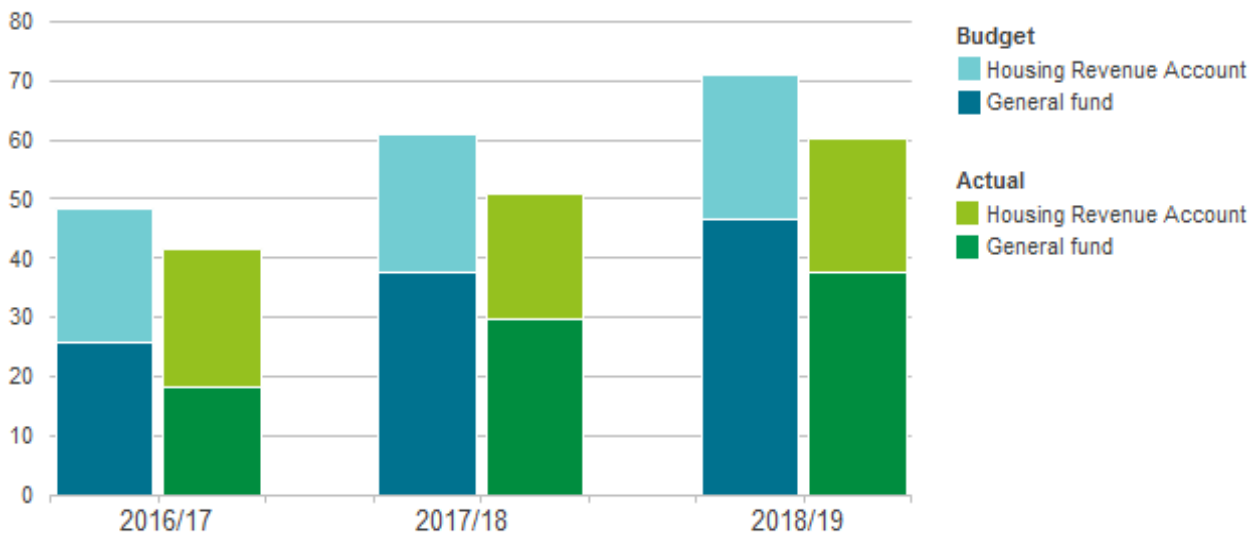
Capital programme 2018/19

54. Total capital expenditure in 2018/19 was £60.1 million of which £37.7 million related to general services and £22.4 million to the housing revenue account (HRA).

55. General services capital spend was £8.8 million (18.9%) below budget. The HRA capital spend was £2.0 million (8%) below budget. For the last three years, the council has reported slippage in its capital programme as outlined in [Exhibit 6](#).

Exhibit 6

Capital slippage compared to budget (general fund and HRA)



Source: East Lothian Council End of Year Financial Reviews (2016/17, 2017/18 and 2018/19)

56. Income was £9.3 million lower than budget for general services, most of which is attributable to the reprofiling of developer contribution income and non-realisation of asset sales.

57. For HRA, an additional £3.6 million of Government Grants was received in addition to budget (£2.1 million of which related to the supported purchase of Herdmanflat). Underspends were incurred for the Modernisation Programme and Mortgage to Rent Applications of £1.8 million and £0.8 million respectively. The underspends were offset by an overspend of £0.8 million for New Affordable and Council Housing.

58. The council's outstanding loans at 31 March 2019 were £360 million, an increase of £2 million on the previous year. The council made £17.6 million of loan repayments and £20 million of new loans were taken out during the financial year.

59. Total external debt, which includes the council's long-term liabilities, was within the authorised limit and operational boundary set by the treasury management

strategy. The current borrowing position is prudent, and the council will continue to consider the affordability of future borrowing.

Developer contributions

60. There is significant growth in East Lothian as set out in the [East Lothian Local Development Plan¹](#) (LDP). Alongside the LDP, the council has developed supplementary guidance: a [Developer Contribution Framework](#) which sets out the developer contributions required to support the LDP developments. Developer contributions are amounts paid to the council by developers and land owners in order to mitigate the impact of new homes and other buildings which create extra demands on local facilities such as schools and infrastructure. A developer contribution is a legal agreement between the land owner and the local authority and can also be referred to as Section 75 (S.75) agreements.

61. In East Lothian developer contributions are required to address the transport, education, community, health care and affordable housing requirements that arise as a result of these developments. For example, the council plans to construct three new primary schools, one new secondary school as well as undertake expansion / improvement works in five secondary schools and extend 17 existing primary schools. This is to accommodate the school roll growth anticipated as a result of the planned developments in the LDP. In addition, a new primary school in Wallyford was completed in during 2018/19 as part of the LDP.

62. The council uses the legal agreements to secure the necessary contributions (sometimes in kind) from each developer and the agreement must be signed prior to planning consent being given. A legal agreement would not be required in the event of a developer paying their full developer contribution in advance of the planning consent being issued. We were advised that for cash flow purposes most developers do not opt to pay in full in advance; developers prefer to pay once house sales have commenced. In most cases, developer contributions are received on, or in advance of, the council commencing building work. Developer contributions are recorded in the annual accounts as a long term liability with the amounts received from developers linked to the council's longer term capital financial plan. Amounts are retained until projects are completed.

63. In 2018/19 there was a 218% (£25.1 million) increase in developer contributions compared to the prior year. The result is a long term liability (deferred liability) in the accounts of £36.6 million in 2018/19 (2017/18: £11.4 million). This demonstrates the significant increase in growth in the area. The level of developer contributions that was applied to capital expenditure in 2018/19 was £3.17 million (2017/18: £8.18 million).

64. There are processes in place within the council to manage developer contributions and a new post was created, a dedicated Planning Obligations Officer responsible for the Section 75 process and ensuring that the infrastructure and facilities, to be provided under planning obligations, are delivered within appropriate timescales. As part of the governance of this area, a Section 75 Group, consisting of senior officers from planning, finance, legal and infrastructure meet monthly. An internal audit was carried out in this area during 2016 and made a number of recommendations for improvement. The audit was followed up in September 2017 and again in May 2018. The Planning Obligations Officer and the Section 75 Group are addressing the remaining actions.

65. Developer contributions play an increasingly significant role for the fulfilment of the capital expenditure ambitions of the council. Governance arrangements have been put in place to ensure developer contributions are managed in line with the

1 The Local Development Plan sets out the strategy and policies for accommodating new developments in East Lothian.

council's capital programme. It will be important to demonstrate that this is all working to plan, as the system matures.

Budgetary process

66. The [Local Government in Scotland: Financial overview 2017/18](#) (November 2018) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing (or low levels) of usable reserves to rely on.

67. We noted that the council's budget and savings plan is aligned to the council priorities as set out in its strategic plan. This is consistent with good practice. The council uses scenario planning to calculate estimated funding gaps for the five-year period as part of its 2018-23 financial strategy. Three scenarios were used ranging from best to worst case, based on a limited number of key variables (Revenue Support Grant, pay and non-pay inflation). The most recent financial strategy 2019-2024 has been updated with latest assumptions. The estimated funding gaps for the five-year period range from £6.3 million to £32.8 million (being the worst case scenario).

68. Since early 2018, the full council receives revenue and capital monitoring reports and provides detailed scrutiny of financial performance. From our review of these reports and attendance at council meetings we concluded that these reports provide an overall picture of the budget position at service level. The reports include forecast out-turn position for the year and good explanations for significant variances against budget. The reports allow both members and officers to carry out scrutiny of the council's finances.

Systems of internal control

69. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

70. Our findings were included in our management letter that was presented to the Audit and Governance Committee on 18 June 2019. We concluded that key controls were appropriate and operating effectively for key financial systems. No significant internal control weaknesses were identified which could affect the council's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Finance service review

71. We raised a risk in our 2018/19 annual audit plan regarding the recent changes to the corporate finance function and the replacement for a head of internal audit. The finance service review / redesign is ongoing and requires to be completed and communicated to staff. These risks have been followed up as part of the annual audit and are concluded in [Appendix 2 \(point 7\)](#).



Recommendation 3 ([appendix 1, action plan point 3](#)).

The council needs to conclude the finance service review / redesign to ensure that the service is fit for purpose and meets the needs of council going forward.

Internal audit

72. We reviewed the council's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. We concluded that we would place reliance on certain elements of internal audit work to support our audit opinion on the financial statements with regards to non-domestic rates and IT access controls. The internal audit reports provided reasonable and moderate assurance respectively. We also considered the internal audit follow up on ALEO arrangements with Enjoy East Lothian Ltd. The follow up internal audit report noted that all recommendations made had been addressed by the council. The 2018/19 internal audit programme was over 90% complete at June 2019 with the remaining three audit reviews due to be reported by September 2019.

73. Internal audit reports administratively to the Depute Chief Executive (Resources and People Services) and presents its findings to the Audit and Governance Committee. The former Head of Internal Audit retired at the end of December 2018. There have been attempts to fill the role with the council holding several recruitment exercises during 2018/19, none of which were successful. During this time, the Depute Chief Executive (Resources and People Services) was acting up as the head of internal audit. Through our audit work we are assured that there has been no diminution in compliance with PSIAS, nor non-completion of the annual plan despite this key vacancy in the team.

74. We have recently been informed that following on from a further recruitment exercise that the post has now been filled with the successful candidate due to start before by the end of October 2019.

Standards of conduct for prevention and detection of fraud and error

75. The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these at the planning stage of our audit to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

76. We concluded that the council has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

ICT controls

77. The Public Services Network (PSN) is the UK Government's high-performance network. Public bodies wishing to connect are required to submit a detailed application together with an independent ICT health check. If the submission meets the assessors' standard, then compliance is granted either unconditionally or conditionally with an action plan if the current level is close to meeting the standard. In May 2019, the council successfully retained its PSN certification.

National Fraud Initiative

78. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity. NFI activity is summarised in [Exhibit 7](#). We reviewed the council's NFI activity in April 2019 and concluded that it was satisfactory.

79. The total number of matches identified as part of the 2018/19 NFI exercise is 3,638. As at 30 August 2019, 269 are currently being investigated. A further 236 matches have been investigated and closed with no issues. In addition, seven matches have been closed that had known issues and three matches have been closed which had errors (with recovery of £98,615 all relating to duplicate creditor payments).

Exhibit 7 NFI activity



3,638
Matches



269
Being investigated



246
**Completed / closed
investigations**

Source: NFI secure website: www.nfi.gov.uk

80. Progress and outcomes of the NFI exercise are reported to the Audit and Governance Committee biennially. Outcomes from the 2016 NFI exercise were reported to the Audit and Governance Committee in February 2018. Internal audit propose to present outcomes of the 2018 exercise to the same committee in January 2020.

Part 3

Financial sustainability



Main judgements

The council and its group financial position is sustainable in the foreseeable future although rising demand for services will continue to place a strain on the council's capacity to deliver services at the current levels.

There is a five-year financial strategy that is aligned to the council's priorities and demonstrates how it will address future budget challenges.

The council has made savings over the past few years. However, the size of the future funding gap and a reliance on non-recurring savings means it will struggle to make the required savings in future years.

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

Financial planning

81. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the council's strategies, and which reflect the impact of future pressures on the council. The Accounts Commission recommended that councils should plan for a range of scenarios, so that they are prepared for different future levels of funding and income.

82. The council has a five-year financial strategy in place covering the period 2019/20 to 2023/24. The strategy includes funding gap projections for the five-year period based on scenario planning. Spending plans for the three-year period from 2019/20 to 2021/22 were approved as part of the 2019/20 annual budget process and were used to update the five-year financial strategy, to reflect the latest assumptions. The estimated funding gaps for the five-year period range from £6.3 million to £32.8 million (being the worst case scenario).

Funding position and savings plans

83. In February 2019, council approved a 2019/20 budget for General Services and HRA revenue and capital and outlined the budgets for subsequent years. The General Fund revenue budget was approved over a three-year financial planning period covering 2019/20 to 2021/22. HRA revenue and capital, and General Fund capital, cover the five years until 2023/24.

84. The council is facing several challenges in maintaining a sustainable financial position over the medium to long term. These include rising demands for services and the increasing cost of services.

85. The council used scenario planning to calculate estimated funding gaps for the five-year period as part of its 2018-23 financial strategy. Three scenarios were used ranging from best to worst case, based on a limited number of key variables (Revenue Support Grant, pay and non-pay inflation).

86. The council's report 'Financial Prospects - 2019/20 and Beyond' (October 2018) forecasts funding gaps of £5.6 million and £1.9 million for 2019/20 and 2020/21 respectively. The council plans to bridge these gaps through efficiency savings, without using reserves. The Financial Prospects paper presented various financial scenarios to council, covering the five years to 2023/24 and this has been reflected in the 2019-24 finance strategy (December 2018).

Changing landscape for public financial management and medium to long term financial planning

87. Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity.

88. A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning. As mentioned above, the council has a five-year financial strategy linked to its capital plans and is addressing the challenges.

EU Withdrawal

89. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

90. The council has flagged the economic uncertainty in relation to Brexit as a challenge within its current Council Plan as follows: *East Lothian's economy will also feel the impact of the decision to leave the EU.* Key sectors of East Lothian's economy –farming, food and drink, and tourism –and Edinburgh's financial and higher education sectors, which employ a significant proportion of East Lothian's population, could be negatively impacted by 'Brexit' through loss of EU subsidies, changes in trade agreements and negative changes in currency values.

91. EU withdrawal is included on the council's corporate risk register as a high risk. To mitigate the risk, the council has established a working group to consider the implications of EU withdrawal and is working proactively across the public sector.

92. Work is still ongoing to identify the potential impact of any changes at the council. The council should ensure it closely monitors developments and has plans in place to mitigate any emerging operational risks.

Part 4

Governance and transparency



Main Judgements

The council's governance arrangements are appropriate, effective and support good governance and accountability.

The council demonstrates a commitment to openness and transparency in the way it conducts its business.

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.

Governance arrangements

93. We review the Council's governance and accountability arrangements annually. This included:

- Confirming that the governance framework and governance arrangements, including decision-making and scrutiny, are regularly reviewed and updated to ensure they remain effective – we found these arrangements to be satisfactory.
- Assessing the effectiveness of decision-making to ensure it is balanced by effective scrutiny and challenge by those independent of the body – we found sound processes in place surrounding decision making and effective scrutiny and challenge by Members during 2018/19.
- Confirming that there is effective scrutiny and challenge in place over policy decisions, service performance, and programme management – we observed through various committee attendance effective scrutiny and challenge.
- Confirming that decision makers have the information they need to scrutinise, challenge and make transparent decisions – we found that decision makers were given appropriate information to make decisions.
- Ensuring that it is clear what decisions have been made, who made them and the rationale supporting those decisions – we found that documentation over decisions and rationale was clear and available.

94. Overall, we concluded that the council's governance arrangements are appropriate, effective and support good governance and accountability.

Openness and transparency

95. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. There are increasing public expectations for more openness and transparency as citizens want to understand how public money is used and, to support their participation in local service design and delivery.

96. A transparent organisation shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets.

97. There is evidence from several sources which demonstrate the council's commitment to transparency. Members of the public can attend meetings of the full council, audit and governance committee and other committees. Minutes of these committee meetings and supporting papers are readily available on the council's website.

98. The council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint. In addition, the website provides details of the citizen's panel and how to join it.

99. We conclude that East Lothian Council demonstrates a commitment to openness and transparency.

Transparent reporting of financial performance

100. The management commentary that accompanies the financial statements should explain in simple terms and provide clarity to readers in order to help them understand clearly how the council has performed against its budget and how this is reconciled to the financial statements.

101. The council have redesigned the look, feel and layout of their 2018/19 annual accounts. The management commentary highlights the key success stories of 2018/19 as well as setting out political structure, decision making processes, the council's financial strategy followed by a summary of outturn against budget (for both revenue and capital). The management commentary also includes a brief summary of the group components' financial performance. The management commentary highlights the council's overspend against the approved budget with a clear explanation of the reason for this.

102. Within the section on financial strategy, the management commentary explains the council's spending plans alongside their planned efficiency savings and the efforts underway to deliver those savings.

103. Key financial performance indicators are included in the management commentary and there is adequate signposting to the council's annual performance report where the full suite of indicators and performance against them can be found.

104. Overall, we conclude that the council demonstrates a commitment to transparency in the way reports publicly on financial performance.

Integration of health and social care

105. The Scottish Government's 2020 vision places greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing

their lives with their family and friends and doing the things that give life meaning and value. The integration of health and social care is a mechanism to achieve this.

106. The East Lothian Integration Joint Board (the IJB) is provided in partnership with NHS Lothian and East Lothian Council, and became fully operational on 1 April 2016. The financial transactions of the IJB have been consolidated into the council's group accounts and we have audited these with satisfactory results

107. In 2018/19 the IJB reported an underspend of £1.72 million against the original budget (2017/18: the IJB broke even). The underspend is recorded as a useable reserve with £0.69 million earmarked for specific purposes and the remaining £1.07 million is held as a general reserve. The council contributed £45.06 million to the IJB and NHS Lothian contributed £116.53 million for 2018/19. A separate annual audit report for 2018/19 East Lothian IJB was presented to the Audit and Risk Committee on 10 September 2019.

Part 5

Value for money



Main judgements

A number of activities are underway in response to the Best Value Assurance Report published in November 2018 although several areas are not due for completion until 2020. The council will wish to ensure it can demonstrate what difference they are making in respect of these improvements.

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

Best value

108. Best value is assessed over the five-year audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five-year period. The BVAR report for East Lothian Council was published in November 2018 and included recommendations for improvement.

109. The council's response to the recommendations was presented to the full council in December 2018 and an Improvement Action Plan prepared. A high level progress update was provided to the Audit and Governance Committee in June 2019 as an appendix to the report on Corporate Self Governance Self-Evaluation. We have followed up the council's progress in implementing the recommendations and [Exhibit 8](#) details the recommendations for improvement and a summary of progress to date.

110. Overall, the council is progressing a number of activities in response to the Best Value Assurance Report recommendations. Several areas are not due for completion until 2020. We will revisit progress against the recommendations again during the 2019/20 audit. The council will wish to ensure it can demonstrate what difference they are making in respect of these improvements.

Exhibit 8

Progress in implementing the 2017/18 best value recommendations

2017/18 BVAR recommendation	Progress in implementing each recommendation
<p>In delivering its vision, the council should ensure that performance reporting arrangements are more coherent and better aligned to demonstrate the delivery of the</p>	<p>East Lothian completed a thorough review of its approach to continuous improvement in March 2019. This has resulted in improved guidance, emphasising five elements of their spiral model. It has given clearer guidance to services on how to implement the five elements and also reinforced</p>

2017/18 BVAR recommendation	Progress in implementing each recommendation
council's vision, supporting objectives, service performance and savings plans.	direction on a performance evaluation in the spring/summer and a people evaluation in late autumn. There is now a clearer focus on indicators, with the council adopting a top 10 and top 50 indicator set.
Work with the East Lothian Partnership to agree outcome measures and report on progress in reducing inequalities and supporting the economy.	The Partnership has moved forward, identifying in February 2019 the indicators that will be used to report progress. These are organised by the three themes and the report contains baseline figures and targets for most indicators for 2022.
Report the benefits the Transformation Programme projects are having for customers and communities; and the savings that are being realised.	Reporting of the Transformation Programme is done through the senior leadership team who receive regular update reports. This shows the council has split its Transformation Programme into two elements: transformation projects and wider East Lothian council projects. There are 13 transformation projects and four wider East Lothian council projects. The Quarter 1 report is currently being drafted. Internal audit are conducting an audit on benefits realisation as part of their 2019/20 plan.
Continue to focus on improving education performance for all children and young people in East Lothian.	Improving the performance of education is set out as a priority within the revised top 50 council indicators. Since the BVAR was published in 2018, the Education Committee have received a report compiling the findings of the Scottish Government's Insight data (June 2019). This report has a clear focus on improvement actions.
Build on its good arrangements for scrutiny by ensuring reports are free of jargon, clear on purpose and provide the information elected members need to scrutinise effectively	The council carried out an elected member survey followed up with a workshop to discuss the survey findings in August 2019. Less than half of the members accepted the offer of a personal development plan. The survey gave helpful feedback from elected members on how to improve the quality of council reports. A suggestion was to provide a short summary of the main points, within longer reports.
Develop more detailed plans linked to its longer-term financial strategy and to delivering the savings required.	Quarterly monitoring reports include a budget line on transformational savings and areas where other savings will be generated. A 1st quarter report is being prepared and this is to include monitoring against savings.
Ensure the Transformation Programme delivers the expected benefits within the planned timeframe and prioritise the projects most likely to lead to major change	No judgement expressed yet on whether the transformation programme is delivering the expected benefits / savings required. This is ongoing.
Prepare individual service workforce plans to support the high-level Workforce Plan Implementation Plan to help the council consider in	High level workforce plan is now in place. There is a good focus on workforce planning with service managers working on reprofiling the workforce for 2022.

2017/18 BVAR recommendation	Progress in implementing each recommendation
more detail how it will manage changes in services and staffing levels.	In March 2019 the council launched a management and leadership development programme. The council was able to achieve a balanced budget for 2019/20 without any significant cuts to workforce and in fact staff are growing in some areas.
Continue to focus on working with communities	The deadline for this high level recommendation and those below is March 2020 per the council Improvement Plan.
Ensure community and third sector organisations, such as charities and voluntary groups, have the opportunity to shape council strategic planning at an earlier stage	The council is due to consult with the third sector on establishing a community charter. A major service review of the new Connected Communities Service is being completed. The council continues to use its consultation hub, where it publicises current consultations reports back the results of formal consultations, so the public can follow what action has been taken as a result of their feedback.
Continue to support Local Area Partnerships to focus on priority actions within their local area plans.	The deadline is March 2020 per the council Improvement Plan.
Coordinate consultation activity through its People's Voice framework and tell local people how it has used their feedback	The council is now routinely providing feedback on major consultations.

Following the public pound

111. Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

112. The council's financial regulations contain a specific section on following the public pound. These emphasise that services must adhere to the council's guidance for allocating funds to external organisations. The guidance applies where funding is provided, or transferred, to arm's-length bodies such as companies, trusts, voluntary and community-based organisations.

113. Formal reporting and monitoring arrangements have been put in place for funding to external bodies, but this is taking time to be fully implemented. We reported in our 2016/17 and 2017/18 annual audit reports that further work could be done to strengthen this area specifically with regards to the significant group components (Enjoy East Lothian Ltd and Musselburgh Racing Associated Committee).

114. 2018/19 has seen an improvement on prior years with the 2017/18 annual reports for Enjoy East Lothian Ltd and East Lothian Land Ltd being presented to the Audit and Governance Committee in November 2018 (this is the first available committee following the formal signing of those accounts). At the June 2019 Audit and Risk Committee meeting, a summary of the Musselburgh Racing Associated Committee's performance for 2018/19 was presented with an opportunity for members to query the report. There have been no 2018/19 reports on Enjoy East Lothian Ltd presented during the financial year. This remains an area for ongoing improvement.

Overview of performance targets

115. The council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

116. The most recent [National Benchmarking Overview Report 2017/18](#) by the Improvement Service was submitted to the Policy and Performance Review Committee (PPRC) in February 2019. The report submitted to the PPRC highlighted the following changes in council performance between 2016/17 and 2017/18:

- 19 indicators (26%) had improved
- 29 indicators (40%) remained roughly static and,
- 24 indicators (33%) declined.

117. The PPRC receives quarterly performance reports throughout the year and an annual performance report. These reports monitor progress against the council's key priorities. The most recent report was submitted to the June 2019 PPRC and includes, for the first time, tracking of progress against the Council Plan Top 50 Indicators. The report also highlights key improvements as well as areas to strengthen. We also noted that a briefing for elected members will be held in September 2019 to review proposed KPIs and, if necessary, identify alternative indicators that elected members would like to see included. This is intended to improve the scrutiny of performance and to demonstrate that there is a mechanism for internal scrutiny by members of performance and service outcomes.

Statutory performance indicators (SPIs)

118. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

119. For 2018/19 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving best value
- SPI 2: relates to the reporting of performance information as required by the [Local Government Benchmarking Framework](#).

120. We have reviewed a number of areas as part of our best value follow-up during 2018/19 in relation to SPI 1. Progress against these areas is noted in [Exhibit 8](#) above.

121. For SPI 2, we placed reliance on the work on internal audit. The council's internal auditors selected four Adult Social Care performance indicators to review in 2018/19. The review focused on the Local Government Benchmarking Framework (LGBF) indicators for 2017/18, as published by the Improvement Service. Overall internal audit provided moderate assurance with several areas for improvement which the council are addressing.

National performance audit reports

122. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, Audit Scotland published a number of reports were issued which are of direct interest to the council. These are outlined in [Appendix 4](#).

123. The council has sound arrangements in place for considering national reports. National reports are presented to the Audit and Governance Committee with a thorough covering paper summarising the report and putting it into the East Lothian context. From a review of the papers and attendance at the Audit and Governance Committees during 2018/19, we conclude that these arrangements are effective.

Appendix 1

Action plan 2018/19

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Dr Bruce Fund / Trust Review</p> <p>The Dr Bruce Fund was set up to provide relief for the poor of Musselburgh. The Dr Bruce Fund awarded the same two individuals £60 in 2018/19 (2017/18: £60, 2016/17: £50). More could be done by East Lothian Council to promote the trust and its availability to the residents in Musselburgh.</p> <p>Risk – there is a risk that the fund may not be operating the way in which was intended i.e. providing relief for the poor of Musselburgh.</p>	<p>We repeat our recommendation that the Council should review the method(s) used to promote this (and other) charitable trusts as part of the wider trust review to ensure that the potential availability of these funds are known to the wider community (refer paragraph 19).</p>	<p>A wider review of Trusts is on-going. The use of each Trust fund and how these funds can be accessed is being considered as part of that Review.</p> <p>Responsible officer: Chief Operating Officer Finance</p> <p>Agreed date: March 2020</p>
2	<p>Group accounts</p> <p>The council needs to work with the various subsidiaries and associates to plan and agree a suitable timetable for receipt of audited accounts to ensure all group components are fully signed off by the time the council's accounts are to be approved.</p> <p>Risk – There is a risk that the group accounts are not up-to-date and based on incomplete and unaudited information. Delays could impact on the statutory deadline for signing the council's accounts.</p>	<p>We repeat our recommendation that the council should continue to work with the various subsidiaries and associates to plan and agree a suitable timetable for receipt of audited accounts for the group components (refer paragraph 24).</p>	<p>The Council had in place appropriate timescales for Group components for 2018/19 however some delays have been experienced. Work has already been progressing with Group components to set out timescales for 2019/20.</p> <p>Responsible officer: Chief Operating Officer Finance</p> <p>Agreed date: June 2020</p>
3	<p>Corporate finance review</p> <p>A review of the finance function with a view to redesigning the service was due to take place and be completed during 2018/19. This has yet to be completed.</p>	<p>The council needs to conclude the finance service review / redesign to ensure that the service is fit for purpose and meets the needs of council going forward (refer paragraph 71).</p>	<p>A draft service review has been developed and this will be progressed as a matter of priority.</p>


No. Issue/risk

Risk – There is a risk that the finance function does not meet the needs of council going forward.


Recommendation

Agreed management action/timing

Responsible officer: Chief Operating Officer Finance

Agreed date: On-going – by March 2020

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Management override of controls</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 to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and repayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Satisfactory – we found no evidence of management override of controls during our normal audit procedures.</p>
<p>2 Risk of fraud over income</p> <p>ELC receives a significant amount of income from several sources, in addition to Scottish Government Funding, including income from fees and charges. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>Satisfactory – we found no evidence of this during our normal audit procedures.</p>
<p>3 Risk of fraud over expenditure</p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires public sector auditors to give consideration to the risk of fraud over expenditure. The extent of expenditure means that that there is an inherent risk of fraud.</p>	<p>Review work on the National Fraud Initiative matches.</p> <p>Assess high level key controls in areas of significant expenditure.</p> <p>Focused substantive testing of expenditure and housing benefit transactions.</p>	<p>Satisfactory – we found no evidence of fraud during our audit work.</p>
<p>4 Estimates and judgements</p> <p>There is a significant degree of subjectivity in the measurement</p>	<p>Completion of 'review of the work of an expert' in</p>	<p>Satisfactory – we found estimates and judgements to be appropriate (where applied).</p>

Audit risk	Assurance procedure	Results and conclusions
and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.	<p>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>	

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p>5 Financial sustainability</p> <p>ELC's 2019-20 to 2023-24 Financial Strategy sets out the estimated level of revenue savings required over the next 5 years.</p> <p>Current approved spending plans require the delivery of over £12.5 million of efficiencies between 2018-19 and 2020-21. In addition to the approved efficiencies, the total estimated revenue savings required over the next 5 years has been calculated based on a number of different scenarios and ranges from £6.3 million to £32.8 million.</p> <p>The Quarter 2 financial report for 2018/19 highlights that £493,000 of the £5 million planned efficiency savings for the year are unlikely to be delivered in 2018/19.</p> <p>As the delivery of the planned 2018/19 savings is proving to be challenging, there is a risk that ELC may not be able to deliver the level of savings required to be financially sustainable in the longer term.</p>	<p>Review the council's progress towards delivery of its transformation and savings plans as part of BVAR follow up work and normal audit procedures.</p>	<p>Ongoing - Delivering the transformation programme will be challenging alongside increasing demands on services from a growing population.</p> <p>The council should ensure it continues to regularly review its transformation programme to ensure it can deliver any changes within the timescales continue to prioritise the projects that are most likely to result in major change and opportunities for savings.</p> <p>Audit Scotland will continue to monitor the delivery of this programme in future years.</p>
<p>6 Financial management</p> <p>The Quarter 2 financial report for 2018/19 identifies three service areas (Adult Wellbeing, Children's Wellbeing and Additional Support for Learning) as high risk of not operating within approved budgets. ELC's financial forecasts for the year indicate that overall there is a high risk it will overspend against its 2018/19 budget, with current</p>	<p>Review of financial monitoring reports and the council's financial position.</p>	<p>Satisfactory – at year end the council overspent against its approved budget by £1 million, main area of overspend was Children's Services (within Health and Social Care Partnership directorate).</p> <p>Routine financial monitoring reports are presented to committees flagging the areas of concern; these are scrutinised by members.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>estimates suggesting this could be between £1 and £2 million.</p>		<p>The council recognises the challenges and these are reflected in their financial plans.</p>
<p>7 Governance and transparency – Corporate Finance and Internal Audit vacancies</p> <p>ELC’s Corporate Finance Manager, with responsibilities in a number of areas including debtors, creditors, banking and treasury management, left in November 2018. The Internal Audit Manager is due to retire at the end of January 2019.</p> <p>ELC is exploring options to address the vacancies in these two key finance posts, in the meantime some additional responsibilities have been taken on by the Service Manager for Business Finance.</p> <p>Until a review of the finance function, and allocation of the Corporate Finance Manager’s responsibilities is completed, there is a risk that management / supervisory controls in these areas may not operate effectively.</p> <p>Until a replacement Internal Audit Manager is in post, there is a risk that the council may not be able to demonstrate full compliance with PSIAS nor fully complete the 2018/19 internal audit plan.</p>	<p>Monitor the arrangements for delivery and completion of the 2018/19 Internal Audit Plan, including filling the post of Internal Audit Manager.</p> <p>Key controls testing of accounts receivable, accounts payable and cash/bank systems</p>	<p>Internal Audit - Satisfactory - 2018/19 Internal audit plans completed (with two outstanding reports due to be presented in September 2019). Head of internal audit post was not filled at the time of writing however arrangements are in place. Internal audit complied with PSIAS during the year.</p> <p>Corporate Finance – Unsatisfactory - Finance service review / redesign is ongoing and requires to be completed and communicated to staff. A recommendation has been raised in Appendix 1, action plan point 3.</p>
<p>8 Value for money – Following the Public Pound</p> <p>In our 2017/18 Annual Audit Report, we recommended that ELC’s reporting and monitoring arrangements for significant group components should be revisited, clarified and strengthened to ensure the Council is complying with the duties set out in the Code of Guidance on Funding External Bodies and Following the Public Pound.</p> <p>The council has made some progress since our 2017/18 report, with reports on</p>	<p>Monitor arrangements put in place to report service and financial performance to a committee of the council.</p>	<p>Satisfactory and ongoing - 2017/18 annual reports for Enjoy East Lothian Ltd and East Lothian Land Ltd presented to the Audit and Governance Committee in November 2018.</p> <p>Musselburgh Racing Associated Committee’s performance for 2018/19 presented in June 2019 with an opportunity for members to query the report.</p> <p>There have been no reports on Enjoy East Lothian Ltd presented during 2018/19. This remains an area for ongoing improvement the council are working to address.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>Enjoyleisure and East Lothian Land Limited being taken to the November 2018 Audit & Governance Committee. There remains scope for further improvement, including consideration of interests in any significant entities falling out-with the group accounting boundary e.g. Trusts. Reports should also be presented in a more timely fashion.</p>		

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £40,000 and request they be corrected.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level (£2.4 million) as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements.

#	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Property, Plant and Equipment			96	
	Creditors				96
	Net impact			96	(96)

Notes:

Entry 1 relates to retentions for land and buildings, and roads that have not been included in the 2018/19 financial statements.

Appendix 4

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Local government relevant reports

[Councils' use of arm's-length organisations](#) – May 2018

[Health and social care integration: update on progress](#) – November 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

East Lothian Council

2018/19 Annual Audit Report

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REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE OF EAST LoTHIAN COUNCIL

6

1.0 INTRODUCTION

The purpose of this report is to update members on the role and duties of the Assessor and Electoral Registration Officer of the Lothian Valuation Joint Board, and to outline current pressures, issues and risks facing the organisation.

2.0 ROLE OF THE ASSESSOR AND ELECTORAL REGISTRATION OFFICER

- 2.1 The Assessor is responsible for the creation and maintenance of the Valuation Roll and Council Tax List. It is through these functions that local property taxes are raised. Relevant information is passed regularly to each constituent authority of Lothian Valuation Joint Board allowing collection of these taxes.
- 2.2 The Assessor also acts as the Lothian Electoral Registration Officer and is responsible for the annual compilation and maintenance of the Electoral Register. The Register represents a list of all those registered electors who hold the necessary franchise to vote in various elections and referendums.
- 2.3 The Assessor and ERO, a statutory official, is an officer of the Lothian Valuation Joint Board and not an officer of the individual authorities that make up its composition. This independence is deemed essential for the proper discharge of the statutory duties laid upon the Assessor allowing the decisions made in the performance of their duties to be free from political influence. The correctness of entries in the Valuation Roll and Council Tax List are not matters for which the Assessor is answerable to the Board or local authority. Provision for such a challenge is provided in legislation by way of appeal procedures.
- 2.4 The administration of the Assessor and ERO's organisation and the overall expense involved in carrying out the statutory duties are matters which are considered by the Board.

3.0 LOTHIAN VALUATION JOINT BOARD

3.1 The Board was formed in 1996 following local government re-organisation which established 32 unitary authorities in Scotland. Previously the office of the Assessor and Electoral Registration Officer formed a department of Lothian Regional Council. As a matter of expediency the 14 Assessor areas that existed pre-1996 re-organisation were retained and where necessary formed into Joint Boards ensuring coverage of the new 32 Council areas. There are currently 10 Assessors appointed to Joint Boards and 4 Assessors appointed to unitary authorities.

3.2 The Lothian Valuation Joint Board comprises membership from 4 unitary authorities, East Lothian, Midlothian, West Lothian and City of Edinburgh Councils. There are in total 16 elected members that comprise the Board with City of Edinburgh providing 9, East Lothian 2, Midlothian 2, and West Lothian 3.

3.3 The Board sits in total 5 times during the year and operates within the framework provided by its Scheme of Delegation and Financial Regulations.

4.0 THE VALUATION ROLL (NON DOMESTIC RATING)

A system of property taxation has been in place in various guises for hundreds of years. The concept of attaching tax to immovable property has long held an attraction and this, coupled with the relatively low cost of administration, has retained property as the favoured basis for local taxation.

4.1 The Roll

4.1.1 The Valuation Roll compiled by the Lothian Assessor is a list of all lands and heritages that exist within the Lothian area which are not exempt from entry. There are currently 36,491 entries in the Lothian Roll with a total rateable value of £1.324 billion. The table provides information per Council area. On a Scotland wide basis there are 255,373 entries in Valuation Rolls accounting for a total rateable value of £7.430 billion.

Council Area	No of Subjects	Total
West Lothian	6,558	208,937,590
East Lothian	3,678	80,274,940
City of Edinburgh	23,128	949,349,479
Midlothian	3,127	85,945,700

4.1.2 Each entry in the Roll comprises an address, property description, names of proprietors, tenants and occupiers, a rateable value, and an effective date.

4.1.3 The rateable value in round terms represents the Assessor's estimate of the annual rent at a given point in time known as the tone date, which, subject to certain conditions, could be expected to be achieved in the open market between a willing landlord and tenant for the property identified. It is upon this annual rateable value that local authorities apply the rate poundage in order to raise and collect non-domestic property taxes.

4.1.4 Around 65% of subjects appearing in the Lothian Roll fall into the familiar property classes such as shops, offices, warehouses, restaurants, public houses and supermarkets. However the Roll also contains entries for such subjects as mines, quarries, sporting subjects, telecommunication undertakings, clinics, surgeries, hospitals, theatres, and harbours to name a few.

4.2 Revaluation

The Valuation Roll is made up on a regular cycle which currently covers a five year span. Each cycle commences on the 1st April in the year of revaluation. It is the intention however to alter this to a 3 year span commencing in 2022. The last revaluation was effective from the 1st April 2017. The next revaluation is scheduled for 1st April 2022 followed by a revaluation on 1st April 2025.

4.2.1 A Revaluation requires Assessors to revalue all the lands and heritages in their area, establishing new levels of value that reflect the movement in the rental market since the last revaluation. Notification of a revaluation is provided to all parties who have an interest in a property appearing in the Roll via the issue of a Valuation Notice.

4.2.2 The purpose of a revaluation is to redistribute the NDR tax burden in accordance with and reflecting the movements in the rental market occurring between revaluations. The rateable values calculated are therefore a snap shot in time and are only reviewed in accordance with the revaluation cycle timetable.

4.3 Running Roll

For each of the years within the revaluation cycle that a Valuation Roll exists, amendments can be made to insert new properties that have come into existence, delete those that no longer exist, or alter existing entries to reflect material physical alterations, sub-division or combination. In addition name information relating to proprietors, tenants and occupiers is constantly updated. All this activity is known as annual running roll. Notices are issued in respect of all these changes and the relevant information passed to local authorities for billing purposes.

For the period 1st April 2018 to 31st March 2019 the number of changes and reason for the change for properties in East Lothian is shown below. This amounts to 8.5% of the total number of properties on the valuation roll for East Lothian.

01/04/18 – 31/03/19	Insert	Amend	Delete	Re-reference	Deletion Amend	History Amend
East Lothian	115	137	50	10	0	1

New entries to the valuation roll included the new Wallyford Primary School, a new nursing home at Mill Wynd in Haddington and thirty new self-catering units.

4.4 Appeal Process

In respect of any entry legislation provides the ratepayer and those others named in the Roll with a right of appeal. There exists statutory time periods within which appeals can be lodged. At a time of revaluation all appeals must be lodged by the 30th September in the year of revaluation, while at all other times an appeal can be lodged within six months following receipt of notification that an alteration has been made to an entry in the Roll or when a new entry has been made. An appeal can be lodged at any time on the basis of a material change of circumstances. However such an appeal, if successful, would only be effective from the later of the date of the material change or the start of the financial year in which the appeal was lodged.

4.4.1 In the majority of cases appeals are settled following discussion and negotiation between the Assessor and the ratepayer, or ratepayer's agent. Where this is not possible appeals shall be heard by the Valuation Appeal Committee, or in limited circumstances the Lands Tribunal for Scotland, or the Lands Valuation Appeal Court. The Valuation Appeal Committee comprises a lay panel of volunteers drawn from society at large. The Committee also includes a secretary the costs of which are defrayed by the Board.

4.4.2 The table below gives an indication of the volume of appeals received following the 2017 Revaluation, the current disposal performance and the level of value adjustment made.

Council Area	Revaluation Appeals	Running Roll	Closed	Withdrawn	Adjusted
City of Edinburgh	8,352	1,283	6,053	4,320 (71%)	1,733 (29%)
Midlothian	1,059	114	545	343 (63%)	202 (37%)
West Lothian	2,498	365	1,388	1,093 (79%)	295 (21%)
East Lothian	1,107	112	605	464 (77%)	141 (23%)
Total	13,016	1,874	8,591	6,220 (73%)	2,371 (27%)
E.L.C.	567	17	318	289 (91%)	29 (9%)

5.0 COUNCIL TAX

During 1993, Community Charge was replaced with Council Tax as a means of raising local taxes. This saw the return of domestic property as a basis for local taxation.

5.1 Every dwelling within Lothian is placed into one of eight value bands, reflecting an assessment of capital value as at 1991 levels. It is upon these bands, noted below, that taxes are levied.

- Band A Dwellings with a capital value of up to £27,000
- Band B Dwellings with a capital value of between £27,001 and £35,000
- Band C Dwellings with a capital value of between £35,001 and £45,000
- Band D Dwellings with a capital value of between £45,001 and £58,000
- Band E Dwellings with a capital value of between £58,001 and £80,000
- Band F Dwellings with a capital value of between £80,001 and £106,000
- Band G Dwellings with a capital value of between £106,001 and £212,000
- Band H Dwellings with a capital value over £212,000

5.2 There are currently 423,499 entries on the Council Tax List for Lothian and the table below indicates their allocation between bands and council areas.

Council Area	A	B	C	D	E	F	G	H	Total
West Lothian	17,705	24,954	10,260	8,621	9,886	6,249	2,807	197	80,679
City of Edinburgh	24,170	48,061	44,950	40,612	42,663	25,923	22,217	4,133	252,729
East Lothian	1,196	9,429	15,242	6,454	6,361	5,084	4,426	680	48,872
Midlothian	979	12,539	11,033	5,540	4,988	3,630	2,330	180	41,219
Sub-total	44,050	94,983	81,485	61,227	63,898	40,886	31,780	5,190	423,499

5.3 The Council Tax List is maintained on an ongoing basis with changes being made to reflect new inserts, deletions, sub-divides and combinations, appeal adjustments, corrections, and re-banding following point of sale assessment.

Below is a table showing the number of new houses entered on the Valuation List along with their banding for the last three years. The total number over the three years is 15,716.

2016/17	A	B	C	D	E	F	G	H	Total
Edinburgh	209	265	294	738	615	369	336	52	2,878
Midlothian	5	48	93	213	118	190	91	4	762
West Lothian	48	47	44	132	162	187	46	3	669
East Lothian	3	84	98	156	64	60	100	6	571

2017/18	A	B	C	D	E	F	G	H	Total
Edinburgh	365	199	445	722	936	566	344	63	3,640
Midlothian	4	57	133	126	83	167	101	2	673
West Lothian	47	61	64	146	126	171	48	7	670
East Lothian	5	52	196	168	131	60	190	6	808
2018/19	A	B	C	D	E	F	G	H	Total
Edinburgh	229	514	412	719	552	329	371	59	3,185
Midlothian	5	12	118	137	97	152	140	8	669
West Lothian	47	117	155	263	158	151	76	3	970
East Lothian	0	28	114	127	127	111	214	6	727

5.4 Legislation affords council tax ratepayers a right of appeal against the banding of their property or any adjustment to it. New council tax payers have six months in which to lodge an appeal following becoming the ratepayer.

6.0 ELECTORAL REGISTRATION

The ERO is responsible for the creation and maintenance of the Electoral Register for each of the four constituent councils of the Board. The Register is effectively a list of addresses showing the names of persons qualified to vote at that address, and showing their entitlement to vote at various elections and referendums.

6.1 The Register

6.1.1 The Register is updated every month throughout the year (Jan–Sept inclusive), excluding the annual canvass period, and re-published following canvass on the 1st December each year. It is used for elections to the Scottish Parliament, UK Parliament (Westminster), and for local government elections, national referendums and Community Councils.

6.2 The table below provides some specific statistics for the East Lothian Council area broken down by Ward. For comparison purpose the table also includes totals for the whole LVJB area.

Ward Number/Name	Number of Households	Electorate as at 1 Dec 2018	Current Electorate	Number of Postal Voters
1 - Musselburgh	10,636	15,864	16,098	3,309
2 - Preston, Seton and Gosford	8,366	14,553	14,634	2,579
3 - Tranent, Wallyford & Macmerry	8,460	14,504	14,664	2,242
4 - North Berwick Coastal	6,843	10,869	10,754	2,953

5 – Haddington and Lammermuir	8,487	14,275	14,185	2,822
6 – Dunbar and East Linton	6,883	11,264	11,115	2,002
East Lothian totals	49,675	81,309	82,469	15,547
LVJB area totals	437,523	658,970	670,485	121,380

6.3 Young Persons

6.3.1 Since 2015 persons 16 years and over have been given the franchise allowing them to vote in Scottish Parliament, local government and Scottish referendums. Each year the ERO is active with education establishments encouraging this age group to register. The table below provides the 2018/19 position on registration levels achieved within this group who are part of the education system.

Constituent Council	Eligible Students	Total Registered	% Registered	% Increase
City of Edinburgh	8132	6770	83.25	23.70
East Lothian	2432	2122	87.25	22.83
Midlothian	2031	1621	79.81	23.17
West Lothian	4678	4091	87.45	24.53
Total	17273	14604	84.55	23.56

6.4 IER

6.4.1 During 2014 a system of Individual Electoral Registration was introduced (IER). This new approach to registration gave electors an individual responsibility to fulfil the registration process. The principle aim of this change was to improve accuracy and completeness with the register and help reduce the possibility of electoral fraud.

6.5 Under the IER system an elector must provide a national insurance number and date of birth as part of the registration process. These details are checked with national databases held by the Department of Work and Pensions before the registration process can be completed.

6.6 To assist and accelerate the registration process an online registration facility has been developed and currently around 88% of registration applications are undertaken using this facility.

6.7 Annual Household Canvass

6.7.1 Each year between August and November an annual household canvass is undertaken. A Household Enquiry Form (HEF) is issued to every household in the Lothian area in order to capture any amendments to those persons residing at the address. For new

names added to the HEF this gives rise to the issue of a second form known as an Invitation to Register (ITR). This allows the elector to provide the necessary information to complete the registration process. Alternatively the elector may undertake the registration process using the online facility.

6.7.2 The introduction of the HEF and ITR forms part of the IER legislative requirement. It is also a requirement to follow up non-returned forms with up to 2 reminders and a canvasser door knock.

6.7.3 The 2019 annual household canvass is currently under way and the table below indicates the latest position.

Ward Number/Name	Current Household Canvass form return rate
1 - Musselburgh	66.34%
2 - Preston, Seton and Gosford	68.29%
3 – Tranent, Wallyford and Macmerry	63.86%
4 – North Berwick Coastal	74.35%
5 – Haddington and Lammermuir	69.84%
6 – Dunbar and East Linton	69.04%
East Lothian totals	68.35%
LVJB area totals	62.21%

6.8 Elections and Referendums

The Lothian ERO works closely with the Returning Officers for each of the constituent councils of the Board. Some years ago the Lothian and Borders Electoral Working Group was formed and through this a close and useful working relationship is maintained between the parties. This proves invaluable during the preparation period before major electoral events as the ERO is responsible for supplying key data sets to Returning Officers such as poll card data, postal vote data, and poll registers.

6.8.1 The ERO is also extremely busy at election periods dealing with high volumes of new registrations, absent vote applications, and proxy and postal proxy applications. These all require processing within a tight regulatory timeframe that is contained within the overall election timetable.

7.0 CURRENT ISSUES

There are a range of current issues and pressures associated with each statutory function in addition to those organisational pressures created by the ongoing environment of fiscal constraint within local government.

Each of these is outlined below.

7.1 Electoral Registration

7.1.1 Individual Electoral Registration

The introduction of IER created additional financial burdens on ERO's. This was primarily due to the prescriptive nature of the new legislation and the insistence of adopting a paper based approach to the annual household canvass.

While an element of mitigation was introduced with an online facility assisting with the registration process, IER currently creates an additional annual financial pressure of £225k.

This burden is recognised by the UK Government and additional funding has been provided annually since 2015 by the Cabinet Office.

The current legislative requirement which underpins annual canvass is due for revision with effect from 2020. This shall see the removal of many prescriptive elements of the current requirements and the introduction of a more permissive approach.

Following a matching process with national databases EROs shall be able to adopt a range of different methods with which to make contact with households. This includes the use of email, telephone, and through online facilities. In addition dependant on the results of the matching process the requirement for the ERO to chase for a response is significantly reduced.

The Cabinet Office have indicated that as a result of these changes the provision of additional funding shall cease in 2020.

Within the organisation various models are being tested assessing the financial impact of the new approach as set against the current level of additional burden. It is important that any changes introduced maintain and enhance completeness and accuracy within the register.

7.1.2 Elections and Referendums

The risk of unscheduled major electoral events is currently an ever present possibility. All election events are subject to definitive timetables that indicate when certain activities must take place. Depending on the electorate's reaction to the event these "must do by" dates become considerable pressure points. This is compounded when an election event has not been expected. During 2017 a snap General Election was called while work was ongoing for the Scottish Local Government elections. This resulted in there being a matter of weeks between each event and in order to ensure that elector expectations were met, unfunded budget pressures arose to the extent of £45k.

Within the organisation pre-emptive planning has been ongoing for some time. This involves reflection on recent past election events, the identification of possible high volume workloads, pinch points, the creation of draft timetables, resource identification and allocation, process improvement possibilities, elector engagement activities, and any additional ICT requirements. While this provides a high level of preparedness it is

impossible to accurately predict the level of recourse the electorate shall make on ERO services at such times.

7.1.3 Legislative Change

The following legislation is under consideration, or being prepared for consideration, by the Scottish Parliament,

- Electoral Reform Bill
- Scottish Election (Franchise and Representation) Bill
- The Representation Of the People (Annual Canvass)(Amendment) Scotland Regulations 2019
- The Referendums (Scotland) Bill 2019
- Electronic Vote Counting Project 2022

This represents an ambitious programme with certain items being of considerable significance to Electoral Registration Officers. In particular the Franchise and Representation Bill shall see the franchise extended to all foreign nationals legally resident in Scotland for Local Government and Scottish Parliament elections, and Scottish Referendums. In addition Scottish prisoners serving sentences of less than 12 months will receive the right to vote.

7.2 Valuation Roll

7.2.1 The Barclay Review of NDR

The Barclay Review of NDR concluded during 2017 with a range of recommendations being made to Scottish Government. Following consideration and consultation the Scottish Government drafted the Non-Domestic Rates (Scotland) Bill 2019.

The Local Government and Communities Committee of the Scottish Parliament is currently taking evidence with the Bill currently under timetable to receive approval by 1st April 2020.

The Bill provides for the biggest changes to NDR for many years and is of huge significance to Assessors throughout Scotland.

Noted below are the key elements;

- The move from a 5 yearly to a 3 yearly revaluation cycle
- The introduction of a new two phase proposal/appeal framework
- A requirement for Assessors to provide additional information in addition to the revaluation notice
- Provision for a fee to be paid by ratepayers should they wish to proceed to appeal
- Increased powers for Assessors in respect of the parties that can be requested to provide information to support the valuation process

- Powers to Assessors to impose civil penalties on those parties who fail to provide information requested
- Provision for values to be increased by the Valuation Appeal Committee following appeal hearing
- A requirement for Assessors to place markers in the Valuation Roll indicating that Business Growth Accelerator relief applies
- Provision for entries to be made in the Roll in respect of commercial activity in public parks

The greatest impact arises from the shortening of the revaluation cycle. Under the 5 year period, the acts of revaluation and disposal of all resulting appeals were sequential activities. Under the new 3 yearly cycle, these shall become simultaneous activities within the allotted timeframe.

From an organisational position a number of ICT projects have been identified to support the delivery of these changes. These involve enhancements to existing systems designed to mitigate as much as possible the impacts on workload and resource requirements.

These projects are part of a larger NDR Reform implementation plan which is formed of a Barclay Roadmap (appendix 1), NDR Reform risk register (appendix 2), and detailed project plans supported by a Project and Governance Board.

During 2019 City of Edinburgh Council conducted an internal audit on the level of NDR Reform preparedness and provided an “adequate” finding. A number of recommendations were indicated and these are currently being acted upon.

Scottish Government has acknowledged that the NDR Reform package shall add an additional ongoing financial burden to the work of Assessors and accordingly additional budget amounting to £154k has been allocated for 2019/2020. Indicative figures for future years have been provided and shall be the subject of discussion later in the year.

7.3 Council Tax

Council Tax legislation was effective from 1st April 1993 and in respect of its main components has remained unchanged since that time. The option provided in legislation to undertake revaluations has never been exercised.

As a result all council tax bandings that are applied to new houses reflect a level of value as at 1st April 1991.

Council Tax as a vehicle for taxation has come under scrutiny in recent years and a further investigation is expected soon. It is this uncertainty that causes an element of risk to the organisation as it is difficult to set a forward looking service delivery strategy

when such doubt exists. Notwithstanding, annual Council Tax activity creates a substantial volume of work.

8.0 GOVERNANCE

As part of an internal re-organisation during 2018 a Governance Group was established within the organisation. While appropriate governance practices were in place prior to this, the creation of this team led by a Head of Governance has provided additional focus on this key element of organisational management. The Group operate to an agreed set of Terms of Reference and conduct external facing meetings twice yearly with key stakeholders.

A Governance Framework has been designed which underpins the key elements of accountability, transparency, and effectiveness and efficiency. This provides the appropriate focus on effective leadership and management, performance and risk assessment, and outcomes set against service requirements.

As part of this Framework the Governance Team undertake regular quality assurance checks against key activities, ensure compliance with regulatory requirements, such as Data Protection and GDPR, monitor and review all strategic, operational and project risk registers and associated mitigation actions, undertake specific internal audits of processes and associated teams, and undertake data access and security reviews

Attached as appendix 3 is the first annual report to the Board by the Governance Team presented at its meeting on the 17th June 2019.

The organisation is also subject to annual external audit by both City of Edinburgh Council Audit Team and by Audit Scotland with the Head of Governance acting as key contact.

9.0 FUNDING

The organisation is in receipt of an annual revenue budget requisitioned from its four constituent authorities. As indicated in the 2018/19 audited accounts this amounted to £5.847m, of which East Lothian Council contributed £636k.

Prior to 2018/2019 the organisation had for many years maintained a flat cash budget position through the use of vacancy control. This however over time led to significant operational issues and during 2017/18 a Transformation Programme was initiated.

In addition to identifying a number of specific improvements and efficiencies this programme launched a general programme of modernisation and digitalisation.

As part of this Programme a new organisational employee structure was introduced effective from 1st April 2018. This provided a 4.4% reduction in annual budget requirement.

The fiscal environment within which local government currently operates is extremely challenging and the Board acknowledges that it requires to take the necessary action required to mitigate the impact that is emerging.

A funding gap in excess of £880k has been identified over the next three years resulting from unavoidable growth and inflationary pressures.

A 2020/2023 Business Strategy is currently under development that identifies the 5 key challenges facing the organisation. These are,

- Responding to the ongoing fiscal constraint within local authorities by identifying efficiencies and savings
- Ensuring the organisation is able to deliver the changes brought about by the NDR Reform agenda
- Ensuring the organisation is able to deliver the changes required to the electoral registration annual household canvass process and in so doing remove the need for additional annual funding
- Ensuring the organisation can continue to deliver all business as usual services and activities throughout this period of challenge and change
- To continue with and accelerate the process of Organisational Transformation involving modernisation, process review and cultural change

Each challenge is linked to and dependant on the other and the solutions that flow from the timetabled investigations that are to commence shortly shall produce outcomes that provide support across all challenges.

In particular the Strategy shall inform a three year funding projection allowing the Board to consider all possible options to deal with and mitigate the identified funding gap.

Graeme Strachan
Assessor & ERO

5 September 2019

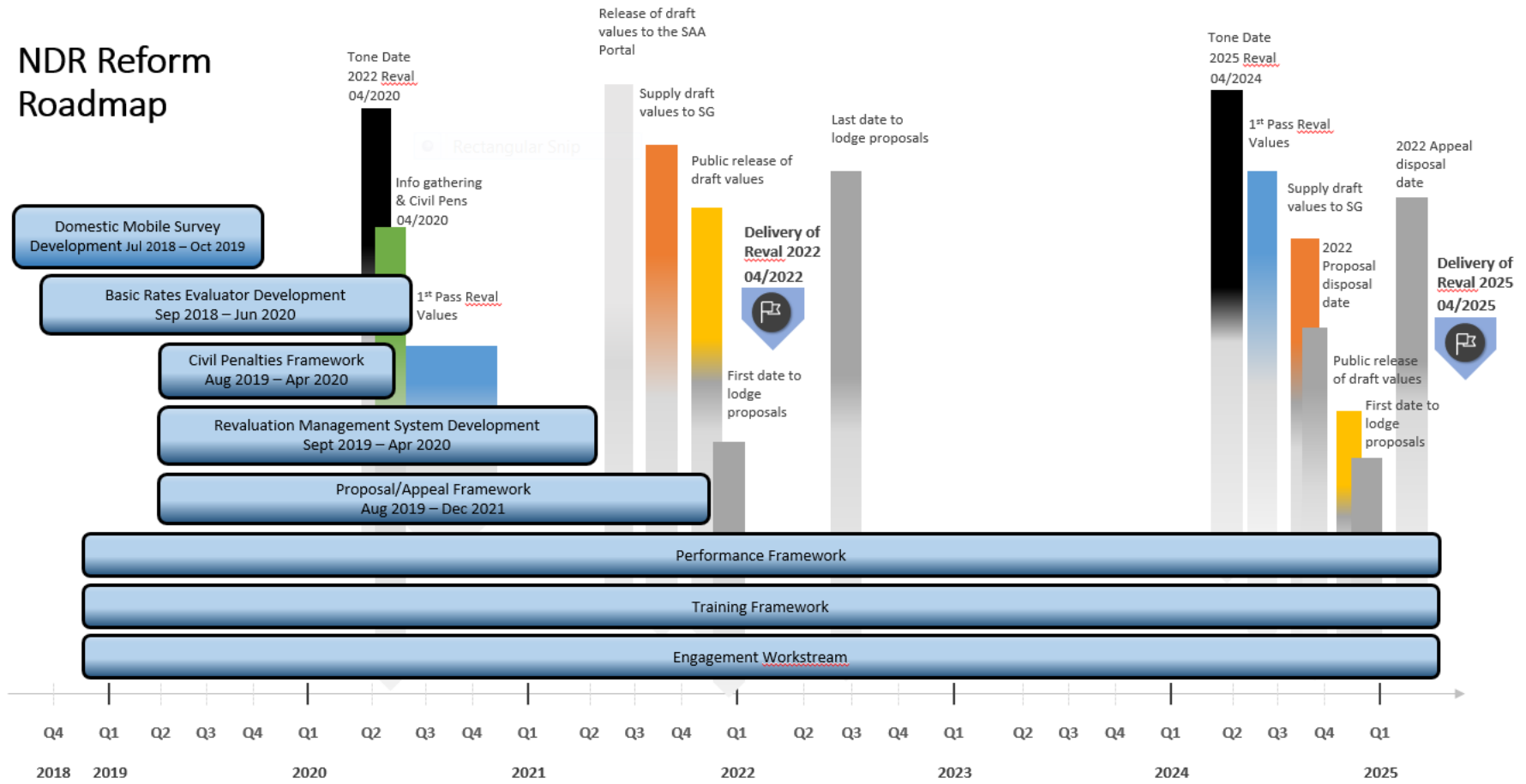
Attached:

Appendix 1: Barclay Roadmap

Appendix 2: NDR Reform Risk Register

Appendix 3: First Annual Report to the Board by the Governance Team

NDR Reform Roadmap



NDR REFORM RISK REGISTER

ID	Description	Category	Pre - Mitigation	Mitigation & Control	Post - Mitigation	Allocation	Further Action	Responsibility	Action Date
1	Annual Reduction in Core Funding	Finances		The creation of a Business Strategy for the period 2020/23 is underway to allow a core budget forecast to be developed in association with budget control options		G Strachan		G Strachan	Nov 2019
2	Failure to identify risks within Barclay Roadmap process	Project Board		Roadmap versioning aims to reflect the emerging picture of the full requirements including associated national timetable. Risks are assessed and mitigated as part of this process		G Strachan	Continue to monitor draft Bill progress and development of supporting regulations	CLT	Nov 2019
3	Lack of Resources to deliver Barclay requirements	Resources		Funding has been established and options for recruitment under consideration		G Strachan	Establish a recruitment timetable which allows flexibility on options adopted	CLT	Nov 2019

ID	Description	Category	Pre - Mitigation	Mitigation & Control	Post - Mitigation	Allocation	Further Action	Responsibility	Action Date
4	Organisational staffing structure fails to support delivery of Barclay requirements	Resources		Headline workload pressures have been identified arising from NDR reform in association with options for resource deployment.		CLT	Undertake projected workload volumes exercise including identification of pinch points	CLT	Dec 2019
5	Unrecognised impact on existing VR maintenance tasks	Resources		Existing Performance Framework project identifies opportunities to support BAU activities.		G Strachan	Introduce process changes and evaluate effectiveness	G Elliot	Mar 2020
6	Administrative processes unable to support delivery of Barclay requirements	Process		Project Initiation Documents have been created in order to identify level of change requirement to support these process.		CLT	Continue to monitor draft Bill development and associated regulations	N Chapman	Mar 2020
7	Lack of project Management Skills	Audit		Project definitions and required progress have been established with Project Managers and a Project Governance regime initiated.		G Strachan	N/A	Project Board	Complete

ID	Description	Category	Pre - Mitigation	Mitigation & Control	Post - Mitigation	Allocation	Further Action	Responsibility	Action Date
8	Lack of Project Board terms of Reference	Audit		Project Terms of Reference established		B Callaghan	N/A	B Callaghan	Complete
9	Lack of Project Change Management Process	Audit		Project Board shall initiate project change process		PMB	Creation of project change templates and associated approval process	B Callaghan	Oct 2019
10	Lack of process identifying project costs and benefits	Audit		The PMB meetings have incorporated this requirement, documenting outcomes and raising emerging issues with CLT		PMB	N/A	B Callaghan	Complete
11	Lack of RIADS logs for projects	Audit		Raids logs allow individual project risks and issues to be identified and mitigated.		PMB	Logs under construction allowing completion by Project Managers	B Callaghan	Aug 2019
12	Lack of system testing plan	Audit		Detailed testing plans allow effective and expected delivery and performance of major ICT developments		PMB	Existing testing plan templates to be enhanced accordingly.	B Callaghan	Nov 2019

ID	Description	Category	Pre - Mitigation	Mitigation & Control	Post - Mitigation	Allocation	Further Action	Responsibility	Action Date
13	Creation of post implementation project reviews	Audit		Project reviews allow reflection on expected deliverables and the implementation of additional remedial action if necessary		PMB	A formal and documented project review process shall be created and initiated when appropriate.	B Callaghan	Dec 2019
14	Failure of ICT developments to meet final Barclay requirements	Project Board		Current projects are being constantly aligned with current/ongoing knowledge of Barclay requirements and projects at this stage allow flexibility for change.		G Strachan	Scheduled re-assessment of project outcomes as set against requirements.	CLT	Oct 2019
15	Failure to support project development with appropriate internal communication	Communication		End user involvement during project creation and implementation creates wide knowledge base. Wider scale internal communication reflecting on the operational changes projects shall have is essential for end user acceptance		PMB	PM's to develop internal communication schedules.	Project Managers	Oct 2019

ID	Description	Category	Pre - Mitigation	Mitigation & Control	Post - Mitigation	Allocation	Further Action	Responsibility	Action Date
16	Failure to identify all required projects to deliver Barclay requirements	Project Board		Continue to monitor draft Bill development and associated regulations, review and consider organisational implications.		G Strachan	Initiate PID's as appropriate.	CLT/PMB	Oct 2019



2018/19 ANNUAL GOVERNANCE STATEMENT

17th June 2019

1.0 INTRODUCTION

- 1.1 This report is the first Annual Governance Statement prepared by the organisation's internal Governance Team.
- 1.2 The aim is to provide assurance to the Board of the organisational commitment to the creation and ongoing maintenance of an effective and resilient Governance Framework.
- 1.3 The Framework provides for the proper governance of the discharge of the Assessor and ERO functions including the identification and mitigation of risk.
- 1.4 The Governance Framework is supported by the audit activities of both City Of Edinburgh Council Audit Section and external auditors, Scott Moncrieff.

2.0 SCOPE

- 2.1 The report provides information on the manner in which the Governance Framework is constructed and operated within the organisation
- 2.2 In addition Governance activity during 2018/19 is highlighted including an indication of planned action for 2019/20.

3.0 RECOMMENDATION

- 3.1 The Board is asked to note the report.

Graeme Strachan
ASSESSOR & ERO



Contents

1. Scope of Responsibility	23
2. What is Governance?	24
3. What is the purpose of a Governance Framework?	24
4. What are the key elements of LVJB’s Governance Framework?	25
5. What is a Governance Assurance Framework?	26
6. What have we delivered to date?	27
7. The role of Quality Assurance	28
8. Future work in 2019	29
9. Corporate and Service plans – how have we performed?	30
10. Corporate and Service plans – achievements	31
11. Corporate and Service plans – work in progress	32
Appendix 1 –Risk Management Cycle, Register Summary & Examples	33
Appendix 2 – Governance Assurance Framework.....	37
Appendix 3 – Phishing Simulation Results	38
Appendix 4 – Security Incident Prevention.....	39

1. Scope of Responsibility

Lothian Valuation Joint Board (LVJB) takes responsibility for ensuring that it conducts its business in accordance with legislation and proper standards, and that public money is properly accounted for and used economically, efficiently and effectively. LVJB also has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, LVJB is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

LVJB acknowledges its responsibility for ensuring that there is effective governance within the organisation and as such has developed a Code of Corporate Governance that defines 3 main principles of accountability, transparency and effectiveness & efficiency that support its governance arrangements.

The responsibility for leading and directing the annual reviews of the effectiveness of LVJB's governance arrangements and providing ongoing oversight and robust challenge, is City of Edinburgh Council (CEC) Internal Audit and external auditors Scott Moncrieff. LVJB also operates an internal and external facing Governance Committee which underpins the delivery of these key principles

2. What is Governance?

Governance is about how the LVJB ensures that it is doing the right things, in the right way, for the right people in a timely, inclusive, transparent and accountable manner.

Good governance leads to effective:

- leadership and management
- performance and risk management
- public engagement and outcomes for our service users and stakeholders

3. What is the purpose of a Governance Framework?

The governance framework comprises the culture, values, systems and processes by which our organisation is directed and controlled. It enables the LVJB to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services in an efficient manner.

Internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It assures that in conducting its business, LVJB:

- operates in a lawful, open, inclusive and honest manner;
- makes sure that public money and assets are safeguarded from inappropriate use, or from loss and fraud and properly accounted
- has effective arrangements for the management of risk (*see Appendix 1- LVJB Risk Management Cycle, Register Summary & Examples*);
- seeks continuous improvement in the way that it operates;
- enables resources to be managed efficiently and effectively;
- properly maintains records and information

4. What are the key elements of LVJB's Governance Framework?

Accountability

- as a public body we are held accountable to citizens and stakeholders
- we implement good practice in reporting, quality assurance and auditing

Transparency

- processes, procedures and data are directly accessible to those who need them, and enough information is provided to understand and monitor them
- we engage with our stakeholders and help them understand the services we provide

Effectiveness & efficiency

- the organisation produces results that meet service delivery needs while making the best use of its resources
- we operate in a manner to secure an environment of continuous improvement

5. What is a Governance Assurance Framework?

Assurance provides confidence, based on evidence, that internal controls are in place and are operating effectively and that objectives are being achieved. A Governance Assurance Framework is a structure within which the LVJB Corporate Leadership Team (CLT), with additional external scrutiny, can identify the principal risks to meeting its key objectives. Through this we can map out both the key controls to manage them and how we have gained sufficient assurance about the effectiveness of those controls. The assurance framework underpins the statements made within the Annual Governance Statement.

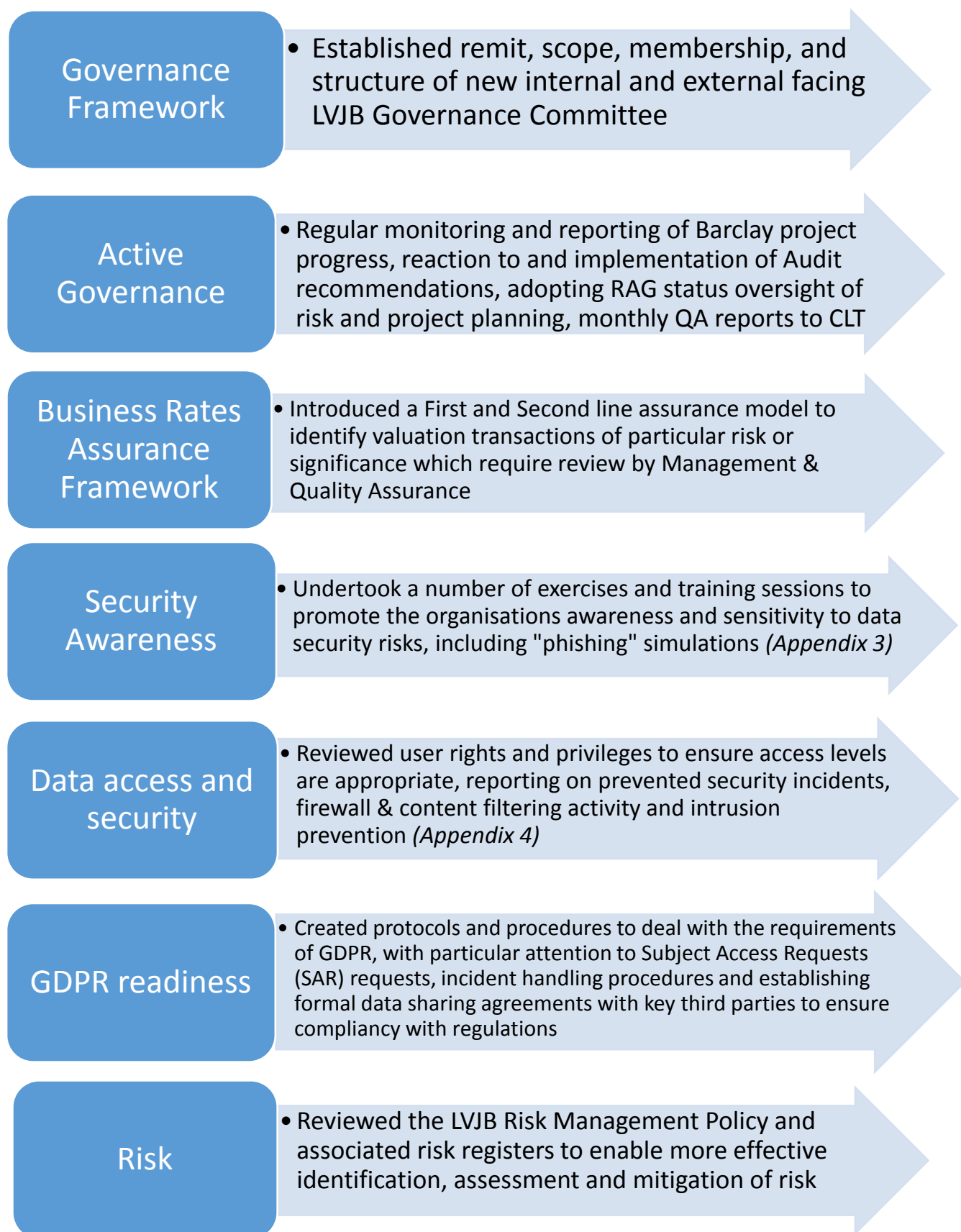
A governance assurance process is in place to provide a framework for the annual assessment of the effectiveness of the governance arrangements operating within LVJB (*See Appendix 2 - LVJB's governance assurance framework*). This includes internal Governance Committee overview and oversight and robust challenge by our internal and external auditors and ultimately, the Board.

In addition, 'the three lines of defence assurance model' is in place which helps staff and the CLT to understand where assurances are being obtained from, the level of reliance they place on that assurance and identify potential gaps in assurance.

Assurance can come from many sources within LVJB. The Three Lines of Defence is a concept for helping to identify and understand the different sources of assurance. Defining these sources into three categories (*see below*), helps the LVJB understand how each contributes to the overall level of assurance and how best they can be integrated and supported.

- **First Line**- functions that own and manage risks e.g. staff, management and supervisory controls
- **Second Line**- functions that oversee risks e.g. Quality Assurance, Governance Committee & Risk Management
- **Third Line**- functions that provide independent assurance on the management of risks e.g. Internal/External Audit, Board

6. What have we delivered to date?

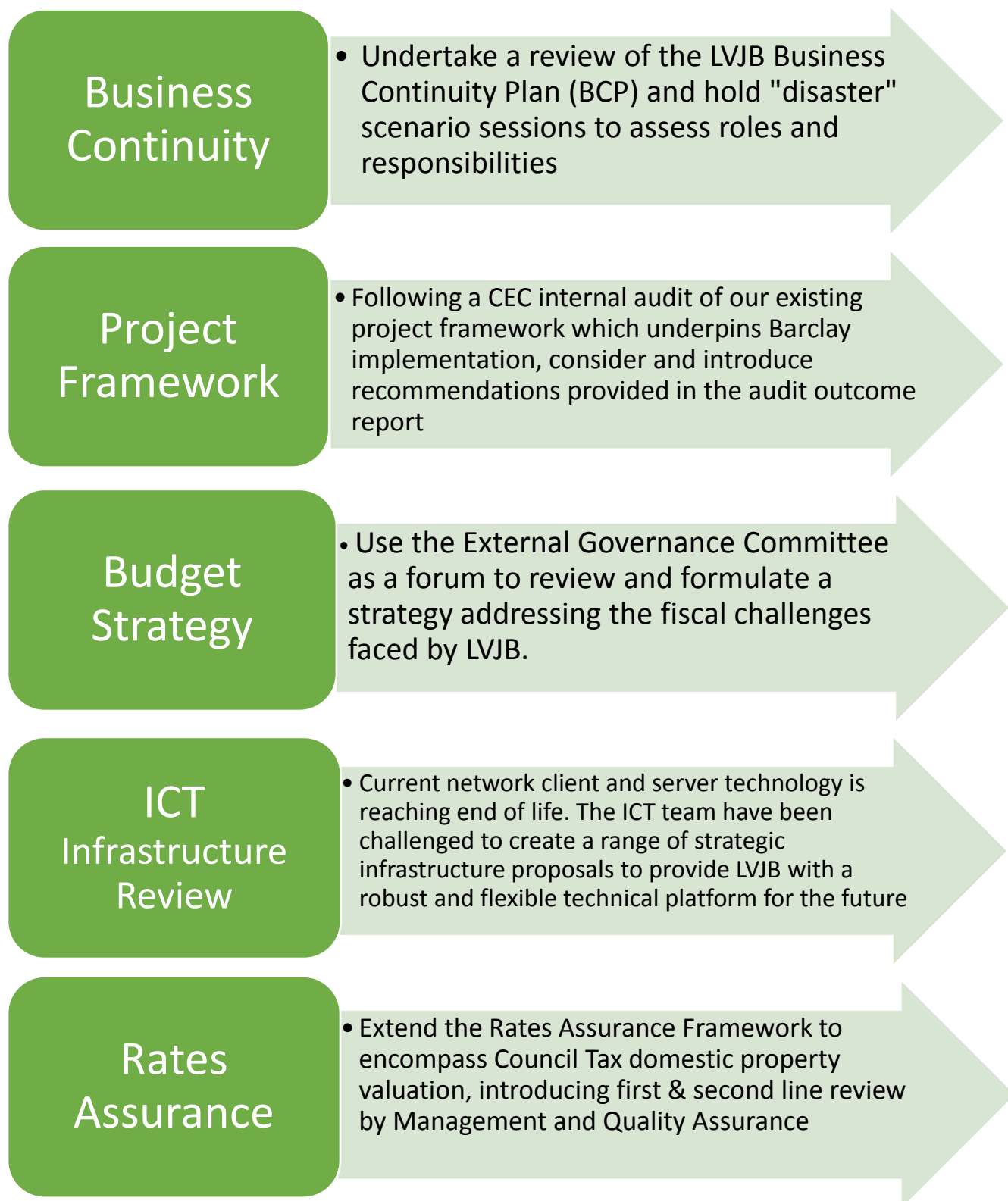


7. The role of Quality Assurance

We have worked hard throughout the year to enhance the role of quality assurance within the organisation. Focus is placed on providing confidence that the level of service provided meets stakeholder expectation and offers an additional layer of protection against errors. Assurance is provided both internally to management, demonstrated through reporting and follow up actions, and externally to customers by improved information provision and transaction accuracy. The Governance Committee has overall scrutiny of all reported actions and recommendations. The table below describes the current QA suite of activity checks.

Function	Task	Description
Council Tax	Interface Audit	Audit Reports are produced for each interface period. Checked and emailed weekly to the four constituent councils.
	Point of Sale Reports	Weekly check for the same period as the interface report. Confirm accuracy of sales date which is applied as the effective and liability date for any change in banding.
	Self-verification Checks	Carry out quality assurance checks on 10% of all self-verified transactions on the Valuation List. Report on any anomalies or transactions incorrectly processed. Currently the report is run on a monthly basis.
Valuation Roll	Interface Audit	Audit Reports are produced for each interface period. Checked and emailed weekly to the four constituent councils.
	Business Rate Assurance Checks	The Principal Surveyors will carry out a 10% check on certain self-verified transactions. QA will carry out an assurance check on 10% of all self-verified and verified transactions as a second line check. Report on any anomalies or transactions incorrectly processed.
	PTO Name Checks	Valuation Roll names updates processed by the Technical staff receive a 10% check by Governance.
Electoral Support/Processing Areas	EMS reports	Check system reports to ensure that electors are correctly processed and absent voting arrangements are applied correctly and ensure the accuracy of the register. A quality assurance check will take place on 10% of the reports produced for electoral activities.
Miscellaneous	KPI Stat Review	Produce monthly KPI stats for review by CLT & Technical Divisions
	Building Warrant/Planning Permission Checks	QA carry out a 10% check on filtered cases to ensure that they are removed in accordance with procedure
	Revaluation Appeal Stats Quarterly Return	Validate the quarterly return of RVAPP stats provided to Scottish Government.

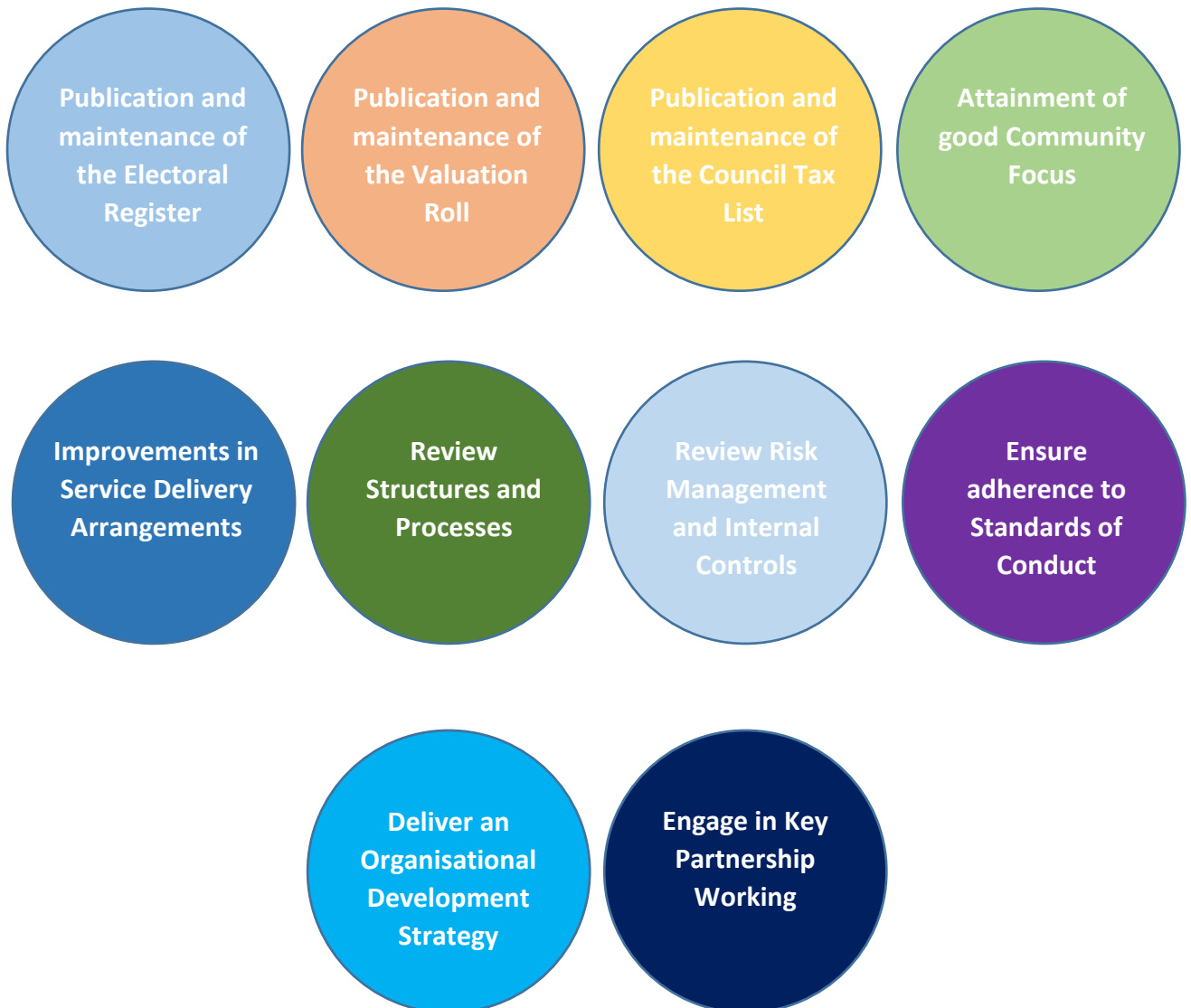
8. Future work in 2019



9. Corporate and Service plans – how have we performed?

Corporate and Service plans are annual business plans developed by LVJB. The plans set out the key activities and outcomes that we will deliver within the financial year and the way in which we will measure our performance.

Our key Corporate and Service priorities for 2018/19 were;



10. Corporate and Service plans – achievements

A number of objectives realised by the organisation that support our key activities and outcomes are shown below. In particular;

- Progress has been made at the initial point of contact with ratepayers by providing clearer explanation of why a rateable value has been created or amended, providing direct contact details of the member of staff responsible for that change.
- Internal Quality Assurance (QA) activity has been reviewed and enhanced, supporting the introduction of transformational efficiency objectives, such as self- verification for certain types of valuation updates and enabling more streamlined first and second line assurance activities to be undertaken.
- Elements of our training strategy have been implemented to ensure that the skillset of staff, essential to deliver Barclay recommendations, meets organisational requirements.



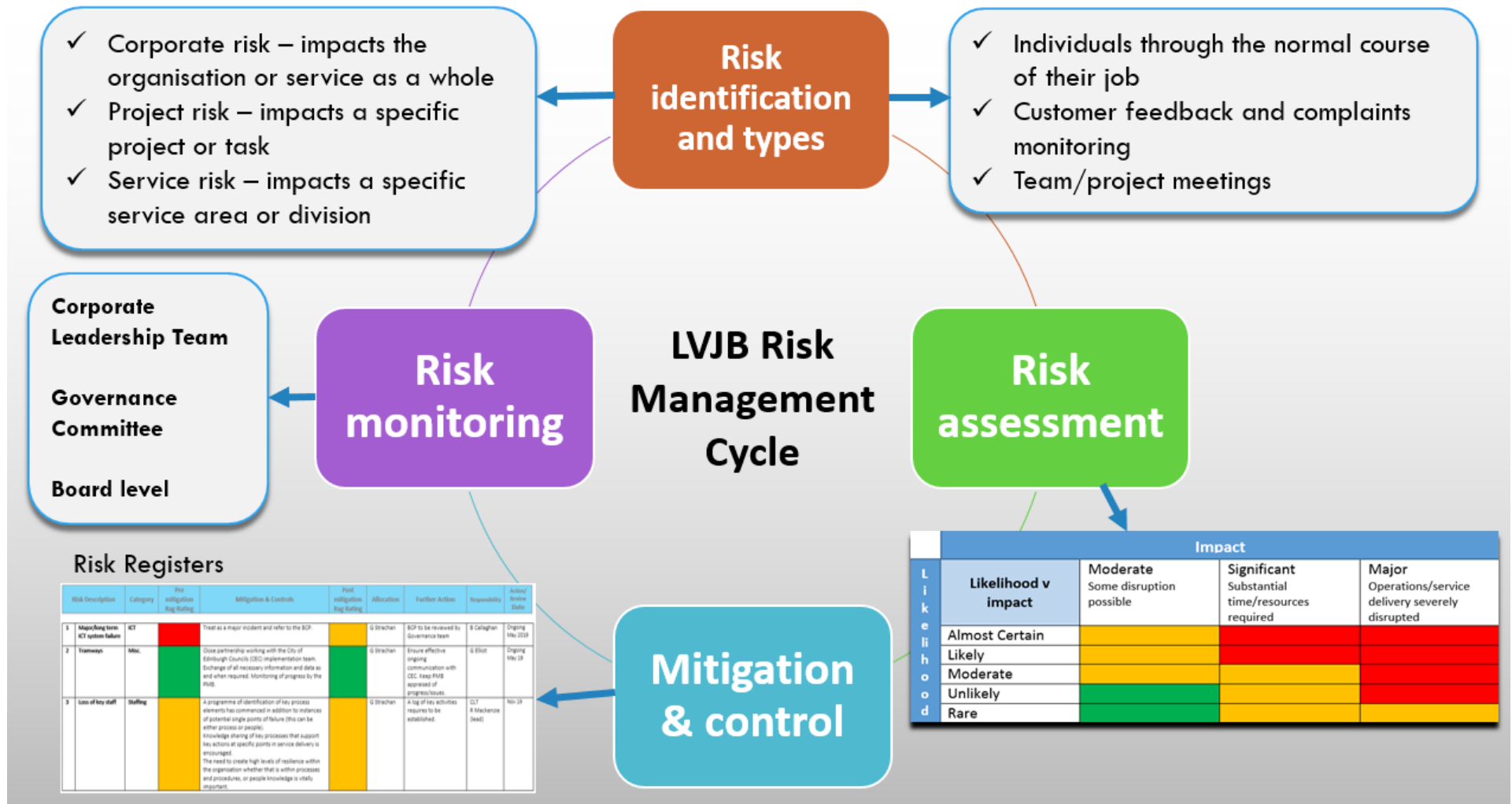
11. Corporate and Service plans – work in progress

LVJB recognises the importance of continually seeking to deliver improvements in organisational efficiency and performance. We acknowledge that the organisation must continue to challenge traditional ways of working and reflect on how well we function both internally and when engaging with stakeholders.

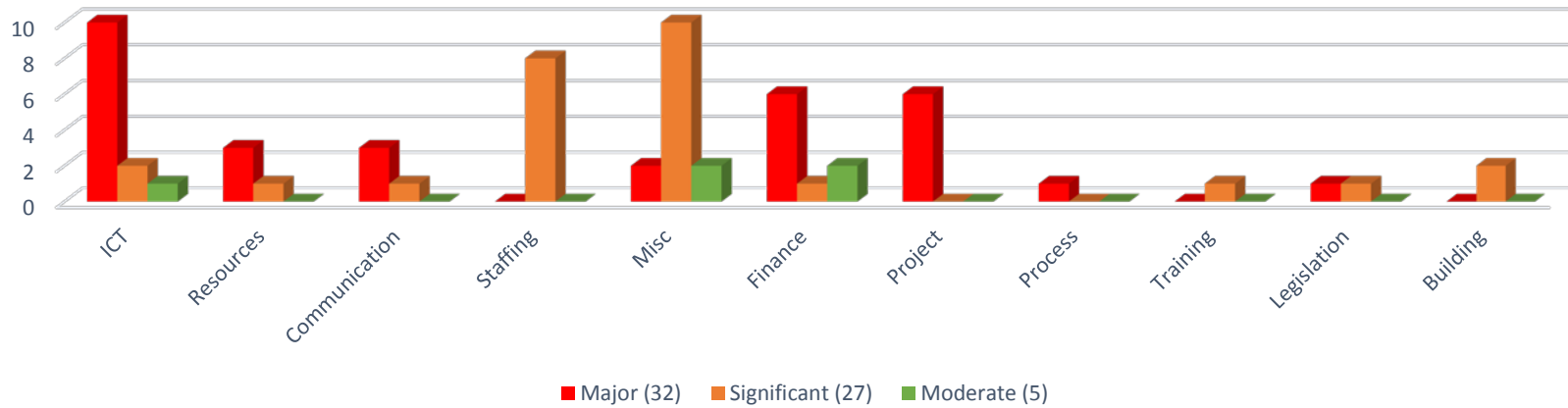
Below are a number of ongoing activities aimed at supporting this process of improvement.



Appendix 1 –Risk Management Cycle, Register Summary & Examples



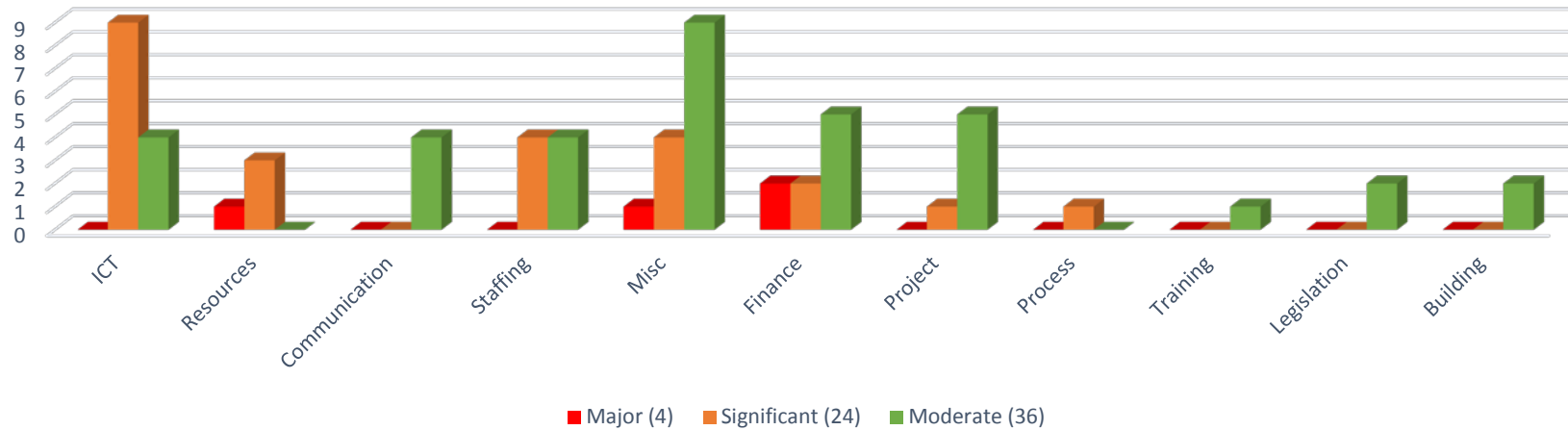
Summary of Corporate, Project & Service Risk Registers (pre mitigation)



Examples of major risks

Risk Description	Category	RAG rating
Internal or external malicious damage, including virus/hacking, leading to ICT file corruption at key statutory times	ICT	
Failure to receive established funding requirement from constituent authorities of the Board, and the impact of the economic climate on the funding	Finance	
Project Board failure to ensure implementation of Barclay Roadmap	Project	
Lack of Technical staff resource to deliver Barclay requirements	Resources	
Lack of external communication throughout delivery process	Communication	

Summary of Corporate, Project & Service Risk Registers (post mitigation)

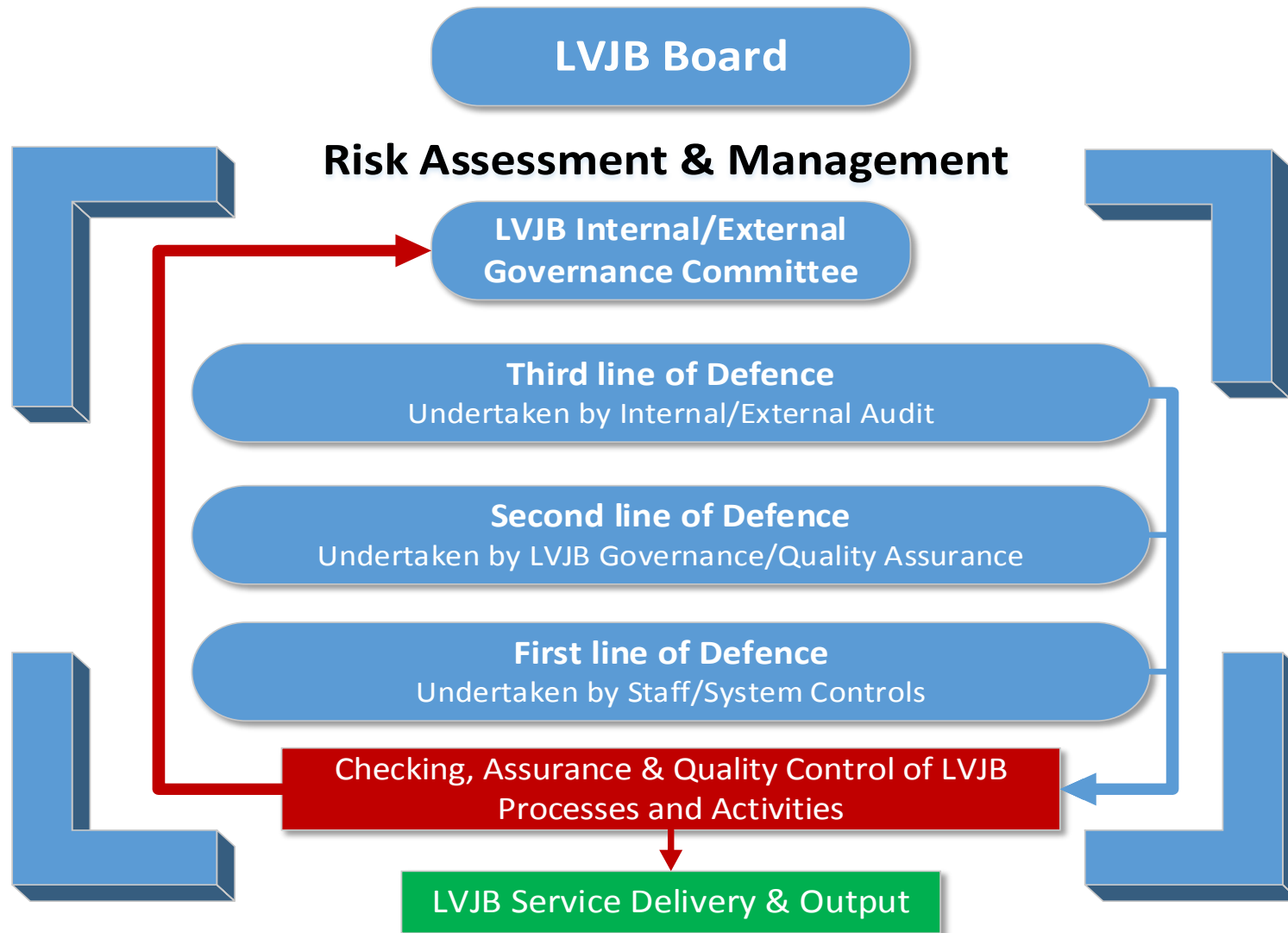


Examples of mitigated major risks

Risk Description	Category	Mitigation & Controls	RAG rating
Internal or external malicious damage, including virus/hacking, leading to ICT file corruption at key statutory times	ICT	Anti-virus and associated software continually updated. Firewall; Network/application controls; Quality assurance procedures and Business Continuity Plan (BCP). Compliance with PSN security protocols and the introduction of Sophos Intercept X have increased our resilience to this risk. This has also been enhanced by our achievement of the Cyber Essential Plus certification.	Yellow
Failure to receive established funding requirement from constituent authorities of the Board, and the impact of the economic climate on the funding	Finance	Fiscal constraint and the need to reduce budgets is a constant within local authorities. The statutory nature of LVJB services provides some mitigation against this but there remains a requirement to establish budget levels at a sustainable level. This being stated by Audit Scotland. During 2017/18. A Transformation and Cultural Change Programme was commenced, one of the outcomes being a revised staffing level and structure. A net 4.4% budget saving was achieved.	Yellow
Project Board failure to ensure implementation of Barclay Roadmap	Project	The Barclay Roadmap represents a set of milestone dates for key deliverables. The map is underpinned by a series of internal projects aimed at ensuring the required	Green

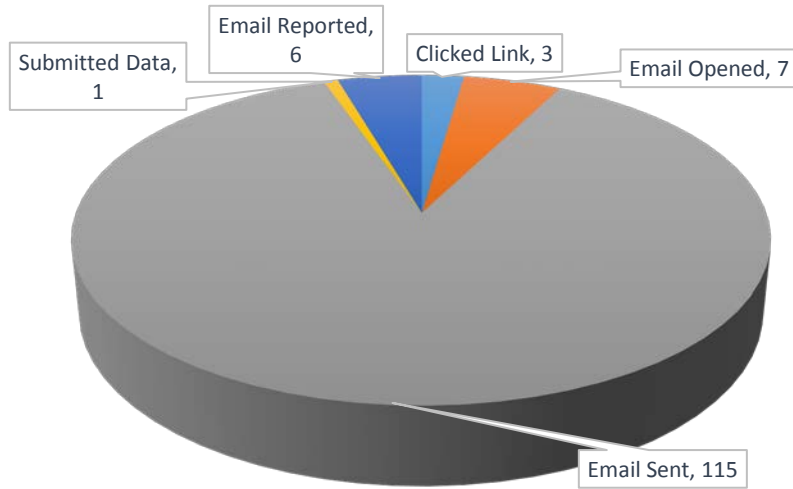
		objectives are met. The map is subject to regular review and as clarity develops from discussion with SG throughout 2019 it shall be modified accordingly. The PMB supports the delivery of key project objectives with overall governance and intervention lying with the Assessor. Current project progress is in line with individual project plans.	
Lack of Technical staff resource to deliver Barclay requirements	Resources	Delivery of primary Barclay requirements is a combination of ICT development, additional funding, and optimum organisational deployment of available technical resources reflecting all service delivery demands. Through the Barclay Roadmap and associated material, all of these elements are currently under progress, review, discussion and consideration. When total granularity emerges on all key deliverables each of these elements shall be assessed to ensure they are fully supportive of the required outcome.	
Lack of external communication throughout delivery process	Communication	Communication to the Board is currently provided through the existing reporting mechanisms by the Assessor. Any additional meetings can be provided as necessary.	

Appendix 2 – Governance Assurance Framework



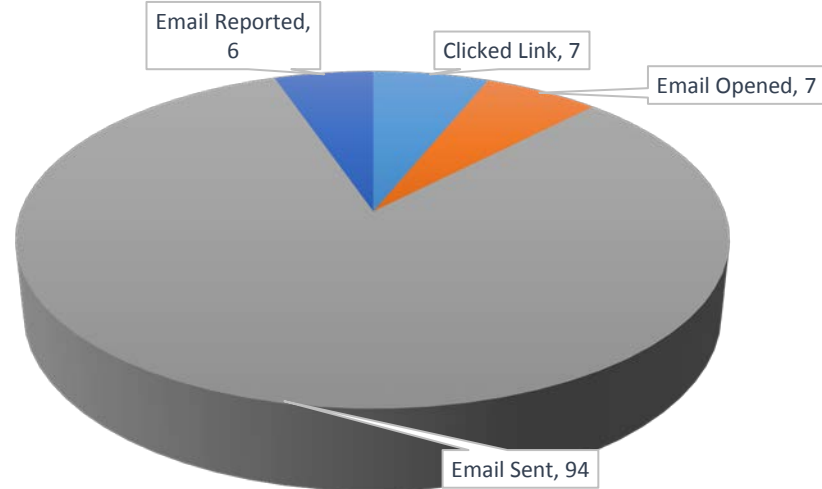
Appendix 3 – Phishing Simulation Results

LVJB External Phishing Exercise (Sept 18)



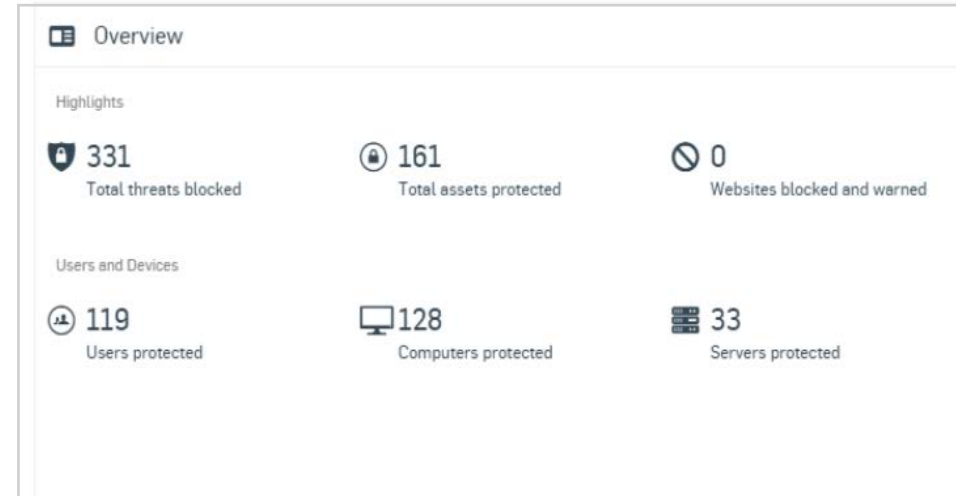
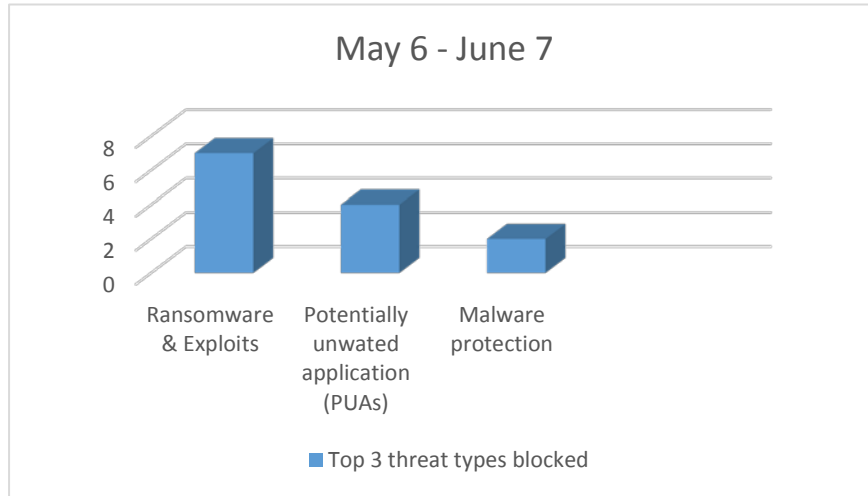
The above results were obtained from a phishing email with the external address of accounts@linkedin.co.uk. If the link was clicked the user was directed to a dummy linkedin landing page, hence the instance of submitted login data.

LVJB Internal Phishing Exercise (Apr 19)



The above results were obtained using a phishing email with a spoofed internal address IT@lothian-vjb.gov.uk. A higher number of clicked links were recorded as the originating email address misled more staff.

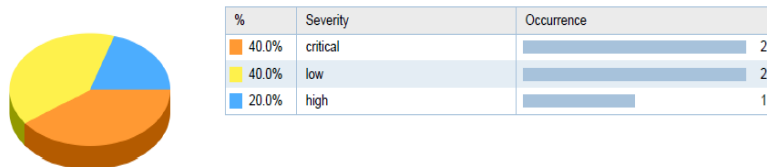
Appendix 4 – Security Incident Prevention Endpoint Protection Summary



Intrusions Blocked

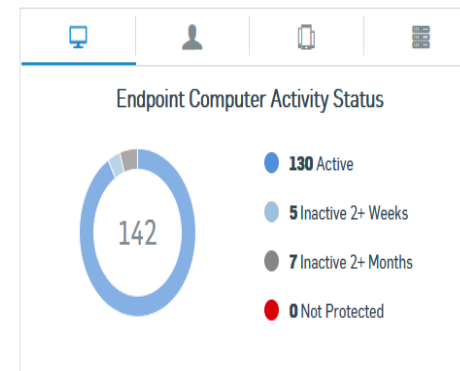
#	Intrusion Name	Counts
1	ThinkPHP.Controller.Parameter.Remote.Code.Execution	2
2	BuleHero.Trojan.Downloader	1
3	Snort.TCP.SACK.Option.DoS	1
4	TCP.Window.Size.Zero.DoS	1

Intrusions By Severity



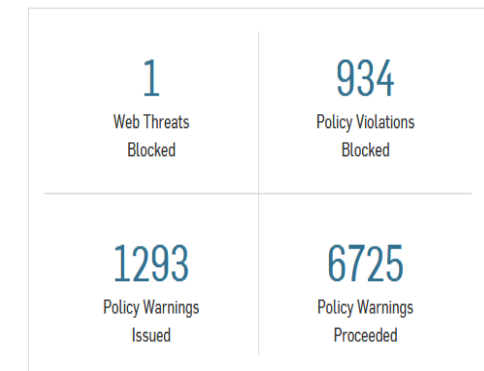
Devices and users: summary

[See Report](#)



Endpoint and server web control

[See Reports](#)



last 30 days

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 September 2019

BY: Depute Chief Executive (Partnerships and Community Services)

SUBJECT: Housing Annual Assurance Statement

7

1 PURPOSE

- 1.1 To advise the Audit and Governance Committee of the Scottish Housing Regulator's new regulatory framework and in particular, the requirement for East Lothian Council to produce an Annual Assurance Statement, which requires to be signed off by the Senior Internal Auditor on behalf of the Council.
- 1.2 To obtain approval for East Lothian Council's Annual Assurance Statement as laid out in Appendix 1.

2 RECOMMENDATIONS

- 2.1 That Audit and Governance Committee notes the new regulatory framework and the requirement for the Senior Internal Auditor to sign-off the Annual Assurance Statement on behalf of the Council.
- 2.2 That Audit and Governance approves the Annual Assurance Statement as detailed in Appendix 1 noting that East Lothian is fully compliant with the regulatory requirements.

3 BACKGROUND

- 3.1 In 2019, the Scottish Housing Regulator (SHR) revised its regulatory framework following extensive consultation with social landlords, tenants and stakeholders. A summary of the framework is attached at Appendix 2.
- 3.2 This places a new requirement on all social landlords to submit an Annual Assurance Statement to the SHR by the end of October each year. This statement must either confirm the relevant committee is assured that the

landlord is complying with all regulatory requirements and standards or alternatively highlight any areas of material non-compliance and how the landlord will address these.

- 3.3 In many respects the process for gathering evidence to ensure the committee has the necessary level of assurance it needs to sign the statement is more important than the statement itself. Appendix 3 highlights key evidence of where the Council demonstrates compliance with the new regulatory framework.
- 3.4 East Lothian Council has existing scrutiny and performance structures in place to ensure the ongoing review of performance and service delivery. These processes are subject to continuous review and improvement.
- 3.5 It is important to note that the Council's housing services are delivered across various teams in the Council (Community Housing, Property Maintenance, Revenues and Engineering Services being the main ones). In this regard the Community Housing Service has taken a lead and developed quarterly and annual assurance checklists, which all areas of housing service delivery will be asked to sign-off on at service manager level. These checklists once signed will be passed to the Service Manager – Community Housing to check for completeness.
- 3.6 In addition, the Scottish Social Charter and Performance Group will consider evidence gathered from these service areas. In the event of material partial or non-compliance, this group will consider action plans and monitor progress to ensure full compliance. This group comprises staff across the range of these service areas as well as members of East Lothian Tenants and Residents Panel.
- 3.7 The Service Manager – Community Housing will prepare the Annual Assurance Statement with a summary report for Audit and Governance Committee each year for approval before the deadline of 31st October.
- 3.8 Relevant managers across the Housing teams are expected to be aware of the regulatory requirements and impacts of non-compliance and immediately advise the Service Manager – Community Housing of any such instances. The SHR has not provided a prescriptive list of material non-compliance examples but it is felt these would be in the areas of Health and Safety breaches reported to the Health and Safety Executive, Data Protection breaches reported to the Information Commissioner's Office, Care Inspectorate or Scottish Social Services Commission interventions or regulatory failures.
- 3.9 It is hoped that following assessment of the first round of Annual Assurance Statements that the SHR will provide more detailed guidance to inform future submissions.

- 3.10 The SHR expectation is that the Annual Assurance Statement is brief confirming compliance or otherwise. In the event of material non-compliance a statement of how this will be addressed must be included.
- 3.11 The statement when signed should be made available to tenants and service users.
- 3.12 In April each year the SHR publishes an engagement plan for each landlord. This is informed by the Annual Return on the Charter (ARC), Scottish Government homeless statistics, previous engagement with the landlord and the new Annual Assurance Statement going forward. East Lothian Council's engagement plan can be found at: <https://directory.scottishhousingregulator.gov.uk/2019%20Documents/East%20Lothian%20Council%20EP.pdf>

4. POLICY IMPLICATIONS

- 4.1 The new regulatory framework, and in particular the requirement to produce an Annual Assurance Statement will give tenants, service users and stakeholders greater confidence in the delivery of the Council's Housing Services.

5. INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report does not affect the wellbeing of the community or have significant impact on equality, the environment or economy.
- 5.2 The Council already collects data on the protected characteristics of existing tenants, new tenants and housing list applicants, which in turn informs housing policy and service delivery.

6. RESOURCE IMPLICATIONS

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

7 BACKGROUND PAPERS

- 7.1 Appendix 1 – Annual Assurance Statement
- 7.2 Appendix 2 – Summary requirements for Local Authorities and RSLs
- 7.3 Appendix 3 – Evidence List

7.4 Link to SHR web-pages on the new Regulatory Framework:
<https://www.scottishhousingregulator.gov.uk/for-landlords/regulatory-framework#>

AUTHOR'S NAME	Douglas Proudfoot
DESIGNATION	Head of Development
CONTACT INFO	James Coutts x7483
DATE	10 September 2019

Template Annual Assurance Statement – Fully Compliant

Scottish Housing Regulator

Buchanan House

58 Port Dundas Road

Glasgow

G4 0HF

Date:

Dear Sirs,

East Lothian Council - Annual Assurance Statement

We comply with the regulatory requirements set out in Chapter 3 of the Scottish Housing Regulator's Framework. This includes that we:

- ❖ Achieve all of the standards and outcomes in the Scottish Social Housing Charter for tenants, people who are homeless and others who use our services.
- ❖ Comply with our legal obligations relating to housing and homelessness, equality and human rights, and tenant resident safety

We confirm that we have seen and considered sufficient evidence to give us this assurance.

We approved our Annual Assurance Statement at our Audit & Governance Committee on 17th September 2019.

I sign this statement on behalf of East Lothian Council's Audit and Governance Committee

Yours sincerely

Senior Internal Auditor

REQUIREMENTS FOR LOCAL AUTHORITIES AND RSLs

Appendix 2

EACH LANDLORD MUST:

ASSURANCE & NOTIFICATION

- ✓ Prepare an Annual Assurance Statement in accordance with our [published guidance](#), submit it to us between April and the end of October each year, and make it available to tenants and other service users.
- ✓ Notify us during the year of any material changes to the assurance in its Assurance Statement.
- ✓ Have assurance and evidence that it is meeting all of its legal obligations associated with housing and homelessness services, equality and human rights, and tenant and resident safety.
- ✓ Notify us of any tenant and resident safety matters which have been reported to, or are being investigated by the Health and Safety Executive, or reports from regulatory or statutory authorities, or insurance providers, relating to safety concerns.
- ✓ Make its Engagement Plan easily available and accessible to its tenants and service users, including online.
- ✓ Register all requirements for providing data to us with the Information Commissioner's Office as a purpose for which they are acquiring data under the Data Protection Act 2018.

SCOTTISH SOCIAL HOUSING CHARTER PERFORMANCE

- ✓ Submit an Annual Return on the Charter to us each year in accordance with our [published guidance](#).
- ✓ Involve tenants, and where relevant other service users, in the preparation and scrutiny of performance information. It must:
 - agree its approach with tenants
 - ensure that it is effective and meaningful – that the chosen approach gives tenants a real and demonstrable say in the assessment of performance
 - publicise the approach to tenants
 - ensure that it can be verified and be able to show that the agreed approach to involving tenants has happened
 - involve other service users in an appropriate way, having asked and had regard to their needs and wishes.
- ✓ Report its performance in achieving or progressing towards the Charter outcomes and standards to its tenants and other service users (no later than October each year). It must agree the format of performance reporting with tenants, ensuring that it is accessible for tenants and other service users, with plain and jargon-free language.

SCOTTISH SOCIAL HOUSING CHARTER PERFORMANCE (CONTINUED)

- ✓ When reporting its performance to tenants and other service users it must:
 - provide them with an assessment of performance in delivering each of the Charter outcomes and standards which are relevant to the landlord
 - include relevant comparisons – these should include comparisons with previous years, with other landlords and with national performance
 - set out how and when the landlord intends to address areas for improvement
 - give tenants and other service users a way to feed back their views on the style and form of the reporting.
- ✓ Make our report on its performance easily available to its tenants, including online.

WHISTLEBLOWING

- ✓ Have effective arrangements and a policy for whistleblowing by staff and governing body/elected members which it makes easily available and which it promotes.

TENANTS AND SERVICE USERS REDRESS

- ✓ Make information on reporting significant performance failures, including our [leaflet](#), available to its tenants.
- ✓ Provide tenants and other service users with the information they need to exercise their right to complain and seek redress, and respond to tenants within the timescales outlined in its service standards, in accordance with guidance from the Scottish Public Services Ombudsman (SPSO).
- ✓ Ensure it has effective arrangements to learn from complaints and from other tenant and service user feedback, in accordance with SPSO guidance.

EQUALITY AND HUMAN RIGHTS

- ✓ Have assurance and evidence that it considers equality and human rights issues properly when making all of its decisions, in the design and review of internal and external policies, and in its day-to-day service delivery.
- ✓ To comply with these duties, landlords must collect data relating to each of the protected characteristics for their existing tenants, new tenants, people on waiting lists, governing body members and staff. Local authorities must also collect data on protected characteristics for people who apply to them as homeless. Landlords who provide Gypsy/Traveller sites must collect data on protected characteristics for these service users.

APPENDIX 3 – EVIDENCE LIST

- Submission of the Annual Return of the Charter (ARC) and Energy Efficiency Standards for Social Housing (EESH) reports by 31st May each year to the Scottish Housing Regulator (SHR)
- Production of an Annual Landlord Report by 31st October based on the ARC return in conjunction with the East Lothian Tenants and Residents Panel (ELTRP)
- Statutory returns to the Scottish Government
- Non-statutory benchmarking exercises with Scottish Housing Network
- Regular internal performance monitoring and reporting of key indicators to PPRC
- Regular transactional customer surveys and three yearly comprehensive tenant satisfaction survey
- Complaints monitoring and handling
- Regular reviews of housing policies and procedures in tandem with ELTRP, including integrated impact assessments where appropriate
- Social Housing Charter project group
- Financial monitoring and reporting
- HRA project board
- Adherence to Council Standing Orders
- Care Inspectorate reviews and reports
- Internal and external audit reviews and reports
- Management of public protection matters through the MAPPA process
- Detailed process mapping and procedures within all parts of the Service
- Formalised committee reporting cycles and submission of relevant reports
- Production of our Strategic Housing Investment Plan (SHIP) 2019/20 – 2022/23
- Regular contractor review meetings
- Compliance with procurement legislation and policies
- Business Continuity Plans
- Development Risk Register
- Service Plans
- Data Protection/GDPR reporting and monitoring framework in place
- Tenant Participation Strategy, including Tenant scrutiny framework
- Quarterly and Annual Assurance checklists
- Rapid Rehousing Transition Plan 2019-24
- Spheracloud Health and Safety incident reporting and risk assessments
- SHR Engagement Plan publically available
- Information on reporting Significant Performance Failures to SHR publically available
- Data collection of protected characteristics

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 September 2019

BY: Chief Executive

SUBJECT: Development Risk Register

8

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 is 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 (Appendix 2) producing 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 1 Very High Risk, 5 High risks, 19 Medium risks and 18 Low Risk. As per the Council's Risk Strategy, only the Very High and High risks are being reported to the Committee.

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 LRWG 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 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 2019
- 7.2 Appendix 2 – Risk Matrix 2019

AUTHOR'S NAME	Scott Kennedy
DESIGNATION	Emergency Planning, Risk and Resilience Officer
CONTACT INFO	skennedy@eastlothian.gov.uk 01620 827900
DATE	5 September 2019

Development Risk Register 2019

Date reviewed: 5th September 2019

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	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>Homelessness</p> <p>New policy approach rapid rehousing requires the Council to transform homelessness services, place people quickly into permanent accommodation, negating the use of temporary accommodation and requiring a significant reduction in temporary accommodation stock. Resource allocation is likely to be insufficient for service transformation and the approach could result in an inability to accommodate those in need, forcing use of non-contracted B&Bs / B&Bs out-with county.</p> <p>The Scottish Government require the implementation of a Housing First approach, although no funding will be forthcoming for ongoing revenue costs.</p> <p>Legislative change regarding local connection will require the Council to accept rehousing responsibility for additional homeless cases and changes to discretion around intentionality will place additional pressure on the Council in respect of accepting intentionally homeless cases.</p> <p>Continued levels of low turnover results in limited lets available and longer average time spent in temporary accommodation. The Scottish Housing Regulator has noted this.</p> <p>There is a higher financial cost burden for the general services budget due to additional demand for temporary accommodation, which is likely to increase further in light of anticipated legislative change.</p> <p>Risk of breach of Unsuitable Accommodation Order due to a shortage of family sized temporary accommodation. Risk is further heightened through anticipated extension of the Order to all households from May 2021.</p> <p>Proposed change to Homelessness Code of Guidance / new prevention duty pose risk to existing practice / Homelessness Operations Policy.</p> <p>Reduced supply of private lets due to landlords' ongoing concerns re new Private Residential Tenancy, legislative change (energy efficiency and repairing standard) and welfare reform impacts.</p> <p>Increased evictions due to rent arrears lead to increased pressure on Private Rented Sector (PRS).</p>	<p>Housing Options preventative approach to provision of advice.</p> <p>Continued monitoring of RSL 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>Cabinet report submitted (November 2017) on recommended actions to address pressures relating to a lack of affordable housing supply and address homelessness pressures through delivery of an agreed action plan. Monthly progress review meetings for action plan / rapid rehousing delivery ongoing.</p> <p>January 2018 Cabinet approval of allocations targets to general needs / homeless applicants. Performance to targets kept under ongoing review. March 2019 Cabinet approval of Allocations Policy Review.</p> <p>Open Market Acquisitions increase supply prioritising the western part of the county, where demand is highest.</p>	5	4	20	<p>Draft Rapid Rehousing Transition Plan (RRTP) developed, with a clear plan to transform homelessness services over a five year period kept under regular review in context of resource allocation and changing legislation.</p> <p>Continue new build activity to increase housing stock, exploring potential to further increase supply within context of the growth agenda.</p> <p>Significant growth in mid-market rent properties coming forward.</p> <p>Housing Options Training Toolkit to be rolled out during 2019/20, to improve homelessness prevention.</p> <p>Significant work planned with PRS landlords to increase flow through the rent deposit scheme.</p> <p>Exploration of flat share / hosting models could potentially make better use of existing stock.</p> <p>Refreshed performance monitoring framework to be put in place to enable improved ongoing monitoring of key aspects of service.</p> <p>Revised Homelessness Operations Policy to be put in place, alongside comprehensive review of existing policies and procedures, to ensure service is operating efficiently and effectively.</p> <p>Improved partnership working with existing partners and neighbouring authorities could potentially result in new ways of working and economies of scale.</p> <p>New approach to spend to save, utilising RRTP resource allocation could result in cost savings re B&B spend.</p> <p>Significant work to improve void timescales could assist with improved flow through temporary / permanent accommodation.</p> <p>Consideration of business case/options appraisal in respect of alternative forms of accommodation</p>	4	4	16	Service Manager – Community Housing	<p>September 2019</p> <p>March 2024</p> <p>March 2024</p> <p>March 2020</p> <p>March 2020</p> <p>June 2020</p> <p>October 2019</p> <p>March 2020</p> <p>March 2024</p> <p>March 2020</p> <p>March 2024</p> <p>March 2020</p>	<p>Risk considered September 2019 by Team Manager Housing Options, Head of Service and Service Manager 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	Evidence held of Regular Review
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			L	I	L x I		L	I	L x I			
	Uncertainty over future funding of supported housing (DWP) and proposed changes in respect of restructuring the financing of temporary accommodation.					in response to forthcoming legislative change.						
D 2	<p>Affordable Housing Supply</p> <p>Supply of affordable housing is outstripped by need and demand influencing 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 East Lothian have been provided for the period 2018/19 to 2020/21 as follows:</p> <p>2018/19 - £9.540m 2019/20 - £10.007m 2020/21 - £10.751m</p> <p>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 and is reflected in increased RPAs at a local level.</p> <p>There is a need to deliver Carbon Neutral Housing by 2045.</p> <p>Unknown subsidy levels beyond 2021.</p> <p>Prevalence of mine workings to the west of the County impacts on the cost of developments.</p>	<p>The new adopted LDP and significant land use allocations therein, providing land through planning policy to deliver an increase supply of affordable homes.</p> <p>Section 75 Co-ordinator recruited to project manage delivery of strategic sites, including affordable housing contribution.</p> <p>The Council continues to pursue opportunities to acquire land/bring forward private projects for affordable housing.</p> <p>Regional Housing Programme proposed through South East Scotland City Region Deal.</p> <p>Contribute to and influence review of planning system.</p> <p>Contribute to Housing beyond 2021 agenda</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. HRA Programme Board in place.</p> <p>The Council ensures site investigations are carried out prior to entering into an agreement to purchase land.</p> <p>The Council has recently set up an LLP East Lothian Mid-Market Homes to deliver mid-market rent units.</p>	5	3	15	<p>New Local Housing Strategy in place for 2018-23 with associated actions in relation to delivery of affordable housing.</p> <p>Strategic Housing Investment Plan for 2020/21 to 2024/25.</p> <p>Supplementary planning guidance for affordable housing has now been approved and adopted.</p> <p>Supporting Local Investment Framework being developed.</p> <p>Ensure site investigations are carried out prior to entering into an agreement to purchase land.</p>	3	3	9	<p>Head of Development</p> <p>Service Manager – EDSI</p> <p>Service Manager - Planning</p>	<p>Review by October 2019</p> <p>October 2019</p> <p>Review February 2021</p> <p>December 2019</p> <p>March 2020</p>	<p>Risk refreshed by Service Manager August 2019 with no change to assessment of current scores.</p> <p>Risk refreshed by Service Manager February 2017 with residual score reduced from 12 to 9.</p>

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D 3	<p>Fuel Poverty</p> <p>Increase in fuel poverty due to a variety of factors:</p> <ul style="list-style-type: none"> - Increase in fuel prices - Impact of welfare reform - Changing householder economic/financial situation <p>Scottish Government is planning to introduce a Warm Homes Bill to Parliament, which will enshrine the Scottish Government's ambition to eradicate fuel poverty. The Scottish Government are currently consulting detailed proposals for a Fuel Poverty Strategy for Scotland and the targets, which will be enshrined in legislation. This consultation includes a revised definition of fuel poverty.</p> <p>Energy Efficiency is a national infrastructure priority (Scottish Government's Infrastructure Investment Plan 2015). During 2017, the Scottish Government consulted on a range of related issues as part of the draft Climate Change Plan and draft Scottish Energy Strategy. Energy Efficiency Scotland Programme (EES) is currently under development. It will be a co-ordinated programme to improve the energy efficiency of homes alongside commercial, public and industrial sectors.</p> <p>The impact of living in fuel poverty can place additional pressure on existing services – health, social care, advice, rent income.</p> <p>The Scottish Government have ring fenced monies of £800,000 for East Lothian's HEEPS/ABS programme. The fund guidance states that the money must be spent, or contractually allocated to project(s) by the end of the financial year.</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>Continue to implement HEEPS: ABS programme.</p> <p>Energy advice and fuel debt support in place. Capital Programmes in place for council housing and Registered Social Landlords to increase energy efficiency measures. Social rented tenure must meet EESH by 2020.</p> <p>New Local Housing Strategy is now in place with associated actions in relation to energy efficiency of existing housing stock, fuel poverty and climate change.</p> <p>Continuing to identify areas of fuel poverty and stock that is eligible and suitable for measures</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>Commence preparation for transition to EES Programme (programme to deliver energy efficiency measures across public, commercial and private sector stock as part of National Infrastructure Priority for Energy Efficiency.</p> <p>Local Heat and Energy Efficiency Strategy (LHEES) pilot underway concentrating on East Lothian's private rented stock Survey works ongoing to identify suitable areas re-East Lothian's HEEPS/ABS programme. Contractor to be appointed by the end of September.</p> <p>Energy Transformation Programme – establish PV / re-roofing pilot together with partnership energy supply company arrangement to test concept of PV / battery and feed in arrangements together with energy supply.</p>	3	3	9	<p>Head of Development</p> <p>Service Manager – Strategic Investment</p> <p>Service Manager – Property Maintenance</p>	<p>April 2020</p> <p>SEEPS implementation in 2020/21</p> <p>September 2019</p> <p>September 2019</p> <p>March 2020</p>	<p>Risk refreshed by Service Manager August 2019 with no change to assessment of current scores.</p> <p>Risk refreshed by Service Manager February 2017 with current score reduced from 15 to 12 and residual score from 12 to 9.</p>
D 4	<p>Housing Quality</p> <p>Our houses are required to meet the Scottish Housing Quality Standard (SHQS) and will be required to meet the Energy Efficiency Standard in Social Housing (EESH) by December 2020. Delivery of these Standards is a significant contributor 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 these Standards and failure to clearly demonstrate compliance may involve intervention by the SHR on the management of stock quality. It could also lead to loss of reputation to the</p>	<p>Annual monitoring and reporting to SHR (via 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 continued compliance with the requirements of the SHQS.</p> <p>Keystone domestic asset management software system in place ensuring robust information held on the condition of Council housing stock. Data validation checks of information held on Keystone.</p> <p>Dedicated asset surveyors in place and rolling programme of stock condition surveys has commenced to keep data up to date.</p>	3	4	12	<p>Additional asset surveyor in proposed restructure will ensure more complete and current stock information.</p> <p>Programmes of modernisation works targeted to address SHQS and EESH failures/abeyances and improve reported performance against targets.</p> <p>Housing Asset Management Strategy to be developed.</p> <p>Supplementary Planning Guidance now adopted which sets out minimum design and quality requirements for new build stock.</p>	2	4	8	<p>Service Manager – Property Maintenance</p> <p>Service Manager – Strategic Investment</p>	<p>September 2019</p> <p>April 2020</p> <p>March 2020</p> <p>February 2021</p>	<p>Risk refreshed August 2019 by both Service Managers with no change to assessment of risk scores.</p>

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	<p>Council as a service provider and the largest landlord in East Lothian.</p> <p>While a rolling stock condition survey programme is in place, the data is incomplete.</p> <p>Procurement rules negate our ability to enter into building contracts on s75 obligations which involve the transfer of completed units. This also prevents the ability to influence the specification which can result in poor quality products and increased resources in relation to resolving defects. This can in turn result in an impact on future repairs and maintenance costs.</p>	<p>Housing Asset Management Team established to oversee delivery of HRA Capital modernisation programme.</p> <p>Regular monitoring and reporting as part of Balanced Scorecard.</p> <p>Continued investment in targeted capital programme works.</p> <p>Team Manager (Housing Assets) recruited to oversee collection and recording of housing stock intelligence including energy performance and delivery of key aspects of the capital modernisation programme.</p> <p>Keeping SHR regularly updated on progress towards meeting the Standards. Keystone housing asset management system informs future planning of annual programme of modernisation work.</p> <p>Closer alignment of development of modernisation programme and delivery.</p> <p>The Council ensures Quality Assurance is carried out at all stages of development</p>				Support the development of an Affordable Housing Design Guide.					March 2021	
D 5	<p>Mobile Working</p> <p>Current mobile working hardware, within Property Maintenance, is dated and does not meet PSN requirements. This has resulted in a switch-off of existing hardware, and reverting to paper-based job ticketing, placing increased pressure on administrative resources.</p> <p>A project to implement Windows 8 tablet technology was terminated due to the supplier failing to meet expectations.</p>	<p>A new iOS-based mobile working platform has been procured.</p> <p>A paper-based contingency has been implemented to cover the intervening period between PSN 'switch-off' and go-live of the new platform.</p> <p>Security vulnerabilities identified in penetration testing of replacement solution (2018), representing a considerable obstacle to implementation.</p>	4	3	12	<p>Software upgraded by supplier to overcome security vulnerabilities (TBC). Further revision of project plan agreed with supplier to ensure system in place by deadline.</p> <p>Implementation of phase 2 mobile working, encompassing iOS Smartphone technology has commenced. ELC IT included in project planning to ensure resources and supporting system architecture is in place.</p>	2	3	6	Service Manager – Property Maintenance	November 2019	<p>Risk further refreshed August 2019.</p> <p>Risk refreshed March 2019 with residual score increased from 3 to 6.</p>
D 6	<p>Solid Fuel Installations and Safety</p> <p>Failure to Manage Solid Fuel safety on all Solid Fuel Installations in ELC Housing Properties leading to potential CO poisoning of tenants, increased risk of house fires and potential risk of prosecution. Chimneys are generally in poor condition while the Council are unable to control fuels burnt in solid fuel appliances.</p> <p>On Infrastructure Risk Register</p>	<p>Programme for Solid Fuel Servicing terminated end of 2018. New servicing contractor in place from April 2019. Heating replacements to energy efficient, low carbon alternative fuels are available and being installed but implementation is difficult due to customer refusals. Contractor in place for removal and replacement of solid fuel systems.</p>	2	5	10	<p>Programme for removal and replacement of solid fuel systems ongoing in remaining 40 properties. Gas supplies have been installed to all Council houses in gas areas to enable rapid replacement when consent received.</p> <p>Clear policy to be developed on solid fuel systems replacement process.</p>	1	5	5	<p>Service Manager - Engineering Services & Building Standards (ESBS)</p> <p>Service Manager - Property Maintenance</p>	<p>March 2020 to review numbers installed.</p> <p>December 2019</p>	<p>Risk refreshed August 2019 by Head of Service with Residual Score reduced from 10 to 5.</p> <p>Risk refreshed May 2019 by Head of Service with Current Risk Score reduced from 15 to 10.</p>
Original date produced (V1)		6 th May 2014										
File Name		Development Risk Register										

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			L	I	L x I		L	I	L x I			
	Original Author(s)	Scott Kennedy, Risk Officer										
	Current Author(s)	Scott Kennedy, Risk Officer										
	Revision											
	Version	Date	Author(s)									
	10	April - May 2019	S Kennedy				All risks reviewed and refreshed by Service Managers with LDP Risks added.					
	11	May 2019	S Kennedy				Risk Register updated following review by Head of Service with Brexit Risk combined onto Corporate Risk					
	12	July - August 2019	S Kennedy				Further updates made by Service Managers and then reviewed and updated at Development Team Management Meeting.					

East Lothian Council

Risk Matrix

Likelihood Description

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

Impact Description

Impact of Occurrence	Score	Description							
		Impact on Service Objectives	Financial Impact	Impact on People	Impact on Time	Impact on Reputation	Impact on Property	Business Continuity	Legal
Catastrophic	5	Unable to function, inability to fulfill obligations.	Severe impacts on budgets (emergency Corporate measures to be taken to stabilise Council Finances)	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.	Significant disruption to building, facilities or equipment (Loss of building, rebuilding required, temporary accommodation required).	Complete inability to provide service/system, prolonged downtime with no back-up in place.	Catastrophic legal, regulatory, or contractual breach likely to result in substantial fines or other sanctions.
Major	4	Significant impact on service provision.	Major impact on budgets (need for Corporate solution to be identified to resolve funding difficulty)	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.	Major disruption to building, facilities or equipment (Significant part of building unusable for prolonged period of time, alternative accommodation required).	Significant impact on service provision or loss of service.	Legal, regulatory, or contractual breach, severe impact to Council.
Moderate	3	Service objectives partially achievable.	Significant impact on budgets (can be contained within overall directorate 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.	Moderate disruption to building, facilities or equipment (loss of use of building for medium period).	Security support and performance of service/system borderline.	Legal, regulatory, or contractual breach, moderate impact to Council.
Minor	2	Minor impact on service objectives.	Moderate impact on budgets (can be contained within service head's 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.	Minor disruption to building, facilities or equipment (alternative arrangements in place and covered by insurance).	Reasonable back-up arrangements, minor downtime of service/system.	Legal, regulatory, or contractual breach, minor impact to Council.
Minimal	1	Minimal impact, no service disruption.	Minimal impact on budgets (can be contained within unit's 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 media (Internal).	Minimal disruption to building, facilities or equipment (alternative arrangements in place).	No operational difficulties, back-up support in place and security level acceptable.	Legal, regulatory, or contractual breach, negligible impact to Council.

Risk	Impact				
	Minimal (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: 17 September 2019

BY: Chief Executive

SUBJECT: Infrastructure Risk Register

9

1 PURPOSE

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

2 RECOMMENDATIONS

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

3 BACKGROUND

- 3.1 The Risk Register has been compiled by the Infrastructure LRWG. All risks have been evaluated using the standard (5x5) risk matrix (Appendix 2) producing an evaluation of risk as either 'low (1-4)', 'medium' (5-9), 'high' (10-19) or 'very high' (20-25).

- 3.2 The Council's response in relation to adverse risk or its risk appetite is such that:
- Very High risk is unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position;
 - High risk may be tolerable providing the Council is assured that adequate and effective control measures are in place;
 - Medium risk is tolerable with control measures that are cost effective;
 - Low risk is broadly acceptable without any further action to prevent or mitigate risk.
- 3.3 The current Infrastructure Risk Register includes 13 High risks, 46 Medium risks and 13 Low Risks. As per the Council's Risk Strategy, only the Very High and High risks are being reported to the Committee.

4 POLICY IMPLICATIONS

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

5 INTEGRATED IMPACT ASSESSMENT

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

6 RESOURCE IMPLICATIONS

- 6.1 Financial - It is the consideration of the Infrastructure Local Risk Working Group that the recurring costs associated with the measures in place for each risk are proportionate to the level of risk. The financial requirements to support the Risk Register for the year ahead should be met within the proposed budget allocations. Any unplanned and unbudgeted costs that arise in relation to any of the corporate risks identified will be subject to review by the Corporate Management Team.
- 6.2 Personnel - There are no immediate implications.
- 6.3 Other - Effective implementation of this register will require the support and commitment of the Risk Owners identified within the register.

7 BACKGROUND PAPERS

- 7.1 Appendix 1 – Infrastructure Risk Register 2019
- 7.2 Appendix 2 – Risk Matrix 2019

AUTHOR'S NAME	Scott Kennedy
DESIGNATION	Emergency Planning, Risk and Resilience Officer
CONTACT INFO	skennedy@eastlothian.gov.uk 01620 827900
DATE	5 September 2019

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	Evidence held of Regular Review
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INF 1	<p>Waste and recycling targets and legislation.</p> <p>The Waste (Scotland) Regulations 2012 set out a number of provisions which help Scotland move toward the objectives and targets set out in the Scotland's Zero Waste Plan and help transition toward a circular economy. These provisions include a ban on biodegradable municipal waste going to landfill from the 1 January 2021. Meeting the ban will have a negative impact on the revenue budget due to increases in gate fees.</p> <p>Modelled Household Waste Charter aligned single pass weekly collection system may not now be viable depending on the scope of DRS Uncertainty over future kerbside collection model means we will be unlikely to achieve the recycling target of 60% by 2020.</p> <p>The Scottish Government intends to introduce legislation towards the end of 2019 in relation to Scotland's deposit return scheme for glass, steel, aluminium and PET drinks containers. Once this is passed by the Scottish Parliament, there will then be a minimum 12-month implementation period before the scheme is operational.</p> <p>The scheme is likely to result in a significant loss of high value materials to the Waste Service therefore impacting on the cost effectiveness of delivering kerbside recycling services.</p> <p>Uncertainty over DRS and material volumes and value mean we are unable to proceed with planned procurement of kerbside collection services.</p>	<p>Waste Strategy was implemented April 2015 with a view to achieving a minimum 50% recycling & composting target.</p> <p>Recycling and residual collections to all domestic and commercial properties covering mixed waste, DMR, food and garden.</p> <p>Bring site provision including 4 Community Recycling Centres. Monitoring of national and local indicators.</p> <p>Waste Data Flow reporting to Waste Regulatory body.</p> <p>Monitoring of kerbside collection systems and targeted intervention to offer support to residents using these services.</p> <p>Short term disposal/treatment framework Contract. Partnership working. Strategy Review and Implementation.</p> <p>Extension of kerbside collection service beyond the original contracted period via VEAT notice to 2020.</p> <p>Discussions held with Contractor over a further extension of existing arrangements to 2021 so DRS impact can be adequately assessed.</p>	4	4	16	<p>Modelling work to be undertaken following confirmation of DRS scope by Scottish Government.</p> <p>Review of service provision and charges for services.</p> <p>Long term treatment contract to start November 2019 which will allow for additional recovery and enable East Lothian to be compliant with the ban on biodegradable municipal waste going to landfill in Scotland and will not have to seek alternative arrangements outwith the region.</p>	4	4	16	<p>Service Manager - Transport & Waste</p> <p>Head of Infrastructure</p>	November 2019	<p>Risk refreshed August 2019 with no change to assessment of risk scores.</p> <p>Risk refreshed by Senior Waste Services Officer - Strategy May 2019 with current and residual scores increased from 6 to 16 due to new legislation.</p> <p>Risk refreshed November 2015 – Current score reduced from 12 to 6 and residual score reduced from 8 to 6 due to implemented measures.</p> <p>Risk reviewed May 2014 and Residual Risk Rating reduced from 12 to 8.</p>

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			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating			
			L	I	L x I		L	I	L x I			
INF 2	<p>Maintenance of Burial Grounds</p> <p>Failing to maintain the Council's burial grounds could result in a serious injury/death to the public or ELC employees from falling headstones/memorials and a resulting financial loss due to insurance claims. There is also the risk of losing part of East Lothian's cultural heritage through the loss of family history records on headstones and memorials and failure to comply with the Equalities Act if access paths aren't maintained.</p> <p>Annual programme of consolidation continues however number of memorials considered as presenting significant risk remains at around 20% of stock. Scottish Government have now published guidance on inspecting and making safe memorial stones which places a clear burden on the Council to demonstrate a duty of care in this regard.</p>	<p>Responsibility for maintenance of facilities shared with Property Maintenance. Inspection of all headstones now complete North Berwick Cemetery extension has concrete foundation provided for headstones.</p> <p>A Community Pay Back scheme to repair headstones/memorials has been set up but will take time to make any significant impact.</p> <p>St Mary's Haddington has had emergency stability work undertaken on headstones. ELC staff now responsible for installation of foundations for all new memorial stones.</p> <p>Additional equipment purchased to assist with roll out of headstone safety works and improve output. Priority for safety works now moved over to Amenity Services Staff from Criminal Justice Team</p> <p>Now in year 4 of a 6 year programme to Dig and Deepen unstable headstones. Programme now likely to extend beyond 6 years as further dangerous memorials become known through subsequent inspections. Risk reduced by 26% volume – 1,600 of 6,000 stones now safe with most high risk stones now dealt with.</p> <p>Programme of Consolidation works completed during Winter 2018/19.</p> <p>Toolbox talks for staff completed to cover safety aspects of working in and around headstones and to ensure consistent approach towards consolidation works.</p> <p>New burial sites being developed will include Pre-formed reinforced strip foundations that should prevent this risk from presenting with headstones installed thereafter.</p>	4	4	16	<p>Further programme of consolidation works programmed for completion March 2020 based on revised risk assessment.</p> <p>Round 3 of Headstone Inspection Programme to be completed by March 2020 according to agreed 3 year rolling programme.</p>	3	4	12	<p>Principal Amenity Officer</p> <p>Business Support - Sport, Countryside & Leisure</p>	<p>March 2020</p> <p>March 2020</p>	<p>Risk refreshed August 2019 with no change to assessment of risk scores.</p> <p>Risk refreshed by Principal Amenity Officer April 2019 with current score increased from 16 to 20.</p> <p>Risk Refreshed by Principal Amenity Officer November 2014 and by Head of Infrastructure December 2014 with 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	Evidence held of Regular Review
			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating			
			L	I	L x I		L	I	L x I			
INF 3	<p>Burial Service</p> <p>Inability to provide an efficient burial service and sufficient land for burial purposes would mean that the Council is unable to undertake its statutory duties, and create distress to family and mourners.</p> <p>An audit highlighted there is less available burial space than indicated previously.</p> <p>The service experiences increased demand for burial services in certain clusters while the remaining clusters activity continues. This can produce waiting times of up to 20 working days during winter as opposed to our acceptable target of 4-5 working days. Staff efficiencies and long-term medical absence place further risk on our ability to maintain an acceptable standard of service delivery.</p>	<p>Burial Administration now centralised in single office and revised procedures from service review now operating. Risk Assessments and SOPs are in place, regularly updated and employees are aware of them.</p> <p>Training programme in place to ensure employees are qualified.</p> <p>Burial Strategy now adopted by ELC. Communication procedure with the Registration Service in place and monthly liaison meetings take place. New procedures for management of burials are now operational.</p> <p>Negotiation ongoing with landowners and consultation with Planning for new burial provision at priority site in Tranent.</p> <p>Planning Application secured for Dunbar.</p> <p>Representation made to MIR consultation regarding all cluster needs for new space</p> <p>Recruitment exercise complete meaning staffing filled to budget.</p> <p>Available resources are being rotated around clusters as fully as possible to reduce waiting times but this is only having limited benefit. Media release in February highlighted the position to the community reaching out for understanding and trying to give comfort.</p>	4	4	16	<p>Planning Application for Prestonpans is an active application. Potential site identified for Tranent Cluster and desktop study concludes that land is suitable for development. Estates instructed to commence negotiation to purchase</p> <p>Complete negotiations and secure ownership of land according to priority list.</p> <p>Deliver induction session for all burial staff on current procedures and update regularly by programme of Toolbox Talks.</p>	3	4	12	<p>Principal Amenity Officer</p> <p>Business Support Sport, Countryside & Leisure</p>	<p>March 2020</p> <p>March 2020</p> <p>October 2019</p>	<p>Risk refreshed August 2019 with no change to assessment of risk scores.</p> <p>Risk refreshed by Principal Amenity Officer January 2018 and residual score increased from 9 to 12 to reflect reducing burial capacity at existing sites and no confirmed alternatives at time of review.</p> <p>Risk Refreshed by Principal Amenity Officer November 2014 and by Head of Infrastructure December 2014 with Current Risk Score reduced from 20 to 16.</p>
INF 4	<p>Future Required Maintenance of New or Extended Assets</p> <p>Insufficient budget allocation to manage and maintain the increased asset base may result in deterioration in condition of the assets with consequential risk of failure.</p> <p>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.</p>	<p>Annual update of programme of works based on Condition, Suitability and Statutory Compliance assessments to inform budget requirement.</p> <p>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 a good condition.</p>	4	4	16	<p>Continue to look for opportunities to co-locate and share facilities to reduce the number of assets held by the Council.</p> <p>Looking at Lifecycle Costing as part of project/business plan and review on a project basis for future capital bids and budget setting.</p>	3	4	12	<p>Service Manager – ESBS</p> <p>Service Manager – SA&CPM</p>	<p>March 2020</p> <p>March 2020</p>	<p>Risk refreshed August 2019 with no change to assessment of risk scores.</p> <p>Risk refreshed April 2019 with current score increased from 12 to 16 and residual score from 8 to 12.</p> <p>Current Risk scores reduced from 16 to 12 February 2015.</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	Evidence held of Regular Review
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			L	I	L x I		L	I	L x I			
INF 5	<p>Maintenance of Existing Operational Assets</p> <p>Insufficient staffing and financial resource to carry out repairs and maintenance programmes to ensure buildings are maintained in a good condition.</p> <p>Failure to carry out repairs and maintenance programmes could result in unavailability of buildings e.g. school closure and reputational damage to the Council.</p>	Ongoing review and update of programme of works based on Condition, Suitability and Statutory Compliance assessments to inform budget requirement.	4	4	16	<p>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 a good condition.</p> <p>Evidence from recent reviews indicate that urgent refresh of data is required – short-life working group (ESBS and SA&CPM) to meet regularly but there is a resource risk.</p> <p>Looking to recruit additional resource for Building surveys.</p>	3	3	9	<p>Service Manager – ESBS</p> <p>Service Manager – SA&CPM</p>	<p>November 2019</p> <p>March 2020</p> <p>November 2019</p>	<p>Risk Refreshed August 2019 - current risk score increased from 9 to 16 and residual score from 6 to 9.</p>
INF 6	<p>Solid Fuel Installations and Safety</p> <p>Failure to Manage Solid Fuel safety on all Solid Fuel Installations in ELC Housing Properties leading to potential CO poisoning of tenants, increased risk of house fires and potential risk of prosecution. Chimneys are generally in poor condition while the Council are unable to control fuels burnt in solid fuel appliances.</p>	Programme for Solid Fuel Servicing terminated end of 2018. New servicing contractor in place from April 2019. Heating replacements to energy efficient, low carbon alternative fuels are available and being installed but implementation is difficult due to customer refusals. Contractor in place for removal and replacement of solid fuel systems.	3	5	15	<p>Programme for removal and replacement of solid fuel systems ongoing in remaining 40 properties. Gas supplies have been installed to all Council houses in gas areas to enable rapid replacement when consent received.</p> <p>Clear policy to be developed on solid fuel systems replacement process.</p>	2	5	10	<p>Service Manager - Engineering Services & Building Standards (ESBS)</p> <p>Service Manager - Property Maintenance</p>	<p>October 2019 to review</p> <p>January 2020</p>	<p>Risk refreshed August 2019 with no change to assessment of risk scores.</p> <p>Risk score increased Feb'15 from 12 to 15 and residual score from 0 to 10.</p> <p>Risk also on Development Register D 3</p>
INF 7	<p>Maintenance of Operational Properties</p> <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. This could result in injury/loss of life of public building users and legal action against the Council. Failure to make sufficient finance available to carry out testing and implement recommendations may result in all of the above.</p>	<p>Funding required from limited Property Renewals budget to address identified remedial works in public buildings.</p> <p>Programme of Fixed Electrical Installation in place in accordance with statutory requirements.</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 – Service Manager - Strategic Asset & Capital Plan Management (SA&CPM)</p>	<p>March 2020</p> <p>March 2020 - satisfactory arrangements are in place but will continue to be reviewed regularly.</p>	<p>Risk refreshed August 2019 with no change to assessment of risk scores.</p>

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			L	I	L x I		L	I	L x I			
INF 8	<p>Building Standards Team</p> <p>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 in BSD's new performance framework. This could influence service levels and result in an audit by the BSD, which could lead to the Council losing the verification role.</p> <p>A Service Review was carried out during 2016 and implemented; however, there is an ongoing inability to recruit suitably qualified BS Surveyors resulting in an inability to meet targets. Also in-house Structural Engineer retired December 2017.</p>	<p>Monitoring of workload to fee income, performance to staffing levels and project complexity to staff abilities and training.</p> <p>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.</p> <p>Further review carried out and 3 new Posts filled March 2019 (Surveyor, Inspector & Technician). Work outsourced to Argyll & Bute Council to minimise backlog. Commitment made to re-invest Building Standards Income within the service.</p>	3	4	12	<p>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.</p> <p>Look to recruit to graduate post.</p>	2	4	8	Service Manager – ESBS	<p>March 2020</p> <p>March 2020</p>	<p>Risk refreshed August 2019 with no change to assessment of risk scores.</p> <p>Risk Refreshed November 2014 and residual risk score reduced from 12 to 8.</p>
INF 9	<p>Dangerous Buildings</p> <p>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.</p> <p>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. Also in-house Structural Engineer retired December 2017.</p>	<p>Climatic and financial factors are outwith East Lothian Council's control.</p> <p>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 three Senior BS Surveyors to provide cover outwith office hours.</p> <p>Further review carried out and 3 new Posts filled March 2019 (Surveyor, Inspector & Technician). Work outsourced to Argyll & Bute Council to minimise backlog. Commitment made to re-invest Building Standards Income within the service.</p>	3	4	12	<p>Continue to monitor situation with revised workforce in place.</p>	2	4	8	Service Manager – ESBS	<p>March 2020</p>	<p>Risk refreshed August 2019 with no change to assessment of risk scores.</p> <p>Risk Refreshed February 2015 with current score reduced from 15 to 12 and residual score from 10 to 8.</p>
INF 10	<p>Current Asset Data</p> <p>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.</p>	<p>Limited annual desktop updates carried out on existing data informed by feedback from maintenance team.</p> <p>3rd Phase of building surveys now complete and QA process underway.</p>	3	4	12	<p>3rd Phase of 3 Phase building survey now completed but significant QA issues identified and being dealt with. External resources allocated to enable ongoing surveys and comprehensive 5 yearly reviews.</p>	2	4	8	Service Manager – ESBS	<p>March 2020</p>	<p>Risk refreshed August 2019 with no change to assessment of risk scores.</p>

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			L	I	L x I		L	I	L x I			
INF 11	Tree Estate Failure to manage and maintain the Council's tree estate including a failure to monitor for the current risk from tree diseases resulting in potential damage to people and or property. Also potential negative impact on the landscape and character of East Lothian and its towns and villages, biodiversity, health & wellbeing of residents and the local economy and tourism.	Regular inspections undertaken as well as monitoring for tree diseases within the tree estate with record kept of trees inspected. Record kept of arboriculture work undertaken. Annual programme of tree planting and record kept of trees planted. All forestry staff have appropriate qualifications, training and experience. Risk Assessments and SOPs in place and regularly updated for all arboriculture and forestry work which employees are aware of. Woodland Action Plan in the Biodiversity Action Plan.	3	4	12	Survey of all Council owned trees on their condition and location has commenced and a rolling inspection programme to be set up. Resourcing issues are such that survey progress will be limited and completion will take an extended period of time. Purchase of specialised Tree Management software to allow mapping and detailed recording of condition & history intended and due for review Mar 2020.	2	4	8	Tree Officer Business Support Sport, Countryside & Leisure	March 2021 March 2020	Risk refreshed August 2019 with no change to assessment of risk scores. Risk refreshed by Head of Infrastructure Dec'14 with Current Score reduced from 16 to 12 and residual score from 10 to 8.
INF 12	Education Estate – Changes to Projects Risk of unanticipated changes within Projects resulting in project cost overruns and potential delays to the project. Impact arising from BREXIT, and the potential additional costs.	Cost planning and financial monitoring processes are in place. Change control process manages the approvals process for additional budget arising from client changes. Review project risk contingency and identify a risk value in future projects.	3	4	12	Ensure Project briefing, budgets and cost plans are robust and include realistic allowance for further development of scope meaning few unanticipated changes during projects. Close liaison with clients throughout project process.	2	4	8	Service Manager - SA&CPM	November 2019 November 2019	Risk refreshed August 2019 with no change to assessment of risk scores. Risk refreshed Jan'19 - current score increased from 8 to 12.
INF 13	Statutory Water & Air Hygiene monitoring and testing 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 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 and Day to Day Maintenance budget to address identified remedial works in public buildings which resulted in significant overspend for 2018/2019 financial year. Existing contractors risk assessments and reporting being reviewed on ongoing basis. Programme of risk assessment, maintenance and testing tendered and accepted 2018. Contract extended to cover all buildings. Transition of Housing Management areas to new Housing Asset team. New Repairs Officer (Compliance) started in post 2019.	2	5	10	Majority of risk assessments now nearing completion and remedial works being addressed as identified.	2	4	8	Service Manager – ESBS	April 2020	Risk refreshed August 2019 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.
Original date produced (Version 1)		9 th January 2013										Risk Score

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			Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating			
			L	I	L x I		L	I	L x I			
File Name		Infrastructure Risk Register										
Original Author(s)		Scott Kennedy, Risk Officer										
Current Revision Author(s)		Scott Kennedy, Risk Officer										
Version		Date	Author(s)			Notes on Revisions						
1		09/01/2013	S Kennedy			Environment Register updated to Infrastructure Risk register following Senior Management Restructure and updates to Risk Strategy and Corporate Risk Register.						
2		April-May 2013	S Kennedy			Updated following Working Group meeting. Dog Fouling/Dangerous Dogs risk split. Transport Services updated by Service Manager. Facilities Management updated by Service Managers. Property Maintenance updated by Service Manager.						
3		September 2013	S Kennedy			Landscape & Countryside Risks updated by Service Manager.						
4		October 2013	S Kennedy			Waste Management Risks updated and two added. No change to Road Services Risks or Transport Services Risks. Facilities Mgmt risks updated.						
5		December 2013	S Kennedy			Roads Network Risks Added						
6		January 2014	S Kennedy			Dangerous Dogs & Dog Fouling Risks transferred to Communities & Partnerships (Customer Services) Risk Register; Healthy Living Risks added and Print Unit Risk added to Facilities to create initial Infrastructure Risk Register following realignment process.						
7		May 2014	S Kennedy			Waste risks reviewed by Head of Service. Land Management Risk transferred from Corporate RR at the request of CMT.						
8		November 2014	S Kennedy			Waste, Transport, Road, Facilities Services and Property Maintenance Risks all reviewed and refreshed by respective Service Managers. Amenity Risks reviewed by Principal Amenity Officer.						
9		December 2015	S Kennedy			All Infrastructure risks reviewed and refreshed by all Service Managers. Risks on postal strike and print unit deadlines removed by Head of Infrastructure. Risk on staffing levels also removed as covered in Corporate Risk Register.						
10		December 2016	S Kennedy			All Infrastructure risks reviewed and refreshed by all Service Managers.						
11		November 2017	S Kennedy			Property Maintenance Risks moved to Development Risk Register while Engineering Services & Building Standards and Strategic Asset and Capital Plan Management risks moved from Development Risk Register following Council Service Review. Two Waste Services Risks on Carberry Landfill Site removed as risk removed.						
12		December 2017 - January 2018	S Kennedy			Transport, Waste and Roads (Traffic Warden Risk Removed) Risks updated followed by January updates to Engineering Services & Building Standards, Sport Countryside & Leisure, Facilities and Strategic Asset & Capital Plan Management.						

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			L	I	L x I		L	I	L x I			
13		February 2018	S Kennedy			Full Review of Register by current Head of Infrastructure prior to retiring.						
14		December 2018	S Kennedy			Waste and Facilities Risks Updated						
15		April-May 2019	S Kennedy			All risks reviewed and updated.						
16		May 2019	S Kennedy			Risks reviewed and refreshed by Head of Service with Risk on Waste and Recycling Targets & Legislation AND Community Asset Transfer increased.						
17		August 2019	S Kennedy			All risks reviewed. Full review and update of all SA&CPM Risks by new Service Manager.						

East Lothian Council

Risk Matrix

Likelihood Description

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

Impact Description

Impact of Occurrence	Score	Description							
		Impact on Service Objectives	Financial Impact	Impact on People	Impact on Time	Impact on Reputation	Impact on Property	Business Continuity	Legal
Catastrophic	5	Unable to function, inability to fulfill obligations.	Severe impacts on budgets (emergency Corporate measures to be taken to stabilise Council Finances)	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.	Significant disruption to building, facilities or equipment (Loss of building, rebuilding required, temporary accommodation required).	Complete inability to provide service/system, prolonged downtime with no back-up in place.	Catastrophic legal, regulatory, or contractual breach likely to result in substantial fines or other sanctions.
Major	4	Significant impact on service provision.	Major impact on budgets (need for Corporate solution to be identified to resolve funding difficulty)	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.	Major disruption to building, facilities or equipment (Significant part of building unusable for prolonged period of time, alternative accommodation required).	Significant impact on service provision or loss of service.	Legal, regulatory, or contractual breach, severe impact to Council.
Moderate	3	Service objectives partially achievable.	Significant impact on budgets (can be contained within overall directorate 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.	Moderate disruption to building, facilities or equipment (loss of use of building for medium period).	Security support and performance of service/system borderline.	Legal, regulatory, or contractual breach, moderate impact to Council.
Minor	2	Minor impact on service objectives.	Moderate impact on budgets (can be contained within service head's 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.	Minor disruption to building, facilities or equipment (alternative arrangements in place and covered by insurance).	Reasonable back-up arrangements, minor downtime of service/system.	Legal, regulatory, or contractual breach, minor impact to Council.
Minimal	1	Minimal impact, no service disruption.	Minimal impact on budgets (can be contained within unit's 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 media (Internal).	Minimal disruption to building, facilities or equipment (alternative arrangements in place).	No operational difficulties, back-up support in place and security level acceptable.	Legal, regulatory, or contractual breach, negligible impact to Council.

Risk	Impact				
	Minimal (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: 17 September 2019

BY: Depute Chief Executive (Partnerships and Community Services)

SUBJECT: Safeguarding Public Money: are you getting it right?
(Accounts Commission, April 2019)

10

1 PURPOSE

- 1.1 To provide the Audit and Governance Committee with an overview of the Accounts Commission report, *Safeguarding public money: are you getting it right?*

2 RECOMMENDATIONS

2.1 The Committee is recommended to:

- Note the position of East Lothian Council in regard to the key messages and recommendations in the Accounts Commission report, *Safeguarding public money: are you getting it right?*
- Agree that all elected members be issued with the Standards Commission's 'Advice Note on Distinguishing Between Their Strategic Role and Any Operational Work'
- Agree that the Chair of the Committee review the Councillor Checklists included in the report and report back to Committee with any recommendations for further action.

3 BACKGROUND

- 3.1 *Safeguarding public money: are you getting it right?* is the latest report published by the Accounts Commission in its *How Councils Work* series of reports which aim to help councils improve their use of public money and support their drive for continuous improvement.

- 3.2 The report “aims to reinforce the importance of councils having effective internal controls” which “are fundamental to maintaining a council’s finances; securing its core values; safeguarding public money; and minimising the reputational impact on a council if things go wrong.” It includes several checklists of questions for councillors and officials to ‘assess their council’s situation and, where necessary, to identify and plan improvements.’ Paragraph 7 of the report outlines how the Accounts Commission expects councillors to use the report.
- 3.3 The report’s key message can be summarised as:
- An effective system of internal controls and risk management helps councils to safeguard their finances; ensures they implement their policies; and helps them to deliver high-quality services
 - There are signs from council’s internal auditors and the work of councils’ external auditors that standards of internal controls may be strained
 - Ultimately councillors are accountable for scrutinising a council’s use of public money
 - Councillors should seek assurances from officers that a rigorous system of internal controls is in place.
- 3.4 The report is structured around three parts:
- Part 1: Internal controls help councils to manage risks
 - Part 2: Weak controls can have serious consequences
 - Part 3: Officers and councillors both have important roles

Part 1: Internal controls help councils to manage risks

- 3.5 The essential point made in the report is that “A council is responsible for ensuring they have an effective system of internal controls to safeguard public funds and help secure value for money.” The components of an internal control system are outlined in Exhibit 1 (page 7) and paragraph 9. Councils should review their internal controls and the findings of the review should be considered by its Audit Committee. A council’s external auditor is required to express a separate opinion in their independent auditor’s report.
- 3.6 East Lothian Council does produce an annual internal auditors control assurance report which is considered by the Audit and Governance Committee (see Internal Audit Controls Assurance Statement; Audit and Governance Committee, 18 June 2019). This statement provides an annual assessment of the control environment and the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control. The statement concluded that subject to the areas for improvement highlighted in various internal audit reports through the year “reasonable assurance can be placed on the overall adequacy

and effectiveness of East Lothian Council's framework of governance, risk management and control for the year ended 31 March 2019."

- 3.7 In addition, the Council undertakes a Corporate Governance Self-evaluation which includes assessment of control and risk management measures. The results of which are reported to Audit and Governance Committee and in the Annual Governance Statement which forms part of the Council's Annual Accounts.
- 3.8 The council's external auditors carry out an annual assessment of the systems of internal control put in place by the council. The outcome of the 2018/19 review, reported to the Audit and Governance Committee, 18 June 2019 concluded that, "appropriate and effective internal controls were in place for those key financial systems reviewed by us."
- 3.9 The second key element of ensuring that a council safeguards public money is to have adequate risk management procedures in place. Paragraphs 12 – 20 outline best practice in risk management.
- 3.10 East Lothian Council has a Risk Management Strategy and both Corporate Risk Registers and Service Risk Registers that are reviewed regularly by officers and reported to either Cabinet or the Audit and Governance Committee.

Part 2: Weak controls can have serious consequences

- 3.11 This section of the report highlights what might go wrong if internal control measures are not in place or are not implemented effectively. It provides several case studies of problems that have been identified through auditors reports with a range of situations where:
- controls worked well
 - controls were weak, but problems were averted
 - weak controls enabled a problem to occur, but corrective action was taken.
- 3.12 The report also highlights that public money can be lost through corruption or fraud (paragraphs 28 – 32 and Exhibit 4) and therefore councils should have "sufficient capacity in place to prevent fraud; investigate suspicious matches or other problems; and correct errors. Internal Audit undertakes an annual National Fraud Initiative exercise, the results of which are published in the Annual Audit Report. East Lothian Council's Internal Audit team does investigate potentially fraudulent activity and reports the findings of any investigation to the Audit and Governance Committee.
- 3.13 This section of the report concludes that external auditors' evaluation of internal controls should identify any deficiencies that management may not be aware of. The council's external auditors' 2018/19 review of internal controls (Audit and Governance Committee, 18 June 2019) concluded that, "Our audit testing did not identify any significant control weaknesses. We did identify some less significant issues in relation to changes to

supplier bank details and quality checks for NDR and Council Tax. These were discussed with management so that appropriate actions can be taken.”

- 3.14 One of the report’s key messages, commenting on the wider picture across Scottish local government is that: “There are signs from council’s internal auditors and the work of councils’ external auditors that standards of internal controls may be strained.” However, the report from the Council’s internal and external auditors have not flagged up this concern with regards to the council’s internal controls.

Part 3: Officers and councillors both have important roles

- 3.15 This is the longest section of the report and deals with a range of issues including, the roles of councillors, the role of the audit committee, the need for councillors to scrutinise risk from partnership working, the roles of the Statutory Officers, and the role of Internal Audit.

- 3.16 Paragraphs 40 – 46 of the report outline the distinct but complimentary roles of councillors and council officers, which could be summarised as: “Councillors are elected to determine policy, and the role of officers is to implement these policies through day-to-day management of services.” Paragraphs 73 – 93 deal in some detail with the roles of the four ‘statutory officers’ – Head of Paid Service; Chief Financial officer; Monitoring officer; and, Chief Social Work officer – as well as the non-statutory post of Chief Education officer.

- 3.17 The Council’s Scheme of Delegation sets out in detail the role of Chief Officers and the Statutory Officers. The Council Standing Orders include the Standards Commission’s Councillors Code of Conduct which clearly sets out the relationship between elected members and council officers. To support the Guidance the Standards Commission for Scotland has published a very useful Advice Note for councillors on distinguishing between their strategic role and any operational work. All elected members should be made aware of the Advice Note so that they are fully appraised of the Standards Commission’s expectations with regards to the role of elected members and officer member relations.

- 3.18 The report (paragraphs 47 – 50) highlights the important role of the audit committee and suggests that its core functions should include:

- review the council’s annual governance statement
- consider the effectiveness of the council’s risk management arrangements
- consider the reports and recommendations of external audit and inspections
- review the council’s financial statements, the external auditor’s opinions and reports to councillors

- 3.19 The Council's Scheme of Administration includes the detailed remit of the Audit and Governance Committee which includes the core functions set out in the Accounts Commission report.
- 3.20 With regards to scrutinising risks from partnership working the report specifically mentions Community Planning Partnerships (CPP), Integration Joint Boards (IJB), Arms-length external organisations, and City Region Deals. Whilst the Audit and Governance Committee has received and considered reports from Arms-length external organisations – namely Enjoy Leisure and the Musselburgh Racecourse – it has not scrutinised risks associated with other partnerships such as the CPP, the IJB or the City Region Deal.
- 3.21 Paragraphs 70 – 72 of the report touch on the need for councillors to be given a good induction following their election and that they also need “sustained, ongoing continuing professional development. The council undertook an extensive induction programme following the 2017 council elections. Following a recommendation in the Best value Assessment Report (September 2018) that the council should offer councillors ongoing continuous professional development a training and development survey was carried in May/ June 2019. The results of the survey, which was completed by half of the council's 22 councillors is being used to inform future training and development. In addition councillors have been offered support in developing a continuous personal training and development plan.
- 3.22 The final section of the report (paragraphs 94 – 103) deals with the role of internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations.”
- 3.23 The report highlights that the key features of internal auditing are to:
- operate independently of the day-to-day running of the council
 - provide a service to all levels of the council
 - objectively assess operations' effectiveness, efficiency and value for money
 - form an integral part of the framework of business controls.
- 3.24 The Council's Internal Audit service which reports regularly to Audit and Governance Committee does meet this model of internal auditing
- 3.25 Exhibit 9 (page 40) provides a list of responsibilities of an effective audit committee to ensure effective internal audit oversight, which the Audit and Governance Committee complies with.

Checklists for councillors

- 3.26 'Safeguarding public money' contains eight Councillor Checklists to gauge whether the Council is complying with good practice in relation to the

issues raised in the report. The checklists which contain a total of over 80 questions cover:

- Internal controls and risk management
- Fraud and corruption
- Consequences of weak controls
- Audit Committee
- Partnership working
- Councillors' continuing personal development
- Statutory officers and chief education officer
- Internal auditing function.

4 POLICY IMPLICATIONS

- 4.1 The 'Safeguarding public money' report has highlighted the requirement for the council to have robust internal controls and risk management systems in place. The internal audit Controls Assurance statement and external auditors' assessment of systems of internal control provide assurance that the council does have robust systems in place and any improvements required are taken on board by the council.
- 4.2 A review of the Councillor Checklists included in the report will provide further assurance that the council is meeting good practice. If the review identifies any weaknesses then these will be reported back to Audit and Governance Committee for consideration whether any changes in procedures or policy may be required.

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 This report is not applicable to the wellbeing of equalities groups and an Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – none.
- 6.2 Personnel – none.
- 6.3 Other – none.

7 BACKGROUND PAPERS

- 7.1 'Safeguarding public money: are you getting it right?', Accounts Commission, April 2019
- 7.2 Controls Assurance Statement 2018/19; Audit and Governance Committee, 18th June 2019
- 7.3 East Lothian Council - Review of internal controls in financial systems 2018/19; Letter from Audit Scotland; Audit and Governance Committee, 18th June 2019
- 7.4 Councillors Code of Conduct; Standards Commission for Scotland, July 2018 – Council Standing orders, Appendix 4
- 7.5 Advice Note for councillors on distinguishing between their strategic role and any operational work; Standards Commission for Scotland, July 2018

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DATE	4 th September 2019

How councils work:
an improvement series for councillors and officers

Safeguarding public money: are you getting it right?

ACCOUNTS COMMISSION 

Prepared by Audit Scotland
April 2019


The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

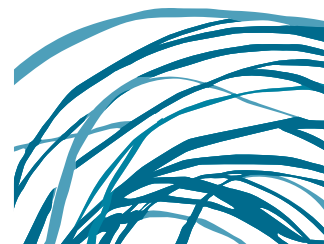
Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about-us/accounts-commission 

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.

Contents



Key messages	4
About this report	5
Part 1. Internal controls help councils to manage risk	7
Part 2. Weak controls can have serious consequences	14
Part 3. Officers and councillors both have important roles	24
Endnotes	42
Appendix. Summary of checklists for councillors	44

Audit team

The core audit team consisted of Carol Calder and Douglas Black, with support from other colleagues, under the general direction of Antony Clark.

Links

-  PDF download
 -  Web link
-

Key messages

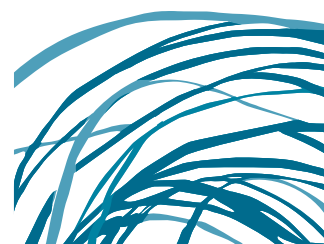


Councils provide valuable public services but face a complex, uncertain environment that places evolving demands and expectations on them. Increasingly, councils deliver services through multi-faceted partnership working across organisational, functional and geographical boundaries – such as for the provision of health and social care services.

It is challenging for councils to prioritise how they use their finite resources. Councils' decreasing budgets contrast with rising demands on many of their services, including care of vulnerable elderly people. This means that effective risk management and strong internal controls are more important now than ever before.

- 1** An effective system of internal controls and risk management helps councils to safeguard their finances; ensures they implement their policies; and helps them to deliver high-quality services. Controls include procedures for paying the right sum of money to the right person at the right time; keeping confidential data secure; and minimising a council's exposure to fraud and corruption.
 - 2** There are signs from councils' internal auditors and the work of councils' external auditors that standards of internal controls may be strained. Some recurring weaknesses are becoming apparent among councils and the consequences could be serious, including the loss of significant amounts of public money, impacts on services and reputational damage.
 - 3** Ultimately, councillors are accountable for scrutinising a council's use of public money. Senior officers have the primary responsibility for ensuring internal controls and risk management operate effectively and that a council's internal auditing function provides a valuable and objective view.
 - 4** Councillors should seek assurances from officers that a rigorous system of internal controls is in place. Scrutiny and audit committees have leading roles, but every committee and councillor has a scrutiny role too.
-

About this report



1. The Accounts Commission aims to help councils improve their use of public money, alongside its role as the local government public spending watchdog. Our *How councils work* (HCW) reports support councils' drive for continuous improvement. We select topics from recurring themes in our Best Value assurance reports; performance audits; the work of councils' external auditors; and our annual overview of local government.

2. Our previous HCW reports have examined:

- [The roles, responsibilities and working relationships of councillors and council officers in achieving Best Value](#) (2010); and [a follow-up](#) (2016).
- [The relationships between councils and their arm's-length external organisations \(ALEOs\)](#) (2011).
- [The value of good-quality cost information in making informed policy decisions and scrutinising performance](#) (2012).
- [The importance of effective performance management systems](#) (2012).
- [Good practice in managing councils' major capital investments](#) (2013).
- [Charging for council services](#) (2013).
- [Options appraisal](#) (2014).

3. Scotland's councils face complex, challenging financial pressures. Rising demand for many of the diverse services councils provide must be met despite tightening budgets for numerous services, and significant uncertainty stemming from external factors including the UK's planned withdrawal from the EU.

4. In 2017/18, councils' net revenue expenditure totalled £12.4 billion.¹ If councils could save one per cent by improving their financial management, risk management and internal controls, they could potentially free-up an extra £124 million for providing public services.

5. Scotland's 1,227 councillors have multi-faceted responsibilities and constantly make difficult decisions when prioritising and allocating their council's finite resources.² With so much at stake, it is more important than ever that the impact of their decisions on communities and individuals is transparent and clearly understood. This requires an organisational culture that is open to candid discussions about risks and recognises the importance of scrutinising decisions.³

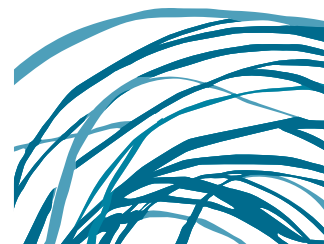
6. This report aims to reinforce the importance of councils having effective internal controls. Although these may have a low profile, they are fundamental to maintaining a council's finances; securing its core values; safeguarding public money; and minimising the reputational impact on a council if things go wrong. In places, anonymised, real-life case studies illustrate the importance of internal controls and the consequences if they fail. Checklists are featured to help councillors and officers assess their council's situation and, where necessary, to identify and plan improvements.

7. The Accounts Commission expects councillors to use this report to ensure that they:

- have a good understanding of the main risks facing their council and how well these risks are being managed
- are assured that appropriate internal controls are in place and, where weaknesses have been identified, effective action is being taken to address them
- are kept aware of the outcome of any significant risk occurring; the failure of internal controls; and what remedial actions are being taken.

Part 1

Internal controls help councils to manage risk



Councils can use internal controls to manage risks

A control is an action taken by management ... to manage risk and increase the likelihood that established objectives and goals will be achieved.⁴

8. A council is responsible for having an effective system of internal controls to safeguard public funds and help secure value for money. A system of internal controls has five main components ([Exhibit 1](#)).

Exhibit 1

Internal control components

The five main components are interdependent.



Control environment

The overall attitude, awareness and actions of councillors and senior officers to control activities and their importance in the council. This includes the high-level structures, culture and values across the council to provide a basis for carrying out internal controls.



Risk assessment process

Risk assessments should be carried out regularly. By identifying and evaluating risks, the council can assess the need for control activities.



Information systems

Councils use these systems (manual and computerised) to record financial transactions and non-financial data; and maintain accountability for related assets, liabilities and equity.



Control activities

Policies and procedures that senior management apply to ensure that their decisions and instructions are implemented; and risks are mitigated (treated) to achieve their objectives.



Monitoring of activities

Ongoing assessment by management of the control system's performance. Communication helps to monitor progress against the council's objectives.

Source: Financial Reporting Council

9. Control activities help to ensure council policy is applied, and they can generate feedback on whether intended actions were implemented and achieved their desired objectives. They comprise policies that establish what should be done, and procedures to implement these policies. In addition to the component arrangements for handling risk, five control categories are identified in the International Standards on Auditing, regarding the sorts of areas where risks occur:

- **Authorisation**
 - Officers handle only those processes and transactions that fall within the scope of their role.
- **Physical**
 - The physical security of assets, including adequate safeguards such as secured access to premises and records.
 - The authorisation for access to computer programs and data files.
 - The periodic counting and comparison with amounts shown on control records (for example, comparing the results of cash, security and inventory counts with accounting records).
- **Information processing**
 - Allow data to be processed in a specific way.
 - Application controls, which apply to the processing of individual tasks. Examples include checking the arithmetical accuracy of records, and manual follow-up of computer-generated exception reports.
 - General ICT controls, which are policies and procedures relating to many applications, such as controls that restrict access to computer systems which could change financial information without leaving an audit trail.
- **Performance reviews**
 - Monitoring performance versus budgets, forecasts, and prior period performance; and reviews comparing different data sets.
- **Segregation of duties**
 - Assigning different people the responsibilities of authorising transactions, recording transactions, and maintaining custody of assets. This is intended to reduce opportunities for someone to both perpetrate and conceal errors or fraud.⁵

10. It is the responsibility of officers to develop, implement and maintain reliable controls. Accounting regulations require a council to review, at least annually, the effectiveness of its system of internal controls. The findings from such a review must be considered by the audit committee (or equivalent) before it approves the council's annual governance statement, which is included in its published annual accounts.⁶ The governance statement is where a council reports publicly on the extent to which it complies with its own code of governance, which in turn should be consistent with good governance principles. It should include:

- an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the council's code of governance

- reference to, and assessment of, the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment
- an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework
- an agreed action plan showing actions taken, or proposed, to deal with significant governance issues
- reference to how issues raised in the previous year's annual governance statement have been resolved
- a conclusion – a commitment to monitoring implementation as part of the next annual review.

11. A council's external auditor is required to express a separate opinion in their independent auditor's report on whether:

- the information given in the council's annual governance statement is consistent with its financial statements
- the annual governance statement has been prepared in accordance with the *Delivering good governance in local government: framework 2016*.⁷

Risk management helps to safeguard public money

Risk management is about identifying risks; assessing the impact they will have if they come to pass; the likelihood of that happening and making plans to mitigate, or 'treat', those risks.⁸

12. A council needs to understand its risks before it can manage them, and each council will have its own set of local circumstances, risks and challenges. Councils have some risks in common but their level and how they manifest themselves vary from place to place and over time. Risks can arise or change owing to factors such as: changes in the regulatory or operating environment; recruiting new staff and staff turnover; implementing revamped or new information systems; adopting new technologies; and organisational restructuring. Understanding and proactively acting on risks reduces the likelihood of a council being impacted by adverse events; suffering a policy or service failure; or omitting to benefit from opportunities.

13. The impact of risks can be categorised in various ways and here is one approach for illustration:

- **Compliance** – with laws, regulations and good practice.
- **Finance** – risks to the funding available for providing quality services; and to the council's ongoing financial sustainability.
- **People** – risks to employees' health, safety, wellbeing and morale; and to the organisational culture within services and the council overall.
- **Reputation** – risks to a council overall, its values, councillors and officers.

- **Change** – including risks with major construction projects and a council’s organisational transformation plans.
- **Impact** – including the consequences of bad weather for services, and a council’s responsibility to champion and demonstrate good practice concerning its social responsibilities.

14. A council is responsible for having an effective and appropriate risk-management function.⁹ A good practice approach consistently integrates planning and risk management at corporate and service levels, and helps a council to:

- set and achieve its strategic objectives
- comply with its legal and policy obligations
- ensure the rigour of its decision-making
- prioritise the allocation and use of its finite resources
- deliver high-quality services.

15. A risk management cycle typically has seven steps ([Exhibit 2](#)). An underlying principle is to identify risks and their root causes at the earliest opportunity; assess risks’ potential impact; introduce controls to mitigate (treat) those risks; and continually review the council’s position.

Exhibit 2

Risk management aspects

There are seven key steps.

- 1**  **Identify** the risks to the council
 - 2**  **Assess** the impact of the results
 - 3**  **Assess** the likelihood of the risks occurring
 - 4**  **Prioritise** all risks, assessing the principal risks
 - 5**  **Identify** how controls can be put in place to help mitigate risks
 - 6**  **Monitor** risks and the effectiveness of controls
 - 7**  **Report** regularly to senior officers and to councillors
-

Source: Audit Scotland

A council needs to use one or more risk registers

A risk register is a key document which, together with service performance data and financial information, equips senior officers and councillors with an assessment of a set of issues.¹⁰

16. A risk register supports the identification, assessment and monitoring of risk. It can inform the understanding of trends; drive action planning; and help in sharing good practice across the council. A large, complex organisation like a council is likely to need a strategic, corporate-level risk register; and a more operationally focused risk register for each service and major programme of change or development – such as improvements to the school estate or a major new ICT programme. A risk register can capture where key risks sit and:

- the ownership and responsibility for how each risk will be managed
- the regularity of reports to officers and councillors on the handling of risk
- the basis for periodically updating the council's approach to risk.

17. Once a risk is identified, its significance is assessed in terms of the likelihood of it occurring and, if it occurred, what the consequences would be. Typically, likelihood is categorised on a numerical scale such as one to five, with one being rare and five almost certain. Impact will also be assessed on a similar scale, with one being insignificant and five being severe. Likelihood and impact are multiplied to obtain a single overall risk score between one and 25.

18. Few risks can be avoided altogether but an effective, self-aware risk culture enables councillors and officers consciously to take the right risks in an informed, responsible way. A council that is consistently risk-averse may not be well-placed to benefit from new opportunities. How acceptable a risk is deemed to be will depend on the type of risk involved; may vary among council services; and be influenced by factors such as the sums of money involved, or the potential consequences should the risk materialise.

19. It is for each council to have a clear approach to managing risk and articulating its risk appetite in ways that balance risk and opportunity and reflect the specific and varied nature of risks across different service and policy areas. For example, a council's risk appetite could range between being risk-averse (where the avoidance of risk and uncertainty is a key organisational objective) and risk-hungry (where the council is eager to be innovative and to choose options offering potentially higher rewards, despite greater inherent risk).

20. A council must monitor and control risks. It is important to evaluate each risk's score before and after mitigating action to curb it. Based on a risk's score, there are four options. In picking one, factors to consider include costs, feasibility, probability, and potential impact.

- **Terminate** – avoid the risk altogether by deciding not to proceed with an activity. For example, if a project is very high-risk, it may be prudent to cancel the project altogether or handle it differently.
- **Transfer** – to another person or organisation that bears all or part of the risk. This could mean moving some work to a different type of organisation; working in partnership to share the risk; or taking out insurance.

- **Mitigate** – identify measures to reduce the risk. Risks should be monitored regularly to ensure mitigation measures remain effective.
- **Tolerate** – it is sometimes appropriate to accept and live with a risk, for instance if the cost of mitigating it exceeds the potential benefits.

Internal controls and risk management are increasingly important

21. The outlook is that reductions in funding for councils may increase financial pressures on them, especially in services that are unprotected by funding dedicated to their sole use – such as road maintenance, waste disposal and ‘back-office’ functions such as finance, personnel and ICT services.

22. Further savings will become progressively more important to councils’ financial sustainability but could be increasingly difficult to achieve.¹¹ Sound internal controls are therefore essential for ensuring councils can extract the maximum possible value from their budgets within a tolerable level of risk. Risk is often unavoidable, but it always needs managed actively. The rewards in a well-managed situation can outweigh the risks for individuals, councils and for residents.

Councillor checklist 1



Internal controls and risk management

The following questions may help you to think about internal controls and risk management in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

Internal controls

- Do internal controls link with key corporate and service-level risks?
- Do internal controls apply to both financial and non-financial risks?
- Has the council identified the weakest internal controls?
- Are officers improving weak internal controls and minimising the risks they pose?
- Does internal auditing evaluate controls' effectiveness, and report to the audit committee?
- Does the audit committee take appropriate action?
- Does the council publicly review its system of internal controls annually?

Risk management

- Is risk management actively led, supported and promoted by councillors and senior officers?
 - Does the council have an up-to-date, corporate-level, risk management strategy?
 - Does the corporate risk management strategy address the council's risk appetite?
 - Does the council have up-to-date corporate-level and service-related risk registers?
 - Is risk management embedded in business practices at both corporate and service levels?
 - Does systematic evaluation and prioritisation of risks and opportunities lead to timely action?
 - Are key risks and action to mitigate them monitored and reported on throughout the year?
 - Do officers' reports to committees cover both financial and non-financial risks?
 - Is there sufficient, timely training and ongoing support on controls and risk for you and relevant officers?
-

Part 2

Weak controls can have serious consequences



There are signs that standards of internal controls may be strained

23. An effective system of internal controls works to prevent foreseeable problems from happening in the first place. When things do go wrong, symptoms of significant weaknesses in controls can include:

- Major financial transactions are not appropriately scrutinised by councillors.
- Fraud is not prevented by the council's internal controls.
- A risk assessment process is absent, where it would ordinarily be expected.
- The council's risk management process does not identify where risk assessment is ineffective, such as a failure to identify a risk of material misstatement in the annual accounts.
- There is an ineffective response to identified significant risks (for example, an absence of controls over such a risk).
- Previously issued financial statements have had to be reissued to correct a material misstatement due to error or fraud.¹²

24. However, developing and implementing an internal control is not cost-free and implementing increasing numbers of controls may not be helpful or sustainable. Consequently, there are balanced judgements to be struck. The challenge is to consolidate only the most suitable controls into systems and operations.

External auditors report their concerns about controls

25. Through their audit reports and plans, councils' external auditors flag concerns about councils' internal controls as a result, for example, of the trend in reduction of finance staff. Recurring weaknesses are becoming apparent with certain types of controls, particularly those relating to:

- information processing controls, such as for key financial systems
- performance reviews, such as making effective use of computer-generated reports that usefully highlight patterns and exceptions
- segregation of duties, including ensuring that a council officer cannot perform both Human Resources (HR) and payroll functions, and so create fictitious employees; and ensuring an officer cannot both make a purchase from a supplier and arrange the payment for it.

26. Case studies in [Exhibit 3 \(page 16\)](#) illustrate a range of situations where:

- controls worked well
- controls were weak, but problems were averted
- weak controls enabled a problem to occur, but corrective action was taken.

The failure of internal controls can cause numerous problems

Public money can be lost

27. Even where a council's controls are theoretically robust, risks can arise if they are implemented weakly ([Case study 1](#)). Controls need to be applied:

- **consistently** – by all relevant parts of the council and its various services
- **responsively** – in good time, such as when one part of the council relies on being supplied with information by another council function or service
- **sustainably** – without intermittent interruptions in their use.

Case study 1



Overpayments to current and former employees cost a council £21,000

Between April 2015 and February 2018, the council made over 800 salary overpayments totalling approximately £812,000 to a combination of actual and former employees. An eighth of former employees were still paid after leaving the council, usually due to a delay in a department notifying Payroll Services staff that someone had left. Six overpayments exceeded £10,000 and the highest was £15,500. At the time of the external audit, there were no documented procedures for preventing or recovering payroll overpayments. In March 2018, the council issued a Payroll Overpayment Process Guide, which outlined the steps to recover an overpayment of salaries/wages. In April 2018, in conjunction with HR, Payroll Services also issued procedural guidance to managers on avoiding salary overpayments. By March 2018, the council had:

- Recovered around £351,400 of overpayments, taking an average of 101 days, and written off £21,000.
- Recovered 58 per cent of overpayments from actual employees and 27 per cent from former employees.

Source: Audit Scotland

Exhibit 3

Control activity case studies

There are five categories of control activities.

Control activity	Controls worked well
<p>Authorisation controls</p> <p>Officers handle only those processes and transactions that fall within the scope of their role. For example:</p> <ul style="list-style-type: none"> • The purchasing manager evidences authorisation of a purchase requisition through their signature. • The head of HR reviews and signs off the payroll before payments are made to employees. 	<p>Authorisation controls</p> <p>Journal entries are raised and approved by different officers, as appropriate. Each journal entry is supported with back-up detail that enables the authoriser to know the journal entry is correct.</p>
<p>Physical controls</p> <p>Controls over access to files ensure that data is restricted to authorised users; and only changed if permitted. For example:</p> <ul style="list-style-type: none"> • Buildings are secured by keycard locks. • Safes are locked routinely. • Fire and burglar alarms are maintained. • Access to computer servers is restricted. 	<p>Physical controls</p> <p>An officer's access rights to the council's IT network are automatically removed at midnight on the day s/he leaves the council. The system is linked to leaving dates held in the HR and payroll systems. The same process automatically removes access to third parties who have been granted temporary access to the council network. Additionally, inactive computer accounts are automatically disabled after 30 days.</p>
<p>Information processing controls</p> <p>Allow specific data to be processed in a specific way. For example:</p> <ul style="list-style-type: none"> • Application Controls typically apply to the processing of specific types of transactions, such as invoicing customers or paying suppliers. • IT General Controls help ensure the secure, continuing operation of information systems. 	<p>Information processing controls</p> <p>The council purposely tolerates low reported levels of Blue (disabled parking) Badge misuse because pursuing the return of a badge when its holder dies could be insensitive. Instead, the council's Blue Badge team receives updates on deceased customers through the UK-wide 'Tell Us Once' scheme. A person's badge is cancelled through the national Blue Badge system and the local Parking Unit is informed.</p>
<p>Performance reviews</p> <p>Allow management to review information to highlight any exceptions. For example:</p> <ul style="list-style-type: none"> • Senior officers regularly use computer-generated reports that show exceptions to normal patterns. • There are regular reviews of debtors. • Actual spend is compared to the original budget. 	<p>Performance reviews</p> <p>A comprehensive compliance system produces weekly reports on processing activity and accuracy. Reports detail trends in processing errors detected through the quality procedures in place and they report on bank amendment reviews. Reports are also reviewed monthly by the director and the head of accountancy. This approach allows senior management to identify issues with individuals; spot trends, and target staff training.</p>
<p>Segregation of duties</p> <p>Mitigates a risk that people could commit a fraud or error and conceal it. For example:</p> <ul style="list-style-type: none"> • Access to payments and supplier accounts is controlled. • HR staff cannot also access the payroll function. 	<p>Segregation of duties</p> <p>The council introduced a new computer system that integrated the management of HR, payroll, and financial management functions. The risk of fraud was minimised by consulting internal audit at the design stage, and ensuring that officers could not access multiple parts of the computer system, and so arrange to create and pay a fictitious employee.</p>

continued...

Exhibit 3 (continued)**Controls were weak, but problems were averted****Authorisation controls**

Documents setting out the council's financial management and governance arrangements referred to superseded structures and roles. Differences between obsolete written procedures and the processes actually being followed meant that controls were weakened, or not fully complied with. The council brought its Scheme of Delegation into line with its revised structure and strengthened its related controls.

Physical controls

There was no formal communication process to ensure access to IT systems was removed promptly when an employee left the council. This generated a risk of fraud or manipulation of systems by former employees. Arrangements are now in place that automatically remove access rights to the council IT network at midnight on the day someone leaves the council. This is linked to leaving dates held by HR and the payroll system.

Information processing controls

Information from a third party suggested an adviser of a consortium delivering a project had falsified claim evidence. This consisted of emails about client activities, which the adviser could edit. Evidence of eligibility of benefits and identification was tampered with. The investigation by the internal audit section prevented payment on the ineligible claims. The adviser resigned. Controls and evidence standards have been tightened, and consortium supervisors have been trained about tampered evidence.

Performance reviews

An exercise to check payroll data with service managers was two years old. Dated and incomplete checks risked undetected payroll errors. Personnel conducted a full verification exercise, but services responded on only 79 per cent of staff. The council further improved its verification of payroll data. Overall, overpayments are now a small percentage of the paybill and are pursued to ensure repayment.

Segregation of duties

Five council officers had access to both the HR and payroll areas of the council's computer system, potentially enabling them to create – and pay – a fictitious new employee. The council is undertaking a comprehensive review and implementing a new 'people manager module' to change some HR staff's access permissions to computer systems.

Weak controls enabled a problem to occur**Authorisation controls**

The council approved a new Scheme of Governance including refreshed Financial Regulations. These required purchase orders to contain a contract reference number. Orders for £50,000 or over should be approved by an officer at Head of Service level or above. In one year, 117 orders for £50,000 or over were raised through the council's procurement system. Of these, 73 per cent had neither head of service nor committee approval because of weak application of the control.

Physical controls

Mobile telephones worth £5,400 were stolen from a council store. The door entry system's code was widely known among employees; fire exits were left open; and the phones were not recorded on the council's asset tagging system on delivery. An internal audit review introduced improved controls, including periodic changes to door entry codes, closing fire doors, regular physical checks of stock, and applying the council's asset tagging system.

Information processing controls

Confidential tax forms containing personal data on around 900 actual or former employees were sent to the wrong people. The council apologised to affected people, and reported the breach to the Information Commissioner's Office. The internal audit section found procedures had been in place, but human error had occurred. Remedial actions comprised revised procedures with additional quality assurance.

Performance reviews

An officer diverted £6,000 of school fund income, triggering an internal audit investigation. The fraud was possible because reconciliations and spot checks on accounts and cash balances were not made. The employee denied theft but admitted failing to bank school fund income. A report was made to the Procurator Fiscal. Regular checks and bank reconciliations, signed off by the headteacher, have been introduced by the council to deter a recurrence.

Segregation of duties

A £1.1 million fraud spanning over five years was detected when year-end procedures found that an invoice for £7,000 lacked supporting evidence. A payment had been made to an officer who could insert fake invoices and suppliers' details. Internal audit and Police Scotland found fundamental control weaknesses. The officer was jailed for over five years. All but £19,000 is being recovered, and controls have been improved to help avoid further anomalous payments.

Public money can be lost through corruption or fraud

28. Fraud and corruption can be perpetrated in various ways that can include, for example, fraud or corruption by a council officer or a councillor; a resident attempting to exploit a service; or a fraudster acting alone or in a wider plot. Councils' internal auditing functions routinely share intelligence on actual or potential frauds, enabling them quickly to review the suitability of their own controls. Some councils have teams of officers dedicated to counter-fraud work, and others rely primarily on officers within the internal audit section alone.

29. The National Fraud Initiative (NFI) is a UK-wide, counter-fraud exercise that is conducted every second year and is coordinated in Scotland by Audit Scotland. It uses computerised tools to compare information on people held by different public bodies and on different financial systems. The NFI identifies potential inconsistencies, called 'matches', that suggest potential fraud or error. Examples include matching council tax records to the electoral register, to spot unreported changes affecting a resident's eligibility for a council tax discount.

30. The most recent NFI exercise, on 2016/17, identified £18.6 million of 'outcomes' in Scotland including around £11.9 million among councils ([Exhibit 4, page 19](#)).¹³ An NFI outcome describes the overall amounts for fraud, overpayments and error that are detected by the NFI exercise and an estimate of future losses that it prevents. Examples include housing benefits being stopped or reduced; council tax discounts being reduced or removed; and 'Blue Badges' for parking being stopped or flagged for future checks. High levels of outcomes could be due to increased fraud and error in the system, better detection of fraud and error or poor internal controls. Once an overpayment has been identified, a council can consider how to recover the money involved. The NFI also has an important deterrent effect that cannot be measured.

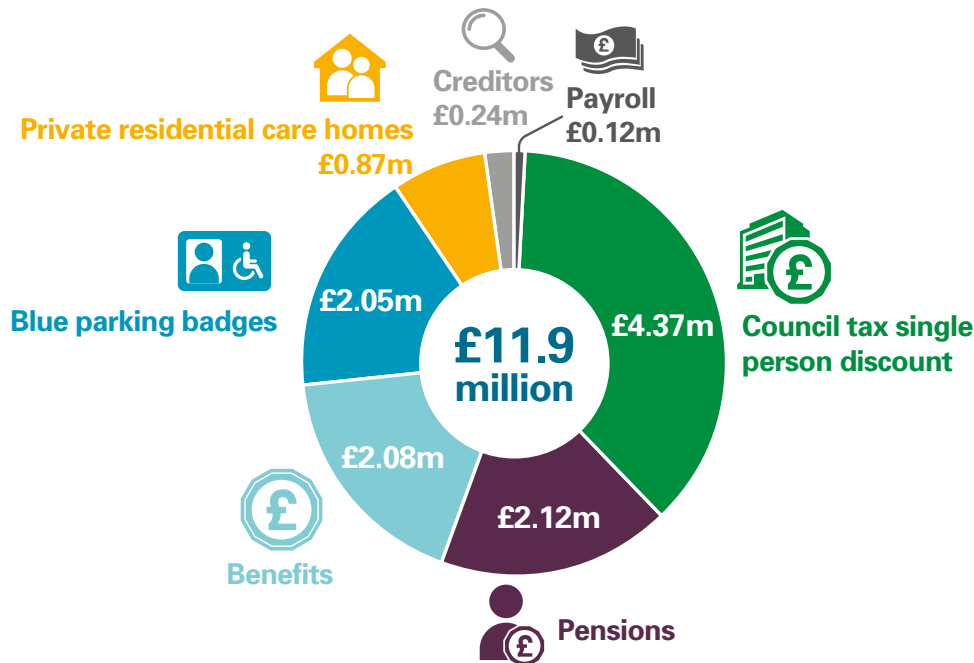
31. Most public bodies take advantage of opportunities provided by the NFI, and Audit Scotland disseminates information on instances of fraud in its quarterly technical bulletins. The frauds they cover have all been facilitated by people exploiting weaknesses in internal controls. Councils could use the NFI and these bulletins to consider promptly whether the same weaknesses apply in their own systems and what the necessary remedial actions may be for them.

32. Councils should ensure they have sufficient capacity in place to prevent frauds; investigate suspicious matches or other problems; and correct errors. It is more cost-effective to invest staff time in deterring or preventing fraud using good internal controls than to take remedial action afterwards. Investigating a fraud can cost a great deal of staff time and prosecuting a fraudster can incur substantial legal costs with no guarantee that the money lost will be recovered. It is for each council to decide how to organise, resource and pursue its fraud work.

Exhibit 4

The results of the 2016/17 National Fraud Initiative in Scottish councils

The NFI identified £11.9 million of 'outcomes' among councils.



These four aspects jointly accounted for 90 per cent of the NFI savings identified in councils



Council tax

People living on their own, or with no countable adults in the household, are eligible for a 25 per cent Single Person Discount.



Pensions

The NFI provides councils that administer pensions with an efficient and effective way of checking that they are paying the right pension to the right people; are not paying pensions to retirees who have died; and take account of people who retired but later returned to work.



Benefits

The NFI helps councils and the UK's Department for Work and Pensions to identify benefit frauds and errors – often caused by undeclared occupational pensions and undeclared public sector employment.



Blue parking badges

People with mobility problems can park for free in certain circumstances. Sometimes, a badge is used or renewed after the badge holder has died. Councils do not always try to recover a deceased person's badge to avoid distressing their family. But councils can ensure a badge is not renewed incorrectly.

These three aspects jointly accounted for ten per cent of the NFI savings identified in councils



Housing

This includes continuing to make payments to a care home for a resident after the person has died.



Creditors

The NFI helps to identify duplicate payments and ensure payments are made only to appropriate creditors.



Payroll

For example, legitimate employees may be in breach of their conditions of service or European Union working time limits; some employees could be working illegally in the UK; a council could inadvertently continue paying a former employee, or overpay a current employee.

Note: Some figures include late outcomes from the 2014/15 NFI work.

Source: Audit Scotland

Weak controls can have many other consequences

33. These can include an impact on:

- confidence in the council's integrity and reliability, including among residents, other public bodies and the council's business partners
- compliance with legislation and regulation, with the potential for costly and time-consuming legal action, such as on public liability matters
- the security of confidential financial, commercial and personal data
- the funding available for providing public services
- specific individuals – for example, if their confidential information is inadvertently published, or their personal safety is jeopardised
- additional external audit work.

Councils have duties to whistleblowers

Whistleblowing is about ensuring that if someone sees something wrong in their workplace, they are able to raise this within their organisation, to a regulator, or wider.

34. The Public Interest Disclosure Act protects employees and other workers who raise concerns about wrongdoing they believe is occurring. An employee must have a genuine and reasonable belief that the wrongdoing is taking place, and also that the disclosure is a matter in the public interest.¹⁴ Where the statutory conditions are met, the employee should be protected from detrimental treatment. Every council should have a whistleblowing policy which complies with the legislation and the Whistleblowing Code of Practice.¹⁵ A council that does not provide a safe whistleblowing route for its officers could discourage employees from raising legitimate concerns, and miss an opportunity to address a problem before it becomes a crisis.

Controls regarding cyber-security are increasingly important

35. Digital technology is becoming central to the way public services are delivered, with scope to improve and transform services and how users interact with public bodies. Citizens' expectations of public bodies' digital services are also rising. However, there is the potential for inadvertent data breaches, and also for malicious cyber-attacks to access and abuse sensitive information on a huge scale. Councils are required to meet high standards of information security and few serious issues have arisen among councils.^{16, 17} Nonetheless, effective internal controls on access to information and its uses remain vital. If a council suffered a serious cyber-attack, the impact could be damaging, sustained, and include:

- interruptions to the provision of public services
- exposure of citizens' money and confidential data to theft and abuse
- financial damage to the council and its commercial partners
- costly remedial work to restore and re-secure computer systems.

Councillor checklist 2



Fraud and corruption

The following questions may help you to think about fraud and corruption in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Does the council have a fraud and corruption strategy for all its business, including its partnerships?
- Have cases of fraud and corruption been identified in each recent year?
- Have there been successful prosecutions for fraud or other criminal behaviour?
- Of the money lost to fraud/corruption, what percentage has been successfully recovered?
- Is the whistleblowing policy monitored for take-up; and are concerns acted upon?
- Are staff and other resources for fraud investigation proportionate to risks that the council faces?
- Are all allegations of fraud or corruption risk-assessed, and investigated accordingly?
- Are fraud alerts and good practice shared among council services in a timely way?
- Are there cost-effective measures for recovering money lost to fraud and corruption?
- Does the council actively take part in the National Fraud Initiative and act on its findings?
- Is comprehensive information on fraud and corruption reported to a relevant committee?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Councillor checklist 3



Consequences of weak controls

The following questions may help you to think about how your council deals with weak controls.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Which services have been most affected by weak controls, and why?
- Has internal auditing tracked, assessed and reported to a committee on weak controls' impacts?
- Have consequences of weak controls for ongoing service delivery been assessed?
- Could the council do more to anticipate longer-term risk trends, such as cyber-crime?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Controls have practical limitations

36. Since a council constantly evolves, its officers need a programmed approach that updates existing controls and creates new ones as and when required. Internal controls operate within practical constraints, such as when the cost of introducing and enforcing a control would probably outweigh the impact of something going wrong ([Exhibit 5](#)).

37. The more senior an officer is, the more authority and opportunity s/he is likely to have for inappropriately overriding well-intentioned controls without being detected. However, the annual audit reports on the 2016/17 external audits of councils found no evidence of inappropriate management override of controls.

Exhibit 5

Internal controls

Numerous factors can limit the system of internal controls.



Relevance/obsolescence

Control-related activities or processes can become irrelevant over time as technologies and business needs change. Changes in key personnel could also cause a control to become obsolete.



Cost

Beyond a certain point, the cost of installing or improving a control could outweigh the benefits likely to be gained from applying it.



Collusion

Two or more officers work together to circumvent existing controls for their own purposes. If officers collude to perpetrate a fraud, typically by overriding management controls, it can be difficult for management to detect it.



Human error

There is always a risk of people making genuine mistakes, including in the operation of control activities themselves. The risk can be exacerbated by factors such as a lack of adequate motivation or training, time pressure, an adverse working environment, or excessive workloads.



Unusual or infrequent transactions

Control activities may be less suited to unusual and/or infrequent types of transactions.



Management override

Many processes have a facility to permit a management override function, so there is a risk that this facility could be abused; for example, by inflating reported figures to boost an officer's reputation.

Source: Financial Reporting Council

Councils' external auditors evaluate their internal controls annually

In determining whether the auditor has identified one or more deficiencies in internal control, the auditor may discuss the relevant facts and circumstances of their findings with the appropriate level of council management. This discussion provides an opportunity to alert management on a timely basis to deficiencies they may not have been aware of.¹⁸

38. International auditing standards require a council's external auditors to report significant deficiencies in internal controls to its audit committee, regardless of whether the deficiencies have been resolved by council management. This is part of the external auditor's responsibility for assessing the suitability and effectiveness of a council's corporate governance and it includes reporting on whether a council:

- has arrangements to ensure systems of internal control work effectively
- can demonstrate the effectiveness of budgetary controls in communicating accurate and timely financial performance information
- has established appropriate and effective arrangements for preventing and detecting fraud and corruption.¹⁹

39. Councils have sound, reliable systems of internal control that work well most of the time but can have weaknesses that could be damaging. It is in a council's interest to invest in internal controls that help reduce the risk of problems materialising and safeguard the resources it can devote to public services.

Part 3

Officers and councillors both have important roles



Councillors are ultimately accountable for councils' use of public money

Councillors and council officers have distinct but complementary roles

40. The full council (comprising all elected councillors) is the governing body of the council and determines the council's policy direction. It is ultimately responsible for ensuring that suitable services are delivered by officers. Councillors are elected to determine policy, and the role of officers is to implement these through day-to-day management of services. Officers advise and serve the whole council, and councillors have a right to expect officers to provide them with advice which is expert, impartial and candid.

41. In practice, councillors' responsibilities include:

- oversight of risk and the system of internal controls
- ensuring public money is spent on the council's intended purposes
- protecting public money from misuse, including fraud and corruption
- ensuring public spending is clearly accounted for, and publicly reported on
- scrutinising the council's operation and performance.

Culture and behaviours are important

42. A national code of conduct applies to all councillors. The Ethical Standards in Public Life etc (Scotland) Act 2000 introduced a framework which required Scottish ministers to issue a code of conduct for councillors. The latest version was introduced in July 2018 by the Standards Commission for Scotland. It sets out a range of principles that councillors must follow, including leadership, honesty, objectivity, stewardship and accountability.²⁰

43. It is important that:

- full council, cabinet, committee and board meetings are held regularly
- there is trust between councillors and senior officers
- councillors and officers recognise and respect their distinct roles
- a culture of openness to challenge helps councillors and officers to recognise the importance of scrutiny; be open to candid discussions about risks and related controls; and promote this culture across the council and the partnerships it is involved in.

Scrutiny works best when officers provide councillors with timely, good-quality information

44. A council should be transparent about its decisions and the quality of the services it provides, so that the public and the council's partners can be confident it is making informed decisions; and safeguarding public money. This involves the council's leadership being open to scrutiny and accountable for their plans and performance. Every councillor – not just those who sit on the council's audit committee, scrutiny committee, or equivalent committees – has a valuable scrutiny role to play at corporate, local area and electoral ward levels.

45. Officers are responsible for providing committees with timely, good-quality reports that inform transparent decision-making by councillors. If a significant issue arises in a long gap between committee meetings, it may be helpful for officers to provide councillors with additional, intervening briefings on material developments. Similarly, councillors may need to be proactive in seeking out further information from officers to assure themselves that they have sufficient knowledge to hand before making a difficult decision.

46. Good councillor-officer working relationships are vitally important. It is mutually beneficial for councillors and officers, especially those in the corporate management team, to nurture constructive working relationships. Coalition and minority administrations are now more common and bring a different dimension to communication within councils. They may require a more nuanced approach that balances different political interests and involves compromises across party lines.²¹

The audit committee has an important role

47. This committee (or the equivalent committee that performs this role) provides the council with independent assurance on the adequacy of the council's governance arrangements; risk management framework; internal control system; and the integrity of financial and non-financial performance reporting.

48. An audit committee must have clear terms of reference that set out its members' independent role in scrutinising the council's decisions, performance and risks.²² The Accounts Commission believes that effective, transparent scrutiny is best achieved when the chair of the committee is not a member of the administration. The chair should provide leadership and critical thinking, and work well with other committee members in scrutinising and challenging the council's work and performance. Committee members need the necessary skills and training to do their job, with ongoing support by officers and access to independent advice.

49. The core functions of an audit committee should include:

- Being satisfied that the council's annual governance statement properly reflects the risk environment and any actions required to improve it, and demonstrates how governance helps achieve the council's objectives.
- Considering the effectiveness of the council's risk management arrangements and its control environment.
- Considering the reports and recommendations of external audit and inspection agencies, along with their implications for governance, risk management or control.

- Reviewing the council's financial statements, the external auditor's opinions and reports to councillors.²³

50. The audit committee's role in relation to internal audit is to:

- oversee its independence, objectivity, performance and professionalism
- support the effectiveness of its auditing processes
- promote its effective use within the council's assurance framework.²⁴

Councillor checklist 4



Audit committee

The following questions may help you to think about the audit committee in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Do audit committee councillors have a clear remit that addresses the latest guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA)?
 - Does the chair of the committee manage committee meetings effectively?
 - Does the chair routinely liaise with the head of internal audit before committee meetings?
 - Do the committee's councillors attend routinely, prepare well and challenge officers appropriately?
 - Does the committee approve internal audit's annual workplan and reports?
 - Can internal audit report to senior officers and the audit committee without fear or favour?
 - Do officers provide committee members with timely, well-written and useful reports?
 - Do internal audit reports set out comprehensively and clearly what needs to improve, and how?
 - Does the committee endorse and track improvements proposed by internal audit?
 - Has the committee identified the top five risks to the council?
 - Is there sufficient timely training and ongoing support for officers and councillors, including you?
-

Councillors should scrutinise risks from partnership working

51. Councils have extensive experience of working closely with diverse organisations. This includes delivering some services through the third and private sectors; and through arm's-length external organisations (ALEOs). It involves partnership working with other public sector bodies such as the NHS and community councils, which have a statutory basis in a council's partnership working too.

52. Changing models of service delivery are bringing more numerous and more complicated partnerships, collaborative ways of working and generating an increasingly complex governance and accountability landscape. On some issues, the centre of gravity in discussion and decision-making is moving away from councils themselves, yet councillors must remain sighted on their duties to their council and their council remains accountable to the local communities it serves.

53. It is therefore increasingly important that councillors and officers have an appropriate level of understanding of their roles and the necessary skills, and are alert to the potential for conflicts of interest. Councillors should expect officers to report to them on the activities, finances and performance of each partnership in achieving its intended outcomes.

Community Planning Partnership

54. Community planning is the process by which councils and other public bodies work with local communities, businesses and voluntary groups to plan and deliver better services and improve the lives of residents. The process is led by 32 Community Planning Partnerships (CPPs), each covering a council's geographical area. Governance and accountability arrangements in CPPs are complex given the range of partners involved, all of whom are accountable to different bodies and are not formally accountable to the CPP board.²⁵ The Local Government in Scotland Act 2003 provided the initial statutory basis for community planning.²⁶ It aimed to:

- enable public bodies to work together to deal with complex, long-term challenges that a single organisation cannot deal with, for example inequalities in health, employability and levels of crime
- involve local communities more in decisions that affect people's lives.²⁷

55. The Community Empowerment (Scotland) Act 2015 introduced new statutory duties for community planning alongside other changes intended to give local people more say in how public services are planned and run.²⁸ The Scottish Government's statutory guidance on community planning places local communities at the heart of public service delivery and clarifies expectations of CPPs.

56. The act compelled councils to work with their statutory community planning partners to produce a jointly owned Local Outcome Improvement Plan (LOIP). A CPP's board is required to ensure its LOIP focuses on achieving priority outcomes for residents. The act also required each CPP to produce individual Locality Plans for specific communities within the CPP's wider geographical area. These are to reflect the views of local communities; focus on addressing local needs; reduce inequalities; and improve outcomes for a locality's residents. An important function of the CPP's board is to share ownership of the LOIP and Locality Plan(s) and manage their implementation.



Community Planning Partnership (CPP)

A statutory forum for the council, NHS and other public and third sector bodies, such as charities and voluntary groups, to work with local communities to plan and deliver better services.

57. In making tough choices about spending their budgets, councils and their CPP partners should liaise with communities about the sustained impact of decreasing council spending on public services and any opportunities for improving services.²⁹ Slow progress or insufficient scrutiny of progress by councillors could risk CPP partners, including the council, falling short of their strategic ambitions and adversely affect the public.

58. Having sound controls within the council for community planning matters will reinforce transparent decision-making and support scrutiny of councils by the public. For its part, the council needs suitable internal controls for managing the risks that it may be exposed to. There are particular risk and control issues associated with community asset transfers, in which communities choose to take responsibility for specific land and buildings from the council. Well-intended residents may lack the council's expertise in financial management, property management and service delivery. The council therefore has a responsibility to conduct due diligence work on the community organisation that would assume responsibility for any transferred asset.

Health and social care integration

59. The Public Bodies (Joint Working) (Scotland) Act 2014 aims to ensure that health and social care services are well integrated, so that people receive the care they need at the right time and in the right setting. The reforms affect everyone who receives, delivers and plans health and care services in Scotland. The Act was intended to help shift resources away from the acute hospital system towards preventative and community-based services. However, there is still a lack of agreement about whether this is achievable in practice.

60. The act requires councils and NHS boards to collaborate in new partnerships, known as Integration Authorities (IAs). The size of IAs varies depending on council boundaries. NHS boards have between one and six IAs within their boundary.³⁰ Of the 31 IAs in Scotland, 30 are Integration Joint Boards (IJBs) and in Highland the NHS board and council each lead integrated services. Clackmannanshire and Stirling councils have created a single IA with NHS Forth Valley. A report produced by Audit Scotland in November 2018 found that:

- numerous IAs have had leadership changes in the past few years
- there is significant variation in the role and remuneration of IAs' chief officers (COs) and chief financial officers (CFOs)
- there is evidence of a lack of support services for IAs, in relation to HR, finance, legal advice, improvement, and strategic commissioning. This will limit the progress that they are able to make
- cultural differences between partner organisations are proving to be a barrier to achieving collaborative working.³¹

61. An IJB is a separate legal entity that is responsible for strategic planning and commissioning of health and social care services across a partnership's area. Membership of the IJB comprises a mix of voting and non-voting members. It includes elected members from the council; non-executive directors from the NHS; and representatives from service users, carers and the voluntary sector. The IJB must appoint a chief officer and finance officer (who may also be chief officer).




Integration authority (IA)

A partnership between a council and the NHS to ensure health and social care services are well integrated, so that people receive the care they need at the right time and in the right setting.

Integration Joint Board (IJB)

A separate legal entity, responsible for strategic planning and commissioning of the wide range of health and social care services across the partnership's geographical area.

A short guide to the integration of health and social care services in Scotland  April 2018

Health and social care integration – update on progress  November 2018

62. A council and NHS board delegate budgets to the IJB, which decides how to use this funding to achieve its objectives. The IJB directs the NHS board and council to deliver public services. In 2017/18, IAs directed £8.9 billion of health and social care resources. IJBs directed £8.3 billion of this, money previously managed separately by councils and NHS boards. In total, 29 per cent (£2.4 billion) of IJB funding was allocated from councils and £5.9 billion (71 per cent) from the NHS.³²

63. The scale and complexity of ongoing organisational change; significant financial and demographic pressures; and the level of resources involved make it imperative that councils, NHS boards and IAs have rigorous systems of risk management and internal control. It is important that risk management and assurance arrangements apply across IAs and their health and social care partners so that risks from delegated services are regularly monitored.

64. With partnership working increasing in scope and complexity, the corresponding nature of evolving controls may itself pose a risk to effective oversight and scrutiny by councillors and a council's senior officers. A councillor who sits on an IJB needs to be clear about the expectations of their role and alert to scope for conflicts of interest between their council and its partners.

Arm's-length external organisations

65. These organisations (ALEOs) have been established by many councils to deliver services traditionally provided by a council itself, such as leisure centres and parks. Councillors have a leadership role in the options appraisal process that makes the case for establishing an ALEO at the outset. For example:

- Have officers provided councillors with all the information they need to make informed decisions about risks and benefits?
- Is the risk of failure so high that risks are better managed in-house?
- Are the likely benefits of options other than ALEOs outweighed by their implementation costs?
- Are there opportunities to share risks and benefits with partner bodies?³³

66. ALEOs can bring financial and operational benefits, with more potential for innovation but also considerable risks. Once an ALEO is operating, councillors need to oversee its financial and service performance; financial sustainability; associated risks; and seek assurance from council officers that suitable controls are in place for managing these risks. Risks include a potential conflict of interest where a councillor sits on an ALEO's board, especially should it encounter financial difficulties.

67. Oversight, accountability and good management are essential. In managing their links with ALEOs, councils should continue to apply the statutory code of practice on Following the Public Pound and annually review the governance arrangements for its links with major ALEOs.³⁴ It is also councillors' responsibility to decide whether an ALEO remains the optimum way of providing a service or whether there are other valid options, such as bringing a service back in-house.



Arm's-length external organisation (ALEO)

A separate organisation that is established by a council to provide services on its behalf.

Councils' use of arm's-length organisations 
May 2018

City region and growth deals

68. These are agreements between the UK Government, Scottish Government, and councils' other regional partners. They are intended to help deliver long-term strategies that improve regional economies. Each deal is specific to its region and can include measures relating to issues such as housing, transport, infrastructure and culture. They provide regions with the opportunity to set their own priorities and decide where to target investment, through programmes agreed among a deal's partners. In return, the UK Government and Scottish Government contribute funding for Scotland's six City Region deals ([Exhibit 6](#)). Deals differ in their stage of development and funding arrangements.

69. Some councils participating in city region or growth deals may risk gaps between their income and spending in future years, which could threaten their financial sustainability if risks are not managed carefully. So it is important for councillors to:

- ensure their council has clear, effective governance arrangements that underpin partnership working with other organisations in the deal – whether they are in the public, private or third sectors
- ensure council officers are managing suitable internal controls that help to identify and manage risk
- scrutinise the impact of borrowing on their council's revenue expenditure commitments, such as the costs and durations of loan repayments.



City region deal

An agreement between the UK Government, Scottish Government and one or more councils to invest in cities and their regions.

Exhibit 6

City region deals and growth deals

There are deals across Scotland.

Geography	Deal type	Participating Scottish councils
Aberdeen City	City region deal	Aberdeen City, Aberdeenshire
Argyll and Bute	Growth deal	Argyll and Bute
Ayrshire	Growth deal	East Ayrshire, North Ayrshire, South Ayrshire
Borderlands	Growth deal	Dumfries and Galloway, Scottish Borders
Edinburgh and South-East Scotland	City region deal	East Lothian, City of Edinburgh, Fife, Midlothian, Scottish Borders, West Lothian
Falkirk	Growth deal	Falkirk
Glasgow City	City region deal	East Dunbartonshire, East Renfrewshire, Glasgow City, Inverclyde, North Lanarkshire, Renfrewshire, South Lanarkshire, West Dunbartonshire
Inverness and Highland	City region deal	Highland
Islands	Growth deal	Eilean Siar (Western Isles), Orkney, Shetland
Moray	Growth deal	Moray
Stirling and Clackmannanshire	City region deal	Clackmannanshire, Stirling
Tay Cities	City region deal	Angus, Dundee City, Fife, Perth and Kinross

Note: Fife Council and Scottish Borders Council are each involved in two deals. Three English councils are also involved in the Borderlands growth deal: Carlisle City Council, Cumbria County Council and Northumberland County Council.

Source: Scottish Government, City region deals, Growth deals

Councillor checklist 5



Partnership working

The following questions may help you to think about partnership working in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Do the council's governance and internal controls mitigate partnerships' risks to the council?
- Does the council have risk registers concerning its various partnerships?
- What resources (such as staff, buildings and money) does the council contribute to partnerships?
- Does each partnership have a clear purpose and explicit, outcome-based objectives?
- Are governance arrangements for each partnership clear, documented and fit for purpose?
- Does the council apply the code of practice on 'Following the Public Pound' to each arm's-length external organisation?
- Does the council have sound reasons for having a representative on a partnership's board?
- If you sit on a partnership's board, do you appreciate what is required of you and the linked risks?
- Is there good-quality, transparent and publicly accessible performance information?
- Are concerns about risks posed by partnerships escalated suitably within the council?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Councils need to invest in councillors' personal development

70. One of the Accounts Commission's strategic audit priorities is that councillors and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.³⁵ The Scottish public has high expectations of councillors and officers and how well they should conduct themselves in undertaking their council duties. They should meet those expectations by ensuring that their conduct is consistently above reproach.³⁶ The Accounts Commission has published a number of reports that could be useful to councillors, including:

- [*Roles and working relationships: are you getting it right?*](#) , 2010; and [*Follow-up messages for councils*](#)  in 2016.
- [*Arm's-length external organisations \(ALEOs\): are you getting it right?*](#) , 2011.
- [*Social work in Scotland*](#) , September 2016.

71. Following a local government election, a good induction process is valuable for all councillors. Some councillors may need additional, tailored support on a specific topic or skill, such as their role on an audit committee or planning committee; their position as a board member of an IJB or ALEO; the type of finance involved; or the potential impact of a decision on a group of service clients.

72. Councillors need sustained, ongoing continuing professional development (CPD) that builds on their knowledge and experience; is tailored to their roles; and relates to the expertise they need for making transparent, defensible decisions about safeguarding public money. Long-serving councillors can also benefit from investing time and effort in their ongoing CPD, not least because technology, the council's operating environment, its financial situation and the risks it faces all evolve constantly. Councillors should be involved in developing their council's CPD programme so that it best meets their future needs.

Councillor checklist 6



Councillors' continuing personal development

The following questions may help you to think about the personal development opportunities in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- After the last election, was the general induction programme for councillors successful?
 - Do officers give you good support on knowledge topics (such as internal controls)?
 - Do officers give you good support on personal skills (such as chairing meetings)?
 - Do you fully understand your roles and duties at council, cabinet, committee and ward levels?
 - Have you made good use of the Improvement Service's support and publications?
 - Do you have a personalised CPD programme?
 - Do you actively participate in, and benefit from, the support made available to you?
 - Do officers monitor and understand councillors' take-up of training and development?
 - Where you do not engage fully in training and development, how could officers help more?
 - Does CPD for councillors help you to be effective in your governance and scrutiny roles?
-

Officers are responsible for delivering council policy and managing services

73. Each council must have these four 'statutory officers', who all have specific duties and discharge their role as part of their wider responsibilities in the council:

- Head of paid service³⁷
- Chief financial officer³⁸
- Monitoring officer³⁹
- Chief social work officer.⁴⁰

74. These officers have an important, independent role in promoting and enforcing good governance; ensuring councils comply with legislation; overseeing the council's key controls; managing risk, and ensuring the delivery of council services. Statutory officers must have sufficient influence and experience to undertake their roles. Cohesive, effective corporate management depends on postholders in these roles having the necessary status and capacity within their council.

75. To ensure that councillors are clear on the purpose of these roles, a council's scheme(s) of delegation should set out what they involve and why they are important. The role of statutory officers should feature in induction schemes for all newly elected councillors. Councillors and committees should know when to seek assurance from these officers so that their council operates legally and responsibly.⁴¹

Head of paid service

76. This officer, usually called the chief executive, is responsible to councillors for the staffing and smooth running of the council and for ensuring the work of its various services is coordinated. S/he must ensure the other statutory officers have sufficient influence and scope to conduct their roles. For example, this could mean them being in, or attending, the corporate management team.

77. Councillors and the chief executive may need to balance the benefits of including all statutory officers as full members of the corporate management team against the potential merits of a slimmer, potentially cheaper, management structure – but one that may risk appearing to devalue the role of certain officers or complicate lines of communication among officers and councillors.

78. The chief executive has a complex, multi-faceted role that blends relatively clear accountability to councillors for the operational management of the workforce and service delivery with an important involvement in diverse partnership working over which s/he will have influence but perhaps limited direct authority. This situation provides some context to the council's need for a dynamic, evolving approach to risk management and the linked controls which are necessary.

Chief financial officer

79. The chief financial officer (CFO) has a key role to play in balancing control and compliance with value creation and performance. Better value for money releases resources that can be recycled into higher priorities without increasing taxation. Helping to secure positive social outcomes within affordable funding therefore lies at the heart of the CFO's role.⁴²

80. The CFO (often called the Section 95 or s95 officer) underpins sound corporate management and ideally sits on the corporate management team. To deliver on their responsibilities, the CFO must manage a finance function that is sufficiently resourced and professionally qualified ([Exhibit 7](#)).

Exhibit 7

The role of the chief financial officer

The postholder is responsible for the proper administration of the council's finances.



In a public service organisation the chief financial officer:

is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.

must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and alignment with the authority's financial strategy.

must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded always and used appropriately, economically, efficiently and effectively.



To deliver these responsibilities the chief financial officer:

must lead and direct a finance function that is resourced to be fit for purpose.

must be professionally qualified and suitably experienced.

Source: Chartered Institute of Public Finance and Accountancy

81. The Local Authority Accounts (Scotland) Regulations 2014 impose responsibilities on the CFO about accounting records and supporting information; control systems; and annual accounts – which, in Scotland, include the financial statements and annual governance statement.⁴³ Also, the CFO needs to assure themselves and councillors that decisions made by the council will be affordable. In practice, many of the CFO's day-to-day responsibilities are delegated or outsourced but the CFO should retain oversight and overall control, and have sufficient access to the corporate management team.

82. The CFO helps to safeguard public money by:

- Applying strong controls in all areas of financial management, risk management and asset control.
- Implementing effective systems of internal control that include standing financial instructions, operating manuals, and compliance with codes of practice to secure probity.
- Ensuring that the council has effective arrangements for internal auditing of the control environment and systems of internal control, as required by professional standards in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.⁴⁴
- Promoting arrangements to identify and manage key business risks, including safeguarding assets, risk mitigation and insurance.
- Applying discipline in financial management, including appropriate segregation of duties.
- Implementing suitable measures to prevent and detect fraud and corruption.
- Ensuring that any partnership arrangements are underpinned by clear and well-documented internal controls.⁴⁵

Monitoring officer

83. In essence, the monitoring officer (MO) ensures that the council operates properly. Their work includes reporting on the legality of matters; on potential maladministration; and the conduct of councillors and officers. The MO should contribute to the promotion and maintenance of high standards of conduct by providing advice and support to councillors on the interpretation and application of the Councillors' Code of Conduct.⁴⁶ Councillors and senior officers should send clear signals to the workforce about how people should behave and interact.

84. The Accounts Commission has found through its Best Value work that in some cases the MO role can be undermined because of a lack of trust and respect between councillors and officers.⁴⁷ It may be difficult for the MO to challenge the behaviours of senior officers or councillors. The MO might need to judge carefully both how to act and when, since intercepting potential problems quickly can help prevent, deter or resolve unhelpful behaviour before they become more serious.⁴⁸

Chief social work officer

85. This officer (CSWO) must be a qualified social worker; registered with the Scottish Social Services Council; and of sufficient seniority and experience in both the strategic and operational management of social work services.⁴⁹ Often, a CSWO is also responsible for the delivery of services such as adult social care, children's services or criminal justice social work. The CSWO provides officers and councillors with professional advice on social work and social care services, and discharges specific duties on the council's behalf.^{50, 51, 52}

86. The CSWO's role has diversified significantly in recent years, and is becoming more difficult to fulfil within integrated partnership arrangements. A council's partnership with the NHS is typically through an Integration Joint Board which oversees the delivery of integrated health and social care services, and carries risks that include financial matters and risks to the health and wellbeing of service clients. In health and social care, an important control can be oversight of permission to access information on vulnerable people, and in which circumstances. Such risks require corresponding internal controls within the council. Councillors need to ensure that the CSWO has the status, capacity and access (to other statutory officers and councillors) to enable them to fulfil their statutory responsibilities to the council effectively.

Chief education officer

87. There is currently no legal requirement for councils to have a post named the chief education officer because the relevant legislation has not been implemented.⁵³ Nonetheless, many councils have an officer who is their lead officer for their education service, called the director of education or similar, either as part of the corporate management team or perhaps at a lower level where large departments span multiple services.

88. With education typically accounting for a large share of a council's expenditure, it is important for the head of the education service to not only have a strong professional knowledge of education but also a solid understanding of financial management; to liaise closely with the corporate finance function; and have oversight of the large share of the service's budget that is delegated to individual schools.

89. In addition, some Scottish Government funding streams are outwith the core local government finance settlement and are allocated to councils for specific purposes. For example, the Scottish Government's budget for 2019/20 includes £62.0 million of Attainment Scotland Fund to provide councils and schools with additional means to provide targeted literacy, numeracy, and health and wellbeing support for children and young people in greatest need.⁵⁴

90. The chief education officer has responsibility for the education service having rigorous internal controls. These could include processes for ensuring that changes in staffing are passed quickly and accurately to the corporate payroll function, and that schools operate within the education service's scheme of devolved school management. Should controls at school or service-level go awry and result in money being defrauded or misspent, there is the potential for substantial consequences for numerous schoolchildren; shortfalls in compliance with national requirements; and reduced funds available for spending by other council services.

Officers who manage a service need to understand its inherent risks

91. Officers require a thorough understanding of how a service is provided; what its costs are; who the service users and other stakeholders are; and exercise ownership of the internal controls that regulate business management of the service and its associated risks.

92. Depending on their role and position in the council, officers may need a suitable level of understanding of finance, risks and controls. Council services need a joined-up approach both vertically – so that an individual service and overall corporate management share the same perspective on risk – and horizontally – so that different services across the council follow the same overall approach to risk.

93. However, there are indications from the independent external audit of councils that incremental budget cuts over successive years, combined with recruitment challenges, may have eroded the capacity of councils' back-office functions – including aspects such as financial management and risk management. This could make financial management riskier and underline the importance of sound controls being in place to contain and manage these risks.

Councillor checklist 7



Statutory officers and chief education officer

The following questions may help you think about the statutory officers and chief education officer.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Are the roles of these officers clearly set out in the council's governance documents?
 - Do these officers sit on the corporate management team, or have ready access to it?
 - Are these officers sufficiently resourced to discharge their roles and responsibilities?
 - Do these officers have the influence needed for ensuring the council operates effectively?
 - Do councillors and committees understand how and when to consult these officers?
 - Do these officers give helpful, timely, impartial support to councillors and other officers?
 - Do these officers have a constructive relationship with the senior management team?
 - Do you have confidence in your council's key officers?
 - Is there sufficient timely training and ongoing support for officers and councillors, including you?
-

Internal auditing helps evaluate and improve how well things work

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps a council to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.⁵⁵

94. Audit and scrutiny are both important, but their distinction can be unclear. Generally, scrutiny asks whether the council is doing the right thing, and it questions policy proposals and the performance and quality of services. Audit examines the regularity of governance and financial management, including how well the council has applied its resources to achieve its objectives.

95. Accounting regulations compel councils to operate a professional and objective internal auditing service.⁵⁶ The service brings a valuable, independent scrutiny activity. Its remit can extend beyond the council to scrutiny of the council's involvement in partnerships and alternative service delivery models, such as ALEOs. The CFO must secure and support internal auditing arrangements and ensure that the council's audit committee (or the committee with this role) receives the advice and information necessary for both functions to operate effectively.⁵⁷ There are four main types of internal auditing work ([Exhibit 8, page 39](#)).

96. Key features are that internal auditing:

- operates independently of the day-to-day running of the council
- provides a service to all levels of the council
- objectively assesses operations' effectiveness, efficiency and value for money
- forms an integral part of the framework of business controls.

97. It is important for the officer who leads the internal auditing function to have unrestricted, 'open door' access to the chief executive. This enables internal auditing staff to bring problems directly to the attention of the council's most senior officer, if necessary. In addition, the arrangement equips the chief executive with objective, independent information on the operation of the council and an early warning system regarding potentially serious issues. However, it is not necessary for the chief executive to be the line manager of the head of internal auditing.

98. Internal and external audit have different but complementary roles. A council's external auditor is appointed by the Accounts Commission and is wholly independent of the council. By contrast, a council appoints its own internal auditing function, which may be provided by:





- An in-house function serving one council – which is still the norm.
- An in-house function serving two or more councils – Aberdeen City and Aberdeenshire; Clackmannanshire and Falkirk; Midlothian and Scottish Borders.
- Co-sourcing – where an in-house team is supplemented by a private firm.

- A private firm appointed by the council – no Scottish councils at present.
- In addition to these arrangements, Glasgow City Council provides services to several organisations.

Exhibit 8

Types of internal auditing work

The work helps to safeguard public money, as illustrated by this sample of scenarios.

Type	Explanation	Scenario
Systems 	<p>This is the review and evaluation of the manual and computer systems by which an organisation regulates and controls its activities. The internal audit section would evaluate the design of controls to conclude on their effectiveness and efficiency; and test their application to ensure users have been following procedures as intended.</p>	<p>Internal audit reported to the audit committee before, during and after a major new computer system was introduced to integrate previously disjointed systems. This approach gave assurance on the new computer system's controls from an early stage.</p>
Contracts 	<p>This can involve a review of any area of activity regarding a high-value and potentially high-risk contract, such as for care-at-home services or the construction of a new building.</p>	<p>Internal audit reported to the audit committee on the council's compliance with legislation; national guidance; council policy and internal controls regarding the procurement of a new nursery school.</p>
Investigations 	<p>Internal audit can be called on to investigate internal or external fraud, operational losses, breaches of security, or where customers have raised serious concerns with senior management. Other investigation work includes due diligence assessments.</p>	<p>Internal audit supplemented its annual summary report on fraud to the audit committee with a report that focused on a serious case of corruption. Internal audit recommended the upgrading of preventative controls in future.</p>
Regularity or compliance 	<p>Inspection is the continuous, periodic examination of procedures and transactions to ensure they comply with an established set of instructions. This type of internal auditing does not necessarily consider the appropriateness of procedures, simply that they are followed.</p>	<p>Internal audit reported to the audit committee on the system for paying grants to local community bodies, including the extent to which claimants and officers followed proper procedures and claimants submitted valid or falsified evidence. Internal audit identified scope for strengthening controls in future.</p>

Source: Audit Scotland, Financial Reporting Council

99. Internal auditing is an important link in a council's system of internal control. The purpose, authority and responsibility of internal auditing may be defined in its Audit Charter.⁵⁸ It must provide an annual opinion on the state of the council's arrangements in relation to governance, risk management and internal control. It may also carry out advisory and consulting work, where the aim is to support management in improving systems and controls.

100. Internal auditors in the public sector follow the Public Sector Internal Audit Standards (PSIAS), which have been mandatory since 2013. The scope and volume of internal auditing activity in a council is a matter for its management and those responsible for its governance.⁵⁹ However, the PSIAS require that the head of internal auditing communicates its plans and resource requirements, including significant interim changes, to senior management for review and approval. A council must assess the efficiency and effectiveness of its internal auditing service, and the findings should be considered by the audit committee as part of its annual review of internal controls.

101. The head of internal auditing must communicate the impact of resource limitations. Where s/he believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of 'the board' – which, in a council, is normally the audit committee or its equivalent ([Exhibit 9](#)).

Exhibit 9

Recommended audit committee practice for effective internal audit oversight.

The audit committee has a range of responsibilities

- ✔ Take responsibility for the provision of internal audit, including how it is provided.
- ✔ Assess and approve the internal audit charter (terms of reference) and review it regularly.
- ✔ Ensure a close working relationship with the head of internal audit.
- ✔ Assess the resourcing of the internal audit function.
- ✔ Monitor the quality of internal audit work, whether in-house or externally sourced.
- ✔ Evaluate, approve and regularly review the risk-based annual internal audit plan.
- ✔ Oversee the relationship between internal audit and centralised, corporate risk monitoring.
- ✔ Ensure the collective assurance roles of internal audit, other internal assurance providers and external audit, are coordinated and optimised.
- ✔ Assess internal audit findings and the breadth and depth of internal audit reports.
- ✔ Monitor management's implementation of internal audit's recommendations.

Source: CIPFA and others

102. The internal auditing function can find itself operating in a challenging organisational environment. It is vital for it to be independent of activities it examines, so that it can give impartial, unbiased judgements to councillors. However, there are benefits from internal auditing advising on building in suitable systems and controls at a project's outset. There are risks that internal auditing:

- lacks the staffing capacity it needs – in the context of councils becoming more complex and especially in small or remote councils, where staff recruitment and retention may be more challenging
- lacks a credible voice in the council – perhaps through the head of internal auditing not being able to express concerns directly to the chief executive or audit committee, or in an organisational culture reluctant to hear bad news
- lacks impact when it escalates its concerns – such as when high priority recommendations are not being implemented wholly and promptly.

103. External and internal auditors liaise on their respective audit roles. The external auditor considers the extent to which s/he can rely on the work of internal audit. This cooperation aims to promote good working relationships, and to minimise unnecessary duplication of effort.

Councillor checklist 8



Internal auditing function
















The following questions may help you to think about internal auditing in your council.



Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Does internal auditing (IA) follow Public Sector Internal Audit Standards and other reputable guidance?
- Is IA objective; free from undue influence; and independent in its thinking, work and reports?
- Is IA suitably located in the council's structure?
- Is IA sufficiently resourced to recruit, retain and develop the staff it requires?
- Is IA free of operational responsibilities that could risk compromising its independence?
- Is IA's work aligned with the council's strategies, objectives and risks?
- Does IA give senior officers and councillors clear, timely, objective, risk-based assurance?
- Does the head of IA have unrestricted access to the chief executive?
- Does the head of IA give committees the information they need to make informed decisions?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Endnotes



- 1 [Local government in Scotland: Financial overview 2017/18](#) , Accounts Commission, November 2018.
- 2 [Councillors' roles, conduct and pay](#) , Scottish Government website.
- 3 [How councils work: Roles and working relationships in councils: are you still getting it right?](#) , Accounts Commission, November 2016.
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- 6 [Local Authority Accounts \(Scotland\) Regulations 2014](#) , October 2014.
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- 8 [Risk and resilience: Tools for officers and members with governance and scrutiny responsibilities to help them tackle major change](#) , Centre for Public Scrutiny, September 2016.
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- 12 [International Standard on Auditing \(UK\) 265](#) , Financial Reporting Council, June 2016.
- 13 [The National Fraud Initiative in Scotland 2016/17](#) , Audit Scotland, July 2018.
- 14 [Public Interest Disclosure Act 1998](#) , July 1998.
- 15 [Whistleblowing: Guidance for Employers and Code of Practice](#) , UK Department for Business, Innovation and Skills, March 2015.
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- 29 [Local government in Scotland: Challenges and performance 2018](#) , Accounts Commission, April 2018.
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- 31 [Health and social care integration: update on progress](#) , Accounts Commission and Auditor General, November 2018.

- 32 [Local government in Scotland: Financial overview 2017/18](#) , Accounts Commission, November 2018.
- 33 [Councils' use of arm's-length organisations](#) , Accounts Commission, May 2018.
- 34 [Code of guidance on funding external bodies and following the public pound](#) , Accounts Commission and Convention of Scottish Local Authorities, 1996.
- 35 [Strategy and annual action 2018-23](#) , Accounts Commission, June 2018.
- 36 [Code of conduct for councillors](#) , Scottish Government, July 2018.
- 37 [Local Government and Housing Act 1989](#) , November 1989.
- 38 [Local Government \(Scotland\) Act 1973](#) , October 1973.
- 39 [The Local Government Housing Act 1989](#) , November 1989.
- 40 [Social Work \(Scotland\) Act 1968](#) , July 1968.
- 41 [How councils work: Roles and working relationships in councils - Are you still getting it right?](#) , Accounts Commission, November 2016.
- 42 [The role of the chief financial officer in local government](#) , CIPFA, April 2016.
- 43 [Local Authority Accounts \(Scotland\) Regulations 2014](#) , October 2014.
- 44 [Code of practice on local authority accounting in the UK 2018/19](#) , CIPFA, April 2018.
- 45 [The role of the chief financial officer in local government](#) , CIPFA, April 2016.
- 46 [Advice on the role of a monitoring officer in respect of the ethical standards framework](#) , Standards Commission for Scotland, December 2018.
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- 59 [The relationship between external audit and internal audit](#) , Institute of Chartered Accountants of Scotland, April 2018.

Appendix

Summary of checklists for councillors



The following questions may help you to think about internal controls and risk management in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

Checklist 1. Internal controls and risk management

- Do internal controls link with key corporate and service-level risks?
- Do internal controls apply to both financial and non-financial risks?
- Has the council identified the weakest internal controls?
- Are officers improving weak internal controls and minimising the risks they pose?
- Does internal auditing evaluate controls' effectiveness, and report to the audit committee?
- Does the audit committee take appropriate action?
- Does the council publicly review its system of internal controls annually?
- Is risk management actively led, supported and promoted by councillors and senior officers?
- Does the council have an up-to-date, corporate-level, risk management strategy?
- Does the corporate risk management strategy address the council's risk appetite?
- Does the council have up-to-date corporate-level and service-related risk registers?
- Is risk management embedded in business practices at both corporate and service levels?
- Does systematic evaluation and prioritisation of risks and opportunities lead to timely action?
- Are key risks and action to mitigate them monitored and reported on throughout the year?
- Do officers' reports to committees cover both financial and non-financial risks?
- Is there sufficient, timely training and ongoing support for you and relevant officers?

Checklist 2. Fraud and corruption

- Does the council have a fraud and corruption strategy for all its business, including its partnerships?
- Have cases of fraud and corruption been identified in each recent year?
- Have there been successful prosecutions for fraud or other criminal behaviour?
- Of the money lost to fraud/corruption, what percentage has been successfully recovered?
- Is the whistleblowing policy monitored for take-up; and are concerns acted upon?
- Are staff and other resources for fraud investigation proportionate to risks that the council faces?
- Are all allegations of fraud or corruption risk-assessed, and investigated accordingly?
- Are fraud alerts and good practice shared among council services in a timely way?
- Are there cost-effective measures for recovering money lost to fraud and corruption?
- Does the council actively take part in the National Fraud Initiative and act on its findings?
- Is comprehensive information on fraud and corruption reported to a relevant committee?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Checklist 3. Consequences of weak controls

- Which services have been most affected by weak controls, and why?
- Has internal auditing tracked, assessed and reported to a committee on weak controls' impacts?
- Have consequences of weak controls for ongoing service delivery been assessed?
- Could the council do more to anticipate longer-term risk trends, such as cyber-crime?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Checklist 4. Audit committee

- Do audit committee councillors have a clear remit that addresses the latest guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA)?
- Does the chair of the committee manage committee meetings effectively?
- Does the chair routinely liaise with the head of internal audit before committee meetings?
- Do the committee's councillors attend routinely, prepare well and challenge officers appropriately?
- Does the committee approve internal audit's annual workplan and reports?
- Can internal audit report to senior officers and the audit committee without fear or favour?
- Do officers provide committee members with timely, well-written and useful reports?
- Do internal audit reports set out comprehensively and clearly what needs to improve, and how?
- Does the committee endorse and track improvements proposed by internal auditing?
- Has the committee identified the top five risks to the council?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Checklist 5. Partnership working

- Do the council's governance and internal controls mitigate partnerships' risks to the council?
- Does the council have risk registers concerning its various partnerships?
- What resources (such as staff, buildings and money) does the council contribute to partnerships?
- Does each partnership have a clear purpose and explicit, outcome-based objectives?
- Are governance arrangements for each partnership clear, documented and fit for purpose?
- Does the council apply the code of practice on 'Following the Public Pound' to each arm's-length external organisation?
- Does the council have sound reasons for having a representative on a partnership's board?
- If you sit on a partnership's board, do you appreciate what is required of you and the linked risks?
- Is there good-quality, transparent and publicly accessible performance information?
- Are concerns about risks posed by partnerships escalated suitably within the council?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Checklist 6. Councillors' continuing personal development

- After the last election, was the general induction programme for councillors successful?
- Do officers give you good support on knowledge topics (such as internal controls)?
- Do officers give you good support on personal skills (such as chairing meetings)?
- Do you fully understand your roles and duties at council, cabinet, committee and ward levels?
- Have you made good use of the Improvement Service's support and publications?
- Do you have a personalised CPD programme?
- Do you actively participate in, and benefit from, the support made available to you?
- Do officers monitor and understand councillors' take-up of training and development?
- Where you do not engage fully in training and development, how could officers help more?
- Does CPD for councillors help you to be effective in your governance and scrutiny roles?

Checklist 7. Statutory officers and chief education officer


- Are the roles of these officers clearly set out in the council's governance documents?
- Do these officers sit on the corporate management team, or have ready access to it?
- Are these officers sufficiently resourced to discharge their roles and responsibilities?
- Do these officers have the influence needed for ensuring the council operates effectively?
- Do councillors and committees understand how and when to consult these officers?
- Do these officers give helpful, timely, impartial support to councillors and other officers?
- Do these officers have a constructive relationship with the senior management team?
- Do you have confidence in your council's key officers?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Checklist 8. Internal auditing function

- Does internal auditing (IA) follow Public Sector Internal Audit Standards and other reputable guidance?
- Is IA objective; free from undue influence; and independent in its thinking, work and reports?
- Is IA suitably located in the council's structure?
- Is IA sufficiently resourced to recruit, retain and develop the staff it requires?
- Is IA free of operational responsibilities that could risk compromising its independence?
- Is IA's work aligned with the council's strategies, objectives and risks?
- Does IA give senior officers and councillors clear, timely, objective, risk-based assurance?
- Does the head of IA have unrestricted access to the chief executive?
- Does the head of IA give committees the information they need to make informed decisions?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?


Safeguarding public money: are you getting it right?

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