

East Lothian Council

Report to Members and Controller of Audit on the 2010/11 Audit



Prepared for East Lothian Council
October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key Messages

We have given an unqualified opinion on the financial statements of East Lothian Council.

The council managed net expenditure of £220 million in 2010/11. The General Fund recorded a net surplus of £5.9 million, attributable mainly to savings across service budgets, savings on treasury management and windfall receipts. The surplus is accounted for in the main reserves.

East Lothian Council is a member of Lothian Pension Fund. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2011 provided by the scheme's actuaries reduced the council's share of the deficit from £142.8 million last year to £79.9 million this year. The large decrease is primarily due to a change in one of the financial assumptions, with future pensions' increases now linked to the consumer prices index (CPI) rather than the retail prices index (RPI).

The Corporate Asset Strategy 2010-2014, which provides the basis of the council's approach to corporate asset management of all the council's assets, was presented to Council in December 2010. The Property Asset Management Plan 2010-2014 was approved by Council in October 2010. The Plan links with the WorkSmart project, the Carbon Management Plan and the Capital Investment Plan.

Staffing costs comprise nearly two thirds of the council's net expenditure. Well trained and motivated staff are critical to the achievement of the council's objectives. An Efficient Workforce Management Plan (EWMP) was implemented in April 2010, which saw a number of workforce management components implemented in order to enable the council to drive efficient workforce management practices into the day to day operation of services. During 2010/11, the EWMP resulted in a reduction in headcount, a reduction in sickness absence and a year-end underspend on employee costs of £1.6 million. The council retained the Healthy Working Lives Gold Award and the Mental Health Commendation Award – both giving evidence and external recognition to the strategic approach taken to employee health and wellbeing in East Lothian Council.

Progress has been made during 2010/11 with regard to Risk Management. A Corporate Risk Register has been developed and approved. 2011/12 will be the first full year of operation and it will be refreshed annually thereafter. Risk Management is being embedded across the council and is a regular feature on the agenda of management and business group meetings.

In some other areas of performance, there is a need for improvement. For example, the council has implemented a new fixed asset system 'AssetManager.Net' (a CIPFA product). This will enable the council to generate appropriate figures more easily for their financial statements. However, in the first year of operation a number of teething problems have been experienced, where accelerated (over) depreciation/impairment has occurred of around £3.4 million. These errors were adjusted in the final version of the financial statements.

Management need to review the new system fully, to ensure that that there are no unadjusted systemic errors, which may impact on future accounts.

The latest Procurement Capability Assessment for East Lothian Council was carried out in November 2010. The council demonstrated improvements since last year and achieved an overall conformance score of 26%, compared to the previous non-conformance score of 19%. The council is now conformant in four out of the eight areas, with the greatest improvement being shown in the People area covering procurement staffing, skill mix, development and management. The main area of non-conformance, with minimal improvement since last year, is Performance Management where it is not evident that a sound approach to assessing and demonstrating the council's procurement performance is in place.

The next Best Value audit of the council is planned for 2012/13 as a result of good progress being made against specific improvement points.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years. In addition the Audit Scotland Report "Scotland's public finances: responding to challenges" contained a number of key messages for councils to consider given the financial constraints being faced.

The council faces financial challenges over the next three years; however the council does have strong financial management processes. The council has responded positively and proactively by setting a three year budget that they believe is sustainable. The council has also increased its reserve levels in the last three financial years. Close budget monitoring and tight senior management controls and approving mechanisms on every vacancy have contributed to this positive position and it is expected that the council will continue to manage its financial situation in the challenging economic times ahead.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of East Lothian Council (the council) and other relevant work carried out by Audit Scotland. A number of detailed reports have already been issued in the course of the year in which we make recommendations for improvements (see Appendix A). We do not repeat all of the findings in this report. Instead we focus on the financial statements and any significant findings that have arisen from our review of the management of strategic risks.
2. The report uses the headings of the corporate assessment framework, which we and the other scrutiny bodies used as the structure for the recent shared risk assessment and assurance and improvement plan (AIP) available on our website at www.audit-scotland.gov.uk. Where relevant, we comment on issues identified in the AIP for investigation or monitoring by the local auditor.
3. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Some of the reports published in the last year of direct interest to the council are (fuller list in Appendix C):
 - Review of Community Health Partnerships
 - Overview of local government in Scotland 2010
 - Arms Length External Organisations
 - National Scrutiny Plan for Local Government
 - How councils work: an improvement series for councillors - Roles and Working Relationships: are you getting it right?
 - Maintaining Scotland's roads – a Follow-up Report.
4. All of these reports have been received by the council and considered by their Audit and Governance Committee, which has made recommendations to take forward relevant recommendations for consideration and we do not consider them in this report. They are available on our website at www.audit-scotland.gov.uk.
5. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and have agreed to take the specific steps set out in the column headed Planned Management Action. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the council understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented.
6. This report is addressed to Members and the Controller of Audit. It will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for the annual overview of local authority audits to the Accounts Commission later

this year. The overview report is published and it is also presented to the Local Government and Communities Committee of the Scottish Parliament.

Financial statements

Introduction

7. In this section we summarise key outcomes from our audit of the council's financial statements for 2010/11, comment on the significant accounting issues faced, and provide an outlook on future financial reporting issues.

Audit Opinion

8. We have given an unqualified opinion that the financial statements of East Lothian Council give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting 2010/11, of the financial position of the council as at 31 March 2011 and its income and expenditure for the year then ended. We certify that they have been properly prepared in accordance with International Financial Reporting Standards (IFRS).
9. We certify that the part of the remuneration report to be audited has been properly prepared. We also certify that the financial statements have been prepared in accordance with the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003. We were satisfied with disclosures made in the annual governance statement and the adequacy of the process put in place by the council to obtain assurances on systems of control.
10. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Working papers to support the 2010/11 accounts were of a good standard, but there is still scope for further improvement in the quality of supporting information e.g. Fixed Assets. In particular, it would be helpful to have the Accounting Code of Practice Disclosure Checklist (ACOP Checklist) provided for the beginning of the audit.
11. The accounts were certified by the target date of 30 September 2011 and are now available for presentation to Members and publication.

Accounting issues

12. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code). 2010/11 is the first year where the Code is based on International Financial Reporting Standards (IFRS). We are satisfied that the council's 2010/11 financial statements, including Group Accounts, are in accordance with the 2010 Code.

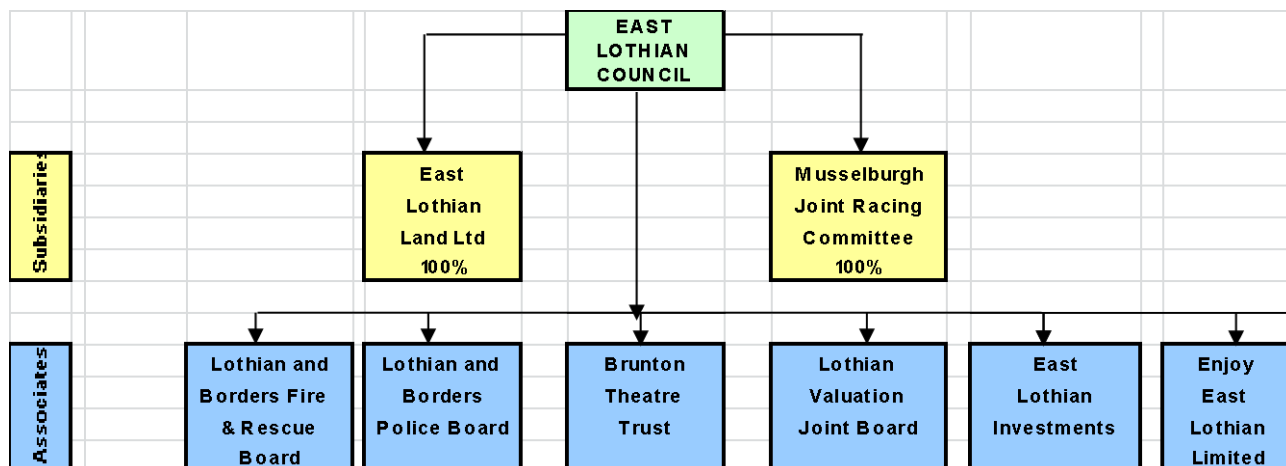
Group accounts

13. The diversity of service delivery vehicles used by local authorities means that consolidated group accounts are required to give a true and fair view of a council's income and expenditure. The council has interests in two subsidiaries and six associate companies. They have been included in group accounts in accordance with the Code (refer to Exhibit 1 below).

Audit assurances were obtained through consideration of the council's monitoring of the Group position, a review of the accounts (audited and/or in draft) of the bodies and contact with the auditors of the associate companies.

Exhibit 1

East Lothian Council Group Structure



14. We would like to highlight the following issues:

- all bodies within the Group that have completed their audits received unqualified audit opinions from their external auditors. The financial statements for one subsidiary and two associates, Musselburgh Joint Racing Committee, Enjoy East Lothian Limited and Brunton Theatre Trust, are now finalised but have yet to have a signed audit certificate appended; the council's Head of Finance has provided us with assurances that the figures will not be subject to material change.

Risk Area 1

- in accordance with recommended accounting practice, accounting periods and key accounting policies for component bodies (such as pension costs and the valuation of fixed assets at market value) have been aligned with those of the council.

Trust funds

15. Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. This means that reliance can be placed on the existing disclosures for trust funds in the council's financial statements, supplemented by appropriate working papers. However, the Office of the Scottish Charities Regulator (OSCR) has deferred full implementation until 2013/14, allowing the council to rely on its existing disclosures for trust funds in the council's financial statements, supplemented with additional working papers.

Common good fund

16. In December 2007, Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued a guidance note for practitioners. A separate account for the common good, covering the four separate common good funds for Dunbar, Haddington, Musselburgh and North Berwick, is disclosed in the council's financial statements and a separate fixed asset register is also maintained, which complies with the guidance.

Pension fund – the Local Government Pension Scheme

17. East Lothian Council is a member of Lothian Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation at 31 March 2011 provided by the scheme's actuaries reduced the council's share of the deficit from £142.8 million last year to £79.9 million this year. The large decrease is primarily due to a change in one of the financial assumptions, with future pensions' increases now linked to the consumer prices index (CPI) rather than the retail prices index (RPI).

Legality

18. Through our planned audit work we consider the legality of the council's financial transactions. In addition, the Head of Finance confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Chief Executive and Council Management Team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial reporting outlook

19. A number of changes to financial reporting are expected to apply from 2010/11 and 2011/12:
- carbon trading. From April 2010 a complex system of charging for carbon emissions was introduced by the UK Government. The council is now required to purchase and account for carbon credits to cover all of its non transport related energy usage. Carbon credits also include non-licensed vehicle fuel. Penalties are built into the system to encourage a reduction in carbon emissions. 2010/11 was a practice year and no charge was incurred. It is expected that the council will have to purchase £0.178 million worth of carbon allowances in April 2012.
 - charity accounts. See paragraph 15 for changes applicable for Trust Fund Accounts.

Audit appointment for 2011/12

20. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the

last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) KPMG will be the appointed auditor for East Lothian Council.

Financial position

21. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
22. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
23. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

24. In 2010/11, East Lothian Council spent £319.8 million on the provision of public services, resulting in an accounting surplus of £64 million based on IFRS. When IFRS specific transactions are removed from the accounting surplus, there is a statutory surplus of approximately £6.0 million.
25. The 2010/11 budget was based on a Band D council tax level of £1,118, as in 2009/10, with planned contributions of £3.0 million from the general fund reserves. However, after taking account of statutory adjustments of £27.9 million and transfers to/from other statutory reserves of £4.8 million, an additional £7.4 million statutory surplus was added to the general fund reserves. This surplus was attributable mainly to savings across service budgets, savings on treasury management and windfall receipts.

Budgetary control

26. The net service expenditure across the council in 2010/11 was £220.1million. As shown in Exhibit 2, the General Fund balance has increased by £7.4 million, partly due to a year-end underspend on employee costs of approximately £1.6 million. Overall we are content with the council's budget setting and monitoring processes.

Financial position

27. Exhibit 2 shows the balance in the council's usable reserves at 31 March 2011 compared to the previous year. Funds include a Capital Fund and a Capital Receipts Reserve which may be used to defray capital expenditure or repay loan principal, an Insurance Fund which will be used to meet future liabilities and a Housing Revenue Account which will be used to meet

future running costs of council houses. At 31 March 2011, the council had total funds of £29.0 million, an increase of around £6 million on the previous year.

28. The net £6 million increase is accounted for in the main reserves, as increases of £7.4 million in the General Fund (discussed in the next paragraph), £1.1 million in the Housing Revenue Account and £2.5 million in the Capital Fund, offset by the use of £4.9 million from the receipts of asset sales held in the Capital Receipts Reserve.

Exhibit 2 - Reserves

Description	31 March 2011 £ Million	31 March 2010 £ Million
General Fund	17.9	10.5
Housing Revenue Account	4.7	3.6
Capital Fund	5.4	2.9
Capital Receipts Reserve	-	4.9
Insurance Fund	1.0	1.1
	29.0	23.0
Source: East Lothian Council 2010/11 financial statements		

29. The general fund increased by £7.4 million during the year to a balance of £17.9 million, which equates to 8.2% of the council's net annual expenditure. Of this balance, £0.4 million is earmarked for devolved school management and drugs and alcohol project funding. This leaves £17.5 million against the £18.4 million required to meet the planned use of the General Fund going forwards i.e. a shortfall of £0.9 million. Proposed usage is as follows: Change Fund (£5.0 million), Civil Emergency (£2.0 million), Property Renewals (£1.4 million), Road Renewals (£0.6 million) and £9.4 million to balance future budgets.
30. The above overall and individual balances in corporate reserves compares favourably to the council's reserves' policy which sets a minimum unallocated reserve level of £2.0 million (2009/10: £2.0 million) to guard against financial risk. Other balances in reserves are seen by the council as providing sufficient safeguard against any foreseeable event.
31. A suite of financial indicators has been developed in consultation with the CIPFA Directors of Finance working group. The indicators assist in evaluating the council's financial sustainability and the affordability of financial plans. They also demonstrate the effectiveness of the financial management arrangements. In future years the Director of Finance is to consider reporting these indicators as part of the financial statements.
32. For 2010/11 Audit Scotland is compiling financial indicators, and they may be published in the Local Government Overview report for 2010/11. However they are not yet available to include with this report, as they are based on the audited financial statements for all councils. The indicators will be issued to the council separately for consideration.

Group balances and going concern

33. The overall effect of inclusion of the council's subsidiaries and associates on the Group Balance Sheet is to reduce net assets by £137.0 million, mainly because of the pension liabilities of joint boards. However, all group bodies' accounts have been prepared on a going concern basis as pension liabilities will be funded as they fall due through a combination of employee and employer contributions, government grants and council tax.
34. The council has an obligation to meet a proportion of the expenditure of the joint boards of which it is a constituent member. All of these boards (Lothian and Borders Police, Lothian and Borders Fire and Rescue, and Lothian Valuation) had an excess of liabilities over assets at 31 March 2011 due to the accrual of pension liabilities. In total, these deficits amounted to £1,849 million (2009/10: £2,073 million), with the council's share being £151 million (2009/10: £170 million).

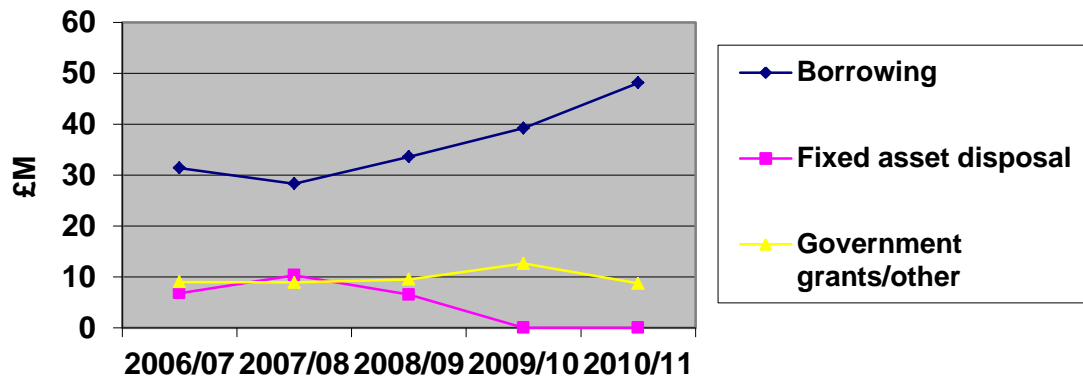
Capital investment and performance

35. The council's prudential indicators for 2010/11 were set in February 2010. Capital expenditure in 2010/11 totalled £56.8 million, which was mainly spent on new social housing, an increase of £5.0 million from 2009/10. The trend in sources of funds is reflected in Exhibit 3. The 2009/10 and 2010/11 positions for fixed asset disposals appear anomalous but are explained by the establishment of a Capital Receipts Reserve in 2009/10 to hold the £4.9 million of receipts generated that year for future use. A further £2.9 million was generated in 2010/11.

Exhibit 3 - Sources of finance for capital expenditure 2010/11

	2006/07	2007/08	2008/09	2009/10	2010/11
	Actual	Actual	Actual	Actual	Actual
	£M	£M	£M	£M	£M
Borrowing/set aside from revenue/finance leases	31.4	28.3	33.6	39.2	48.1
Fixed asset disposal	6.8	10.3	6.5	-	-
Government grants/other	9.0	8.9	9.5	12.6	8.7
Total	47.2	47.5	49.6	51.8	56.8

Capital Expenditure Financing



36. The council is proceeding with increased capital expenditure plans over the next two years; the planned spend for next year is £75 million and then £68 million in 2012/13 before reducing to £53 million in 2013/14. This mainly reflects the large planned investment in new HRA affordable housing. An increasing proportion of this will be financed from borrowing, with consequential increases in financing costs for interest and repayments; the council has assessed that financing costs are affordable within their overall budget plans. The consequential revenue and capital costs will be met from council house rents.
37. The council also monitors its position against prudential indicators and found it to be acceptable, the critical measure being that the net external borrowing is lower than the capital financing requirement. The cost of the current borrowing for social housing is being financed from revenue (council house rents) and the council where appropriate is utilising low long term fixed Public Works Loan Board rates to remove uncertainty over potential high interest rate movements in the future.

Treasury management

38. The current economic climate means that interest rates on investments have been low for several years - the council received £0.26 million in investment income this year compared to £0.23 million last year and £0.85 million in 2008/09. Interest rates on borrowing are also low. The Annual Treasury Management Strategy draws together the council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure.

Financial planning

39. The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. The council has been proactive in preparing financial plans and identifying savings to reflect the reduced government settlements.

40. The council has been improving its capacity for change by developing management expertise through the 'Challenge for Change' transformation programme. The council is also transforming the way it works based on the Workforce Management Plan, the WorkSmart Project, the PrintSmart Project and new ways of delivering services to cut costs, share services and increase income.
41. The council is also progressing a range of shared service initiatives as part of its Corporate Improvement Plan. It is currently exploring opportunities to develop shared services with Midlothian Council in areas such as education, social work and corporate services. A Shared Services Board and a Joint Liaison Group have been established.
42. The council faces severe financial challenges over the next three years; however the council does have strong financial management processes. The council recognises the challenging financial environment it is facing and has responded positively by setting a three year budget that they believe is sustainable.
43. The council has increased its reserve levels in the last three financial years. Close budget monitoring and a recent selective staff recruitment freeze have contributed to this positive position and it is expected that the council will continue to manage its financial situation in the challenging economic times ahead.

Asset management

44. Effective management of council assets helps the council achieve its objectives and get best value from its investment in property and other assets. The Property Asset Management Plan 2010-2014, which provides the basis of the council's approach to the corporate asset management of council properties, was approved by Council in October 2010.
45. The current economic situation has implications for the management of the council's property assets. A large investment in new affordable housing is on-going, to be financed mainly through borrowing. The Capital Investment and Treasury Management Strategy for 2011/12 to 2013/14 plans for £71.1 million of capital investment in 2011/12. HRA expenditure estimated at £29.7 million for 2011/12. General Services' capital expenditure of £41.4 million in 2011/12 is financed by only £10.3 million of income, of which £1.4 million comes from capital receipts.

Procurement

46. The Procurement Capability Assessment (PCA) 2010 for East Lothian Council was carried out in November 2010. The council demonstrated improvements since last year and achieved an overall conformance score of 26%, compared to the previous non-conformance score of 19%. The council is now conformant in four out of the eight areas, with the greatest improvement being shown in the People area covering procurement staffing, skill mix, development and management. The main area of non-conformance, with minimal improvement since last year, is Performance measurement where it is not evident that a sound approach to assessing and demonstrating the council's procurement performance is in place.

47. The council has an established procedure for improving procurement by developing and implementing its Corporate Procurement Strategy, which is now in its third iteration for 2011-14 after an assessment of what had been achieved previously. This is a separate process from the PCA. The Strategy takes into account more fully the actual position in East Lothian and local priorities such as sustainability and community benefit. It is linked into the wider improvement framework within council services for changing and improving service delivery. The results of the PCA 2010 have been reviewed and progress on improving the PCA score is planned to be made on areas that are consistent with the Strategy. Some areas have been clearly targeted. Others, in particular Performance measurement and Defining the supplier need, are not specifically addressed and the council may be exposed in next year's PCA as having made little, if any, progress in these areas.

Key Risk Area 2

Managing people

48. An Efficient Workforce Management Plan (EWMP) was implemented in April 2010, which saw a number of workforce management components implemented in order to enable the council and services to drive efficient workforce management practices into the day to day operation of services.
49. During 2010/11, the EWMP resulted in a reduction in Headcount by 110, a reduction in Full Time Equivalent (FTE) by 64 posts, a reduction in Sickness Absence from 5.05% to 4.84% working days lost and a year-end underspend on employee costs of £1.55 million. The council retained the Healthy Working Lives Gold Award and the Mental Health Commendation Award – both giving evidence and external recognition to the strategic approach taken to employee health and wellbeing in East Lothian Council.
50. The new Performance Review and Development Scheme (PRD) was launched during 2009/10 and saw a full year of implementation during 2010/11. The PRD Scheme focuses on the East Lothian Way and on the employee's core behaviours, personal objectives and development plans, directly linked to Service Plans. An evaluation report will be considered by the Board of Directors and will consider further improvements to the PRD Scheme arising from the evaluation feedback from employees.
51. Supporting the national Customer First programme and the council's Customer Services Strategy through implementing the Customer Services Professional Qualification (national Improvement Service/SQA initiative) saw the council win the national Candidate of the Year 2010 and Coach of the Year 2010 Awards.
52. 91 equal pay employment tribunals remain active post implementation of Single Status on 1 June 2008. These include a number of recent claims submitted latterly in 2010/11 as part of a national UNISON campaign on equal pay issues. All 91 cases are sisted in Tribunal proceedings. Pending the outcomes of equal pay cases proceeding through the courts, the council will consider its position in continuing to defend these claims.

53. The council is continuing to drive effective health and safety management throughout the organisation, with the corporate Management Team receiving monthly reports and the Board of Directors receiving a quarterly report on the implementation of the Safety Management System and the audit activity arising from that. Many health and safety policies and procedures have been refreshed and a new council-wide health and safety audit system has been implemented.
54. The council has continued to develop support for business improvement through for example, the expansion of lean process improvement support and development opportunities which focus on customer led process improvements. Supporting the corporate WorkSmart programme has led to the introduction of new employment policies enabling remote, mobile and home working. Reference and support materials have been made available on the intranet.
55. The HR Service is undergoing significant change and a focus on 'e' services has led to a review of processes, with many now mapped on NIMBUS, and to the digitisation of over 5,300 employee files. These steps were taken during 2010/11 to establish a firm basis for participation in the corporate Electronic Document Management and Records Management system implementation; with the HR service and Payroll Unit presenting as the pilot.

Shared services

56. The Accounts Commission welcomed the serious consideration of shared services by a number of councils in its An Overview of local government in Scotland 2009, although there remains scope for progress. East Lothian Council has made progress in developing shared services with Midlothian Council:
 - establishment of a new Elected Members Joint Liaison Group and a Joint Shared Services Board; a Memorandum of Understanding has been signed by the two Council leaders and the two Chief Executives
 - a shared services work plan has been developed which outlines the key work areas to be progressed by the Joint Liaison Group with milestones, target dates and designated lead officers – namely Education service arrangements, a joint East Lothian and Midlothian Community Health Care Partnership with NHS Lothian, including Adult Social Care, and Criminal Justice arrangements. It is also recognised that there is potential to take forward work in other areas and the Board has the responsibility for considering these.
 - the appointment of a temporary joint Shared Services Officer from November 2010 until May 2012, hosted by Midlothian Council but part financed by East Lothian Council, to manage the shared services project; responsibilities include the development of a strategy and associated work plan and implementation plans for specific projects
 - an outline draft business case for shared strategic management and operational support services for Education and Children's Services has been developed, with the assistance of a senior Scottish Government officer on a six month secondment. This was presented to Council in June 2011. It provides a high-level implementation plan for the next 18

months. Further work is in progress prior to submission for further Member consideration in November 2011

- discussions on developing of a joint Community Health Council Partnership have begun including exploration of joint governance models, an outline business case for joint Criminal Justice Service has developed and further on-going work is taking place
- the development of a business plan for a joint Criminal Justice Service is being progressed
- a joint Community Response and Out of Hours Service call centre (hosted by East Lothian Council) has been established (see para 68)
- other areas of work are at early stages of information gathering and discussion, covering planning and protective services, facilities management, mapping of existing IT systems within Corporate Resources and internal audit.

Outlook

57. Clearly we are still in a period of reduced economic growth with significant implications for the council's resources and the demand for services. The council has responded proactively by setting a three year budget that they believe is sustainable. The council has also increased its reserve levels in the last three financial years. Close budget monitoring and a recent selective staff recruitment freeze have contributed to this positive position and we are confident that the council will continue to manage its financial situation in the challenging economic times ahead.

Governance and accountability

58. The three fundamental principles of corporate governance - openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
59. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
60. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
 - In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

61. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. East Lothian Council have an Audit and Governance Committee and Policy and Performance Review Committee (PPRC), which concentrates knowledge and experience to conduct challenge and scrutiny in improving the effectiveness of the council's scrutiny and review function.
62. The remit of the Audit & Governance Committee includes the promotion of policies on risk management, the review and monitoring of internal controls, the development of an anti-fraud culture and approval of the annual Internal Audit assurance report. The remit of the PPRC relates to all matters relating to the performance of all the Council's services. Both committees are well attended and in overall terms their remits and working practices are in accordance with good practice principles.

Internal control

63. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial

systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

64. As part of our audit work, we took assurance from key controls within the council's financial systems, with the controls of four key systems being tested by internal audit. The identified weaknesses were taken into account in our approach to the audit of the financial statements. During our 2010/11 audit work, we issued a report on our Review of Governance Arrangements and Main Financial Systems. In that report we made a number of recommendations in the action plan and progress in implementing these will be followed up in due course.
65. With the exception of the problems with the new fixed asset system detailed below, no material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. The council's Annual Governance Statement highlights a number of areas where improvements are required and actions have been agreed in relation to the council's governance and control arrangements.
66. The council has implemented a new fixed asset system 'AssetManager.Net' (a CIPFA product). This will enable the council to generate appropriate IFRS compliant figures more easily for their financial statements. However, in the first year of operation a number of teething problems have been experienced, where accelerated (over) depreciation/impairment has occurred of around £3.4 million. There are also various revaluation errors netting to £0.067 million. These errors were adjusted in the final version of the financial statements. Management need to review the new system fully, to ensure that that there are no unadjusted systemic errors, which may impact on future accounts.

Key Risk Area 3

ICT data handling and security

67. The council makes good use of information and communications technology (ICT) to support and deliver services. Currently the council is refreshing its ICT strategy for the period 2011-2014. The ICT strategy will focus on four major elements: people, data management and security, process and technology. In June 2011, John McClelland published a review of ICT in the public sector in Scotland ¹.
68. McClelland describes a state of fragmentation in which organisations have local plans and strategies and the prevalent model is one of "standalone self-sufficiency". Among the report's recommendations is that a standalone and self-sufficient operating mode is no longer affordable and commitment should be made to an era of sharing in ICT that will not only offer better value but will also still meet the needs of individual organisations and their customers. The council are investigating other opportunities as they arise to share systems with other councils and have drawn up a list of systems and costs with Midlothian. East Lothian Council operate a joint Community Response service with Midlothian Council with a single IT system hosted in East Lothian, which can be accessed securely by staff located in Midlothian.

Data handling and security

69. The council recently conducted a second Your Business @ Risk Survey, which evaluated staff awareness and behavioural activity. From the profile of results, we concluded that a reasonable level of information security awareness exists within the council. In general, the results from the schools' survey were lower than the corporate survey and previous surveys. There are a number of areas that will have to be addressed in the coming year to help improve the overall staff awareness of information security.

Website Audit

70. Good online provision of information can be beneficial to both the council and citizens. For the citizen, access to the council's online services including online payments is available day and night. For the council, an online presence for providing information offers low cost delivery mechanisms for services to the citizens. The McClelland report recommends focusing on online access and interaction and the use of ICT to improve the quality and effectiveness of services delivered. The council's website does provide many online services to the citizen and makes good use of social media. The new website strategy including the current Web refresh and CMS upgrade will drive further website improvements over the next few years.

Prevention and detection of fraud and irregularities

71. At the corporate level, the council has appropriate arrangements in place to help prevent and detect fraud, inappropriate conduct and corruption. These arrangements include: a Strategy for the Prevention and Detection of Fraud and Corruption, updated in December 2009, which covers amongst other elements a fraud response policy and detection and investigation procedures; separate housing/council tax benefit policies; a whistle blowing policy; codes of conduct for elected members and staff; and defined remits for relevant regulatory committees.
72. The council's Strategy requires that all instances of suspected fraud, financial irregularity or corruption are investigated by Internal Audit. This strategy will need to be amended to ensure consistency with Financial Regulations; the new Standing Orders give further responsibilities to senior officers for financial irregularities involving employees and contracted suppliers but Internal Audit will be made aware of such cases and advise senior officers; it has also been agreed that the results of all fraud and corruption investigations will be reported to the Audit and Governance Committee.

NFI in Scotland

73. The National Fraud Initiative (NFI) in Scotland brings together data using computerised techniques from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, invalid council tax discounts, occupational pension fraud and payroll fraud. There are new powers this year that provide for more collaboration with other

UK agencies to detect 'cross border' fraud, extend the range of public sector bodies involved, and allow data matching to be used to detect other crime as well as fraud.

74. For NFI 2010/11 the council uploaded more types of data than in previous year; there is discretion for some types of data. The first set of data matches were made available in January 2011 via a secure web-based application; there will be further data uploads and matches towards the end of 2011. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. As part of our local audit work we are carrying out a high level assessment of the council's approach to the NFI and monitored the clearance of cases.

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

75. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We have concluded that the arrangements in East Lothian Council are reasonable and we are not aware of any specific issues that we need to report.

Roles and relationships

76. The Accounts Commission recommends that councils give priority to the continuous professional development of their members. Council members have actively sought and received training from the Improvement Service of the Scottish Government and this has been important in providing a basic grounding for members in relation to their roles and responsibilities.
77. Audit Scotland's report 'Roles and working responsibilities: are you getting it right?' was presented to the Audit & Governance Committee in September 2010 and all members have a copy of this publication. The proposed scope of the review of multi-member ward working was extended to consider the key questions posed in this report. It was also raised and discussed by Audit Scotland at the Elected Members training workshop on 'Scrutiny and Review' in early September 2010.
78. The Guide to Scrutiny and Review was approved at the Council meeting on 26 October 2010. The Guide informs all Elected Members as to how the scrutiny and review functions are carried out by the new Policy & Performance Review Committee and Audit & Governance Committee. The Guide will also assist the members of the Committees in carrying out their scrutiny and review roles. The Guide will be reviewed in autumn 2011 to take account of practice and experience of the first year of operation of the new scrutiny arrangements.
79. The creation of multi-member wards has required new ways of working to support efficient representation and sharing of the workload. It is important that the effectiveness of these new ways of working is assessed and reviewed and the Report on the Review of Multi-member Wards and Officer/Member Relations was presented to Council in June 2011. The council

agreed to note the findings from the surveys of councillors and officers and approved the following recommendations:

- Elected Members, to comply with the Data Protection Act 1998, should ensure that any constituent's enquiry that may involve the disclosure of personal data/sensitive personal data should be accompanied by a signed consent form
- further consultation should take place with Elected Members and senior officers on the value of producing guidance on multi-member ward working and on whether elements of a protocol for multi-member ward working and dealing with constituents' enquiries should be included in the Scheme of Delegation or Standing Orders
- Council should consider adopting the Improvement Service's Members' Portal electronic caseload management system following further detailed consideration of the issues involved through discussions with (and possible) site visits to councils that have already adopted the system, noting that any recommendation to adopt the Members' Portal would be the subject of a further report to Council
- Council should participate in the Improvement Service CPD scheme to allow existing and new councillors to join the scheme
- Officers, in consultation with Councillors from all groups, would produce guidance on the roles and responsibilities of Councillors which would be the subject of a further report to Council.

Partnership working

80. The East Lothian Community Plan (2007-16) incorporates the 2020 Vision and adopts the council's Core Priorities. The February 2008 Budget made significant provision for resources to support a scheme of localised community planning groups to be rolled out across East Lothian, based on multi-member wards. A new framework for Community Planning was approved in January 2009 that was subsequently endorsed by the Community Planning Partnership.
81. Our Plan for the Future of East Lothian: Single Outcome Agreement (SOA) 2011 sets out the way the East Lothian Community Planning Partnership (ELCPP) aims to achieve its Statement of Intent for East Lothian. The document sets out the current situation, the opportunities and the challenges, shared priorities and the differences that the Partnership aims to make in people's lives and opportunities, in their communities and in the places they live, through its services. SOA 2011 is the overarching plan for ELCPP and therefore for all partner organisations in relation to their work in East Lothian.
82. SOA 2011 is a refreshed and streamlined version of SOA 2009 which was developed and agreed by ELCPP in May 2009 and signed with the Scottish Government in July 2009. SOA 2011 seeks to take on board the significant changes in the local and national context as well as those of the wider UK and global context. It also seeks to make good use of the learning gained from two years of working together to deliver the Partnership's outcomes and to consolidate the Partnership. As a result the eight Priorities and 26 Local Outcomes of SOA

2009 have been streamlined and focused into 14 high-level East Lothian Outcomes with five cross-cutting themes for SOA 2011.

83. SOA 2009 and SOA 2011 are available on the East Lothian Community Planning website, as are explanatory documents which provide a simple and effective way of introducing council staff, other organisations and the public to the SOA.

Public performance reporting

84. The council produces an Annual Performance Report, the 2010/11 version of which was presented to Council in June 2011 and will be made available on the council's web-site. The report is a summary of the council's performance in relation to its commitments in the Corporate Plan, its Core Priorities and the Single Outcome Agreement. The council identifies both successes and areas for improvement and associated targets.
85. Key Performance Indicators and Statutory Performance Indicators are also available on the council's web-site as are minutes and supporting documentation from meetings of the Council, Cabinet, Audit & Governance Committee and Policy and Performance Review Committee. This reflects the council's actions in response to Best Value and Corporate Improvement Plans.

Outlook

86. As the SOA demonstrates, partnership working is critical to the council's success. We are developing our approach to the audit of partnerships through the new approach to best value. In future, we shall increasingly be looking at the contribution of partners, as well as the council's own contribution to the delivery of outcomes.

Best Value, use of resources and performance

87. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
88. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that audited bodies have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
89. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
90. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
91. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
92. This section includes a commentary on the Best Value / performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports.

Management arrangements

Best Value

Progress on delivery of the council's best value improvement plan

93. A full review of best value and community planning was published in October 2007 and highlighted 17 specific improvement points for the council to address. The final progress report, in December 2009, indicated that all of the improvement points were complete or substantially complete and any outstanding items were included in the Corporate Improvement Programme (CIP), agreed by Council in April 2010. The advantage of the CIP

process is that it is linked to the annual self-evaluation process and is subject to six-monthly monitoring reports.

94. Two best value actions were carried into the CIP 2010/11. One of these actions is still in progress and is carried forward into the CIP 2011/12, namely development of a risk monitoring function that supports the effective operation of the risk management framework; this is covered in the section on Risk Management below. The action that has been completed during the year relates to the development and implementation of an asset management strategy; the Property Asset Management Plan 2010-2014 was approved by Council in October 2010 and a Corporate Asset Management Strategy was approved in December 2010 to provide the basis of the council's approach to the management of its assets; see the section on Asset Management above.
95. The next Best Value audit of the council is planned for 2012/13 as a result of good progress being made against specific improvement points.

Risk management

96. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks and supports decision making and contributes to performance.
97. Risk management became the responsibility of the Chief Executive's Office with effect from 1 April 2009 and a Risk Management Strategy was approved by Council in December 2009. The Corporate Risk Management Group, with representatives from all service departments and chaired by the Emergency Planning & Risk Manager, meets on a regular basis. It oversees the development, implementation and maintenance of risk management across all services and reports to the Corporate Management Team.
98. The Corporate Risk Register was developed and approved during this year; the 2011/12 Register will be the first full year of operation and it will be refreshed annually thereafter. It records ten highest risk entries which are primary or critical risks that require immediate attention and should be monitored every six months. They cover, for example, the impact of homelessness, of any information security management failures, of flooding, of any failures in duty of care and of the revision of the UK benefit system. There are risk control measures in place to mitigate the effect of these risks.
99. Significant progress has been made during the year; the Corporate Improvement Plan (CIP) 2010/11 included two actions in this area; the action to develop the risk monitoring function in "Aspireview" to ensure effective deployment of the risk management framework is on-going and has been carried forward into the CIP 2011/12. Risk Management is being embedded across the council and is a regular feature on the agenda of management and business group meetings.

Self-evaluation arrangements

100. East Lothian Council adopted 'How Good is Our Council' as its preferred method of self-evaluation in February 2009. The model is based upon the 'How Good is Our School?' framework that has been developed by HMIE and is used by Education Departments across Scotland. The council's 'How Good Is Our Council' approach is raising the profile of the council's vision and provides an indication of the extent to which it is recognised and being achieved.
101. The first self-evaluations using HGIOC were undertaken during autumn 2009. Implementation of HGIOC was intentionally 'light touch' to begin with. Services were asked to evaluate their performance, although they were not asked to collate the evidence that would support their judgements. Through staff consultations, a revised HGIOC process commenced in autumn 2010. The revised process reduced duplication between questions, clarified terminology, identified and collated relevant evidence to support their judgements. In order for the council to realise any reduction in the burden of external scrutiny, its own self-evaluation must first be considered robust.
102. Internal Audit has audited the self-evaluation process and will report in October 2011 ascertaining how rigorously the process has been applied. Peer review of the self-evaluation results will also be conducted during 2011 to help ensure that different services have been consistent in their judgements. The HGIOC results can be used for several different purposes, including Business Planning and Best Value 2 (providing much of the evidence required by the Best Value 2 toolkits).

Community/user engagement

103. Community engagement features significantly in the work of the Community Planning Task Group. East Lothian Council are represented on the CoSLA Engagement Task Group. The council and the Community Health Partnership (CHP) also co-fund an engagement post under the auspices of the CPP.
104. East Lothian Community Planning Partnership's (ELCPP) Community Engagement Strategy 2010-2013 provides a framework and action plan to improve the way ELCPP works with people and communities. This strategy document is for organisations, departments and staff who provide services, and for members who work with service providers and communities and have influence over the way services are provided. It is also aimed at community leaders and groups who are interested in influencing the way service providers work and the steps to be taken together. Actions in response to community engagement findings have informed the East Lothian Council Planning partnership Improvement Plan 2011.
105. Customer Feedback is now captured on the Council's Customer Relationship Management system (CRM), which has improved recording and reporting capabilities of complaints. Customer feedback is reported quarterly to the Policy and Performance Review Committee and annually to the council. Overall, 947 complaints (2010/11) were received, a 3% increase over 2009/10, 257 complements an increase of 50% over the same period last year. As part

of this feedback further staff training has been implemented, this has assisted in a reduction in complaints about staff attitude.

106. A key indicator of the impact of community engagement is the single outcome agreement indicator which details the percentage of residents who feel they can influence decisions. The last time this was surveyed was in 2009 with 32.6% agreeing with the statement. The council are producing a Corporate Consultation and Engagement Strategy. The council is also carrying out engagement work in Education and Children's Services to engage with children and young people to ensure their voices are heard and taken into account.

Overview of performance in 2010/11

Performance management

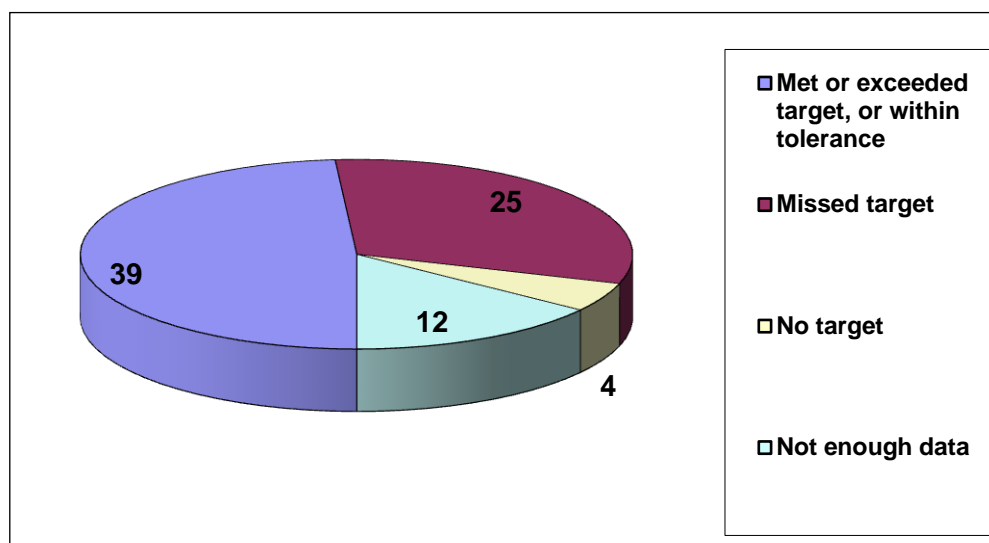
107. The council has over 400 performance indicators on the Aspireview performance management system, providing a wide range of detailed management information on the efficiency and effectiveness of services. Each service in the council has a suite of indicators that provide a multi-faceted view of performance, including the management information on workloads or work progress, addressing of priorities or achievement of outcomes and value for money.
108. Aspireview is being used throughout the council to monitor performance, which is reported quarterly at member's performance briefings and bi-monthly on an exception basis to the Policy and Performance Review Committee (PPRC). This enables members and officers to focus their attention on areas where improved performance is required. Performance reports are also submitted to the Corporate Management Team and Divisional Management teams. They contain on average 20 to 40 indicators for each service business unit. The reports are also available for public viewing through the council's web-site.
109. Up to date online reporting on performance information for the public is being developed that will be drawn automatically from Aspireview as it is updated. It is called 'Your Council Performs' and will reflect the outcomes contained within the council's revised Corporate Plan due to be reported to Council in November.

East Lothian Council performance measurement outcomes

110. The Annual Performance Report 2010/11 presented to East Lothian Council by the Chief Executive in June gave a timely report on key activities and specific performance indicators to members and is publicly available. It is a summary of the council's performance and progress towards meeting Core Priorities during the year. The council affirmed its commitment to the existing six Core Priorities when adopting the 'East Lothian Council Corporate Plan 2008-2012' in January 2008. The Core Priorities are also reflected in the existing Single Outcome Agreement for 2009 and the revised Single Outcome Agreement for 2011.
111. Exhibit 6 summarises progress in 2010/11 against the council's Core Priorities. It must be noted that the performance indicators referred to in the report are only a selection and not all of the council's performance indicators.

Exhibit 6

Achievement of East Lothian Council's targets 2010/11



112. The Annual Performance Report 2010/11 is a summary of the council's performance in relation to its commitments in the Corporate Plan, its Core Priorities and the Single Outcome Agreement. It recognises progress towards targets, covering both achievements and challenges. The council's achievements include:

- progress in the council's building programme for new homes to rent
- implementation of an accelerated programme for refurbishing existing council housing stock
- introduction of a new Emergency Care Service in 2011 with the main purpose of responding when someone has a fall at home
- good progress in taking forward Curriculum for Excellence, as confirmed by HMIE inspections
- inspection results showing that there has been progress since 2009 on services to protect children and young people
- extension of the CCTV network to cover all of the main towns, which also involves two-way communication with the police
- progress on the council's Carbon Management Plan (2009-14), through energy efficient buildings, IT efficiencies, waste reduction etc., with the aim of reducing carbon emissions by 25% by 2014
- the first Corporate Improvement Plan was introduced, which included issues arising from the "How Good is Our Council" self-evaluations conducted by 12 of the 13 services, and progress monitored.

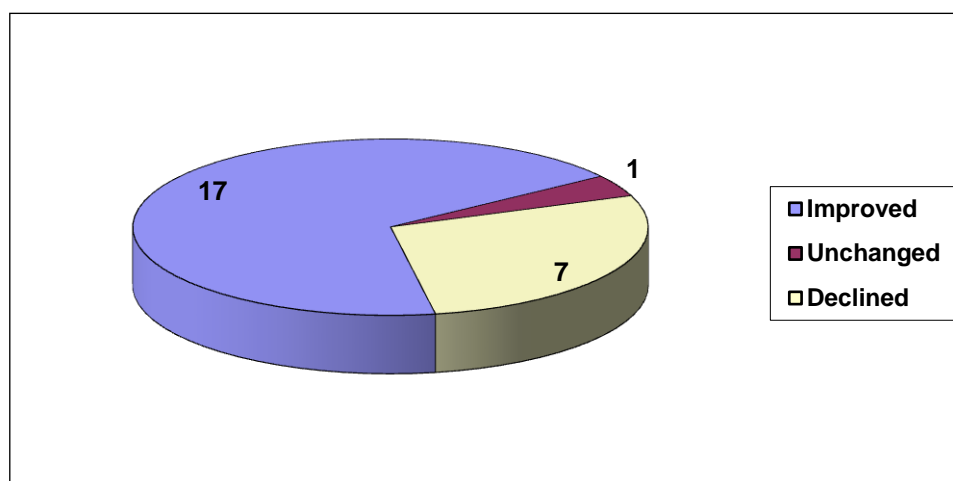
113. Challenges facing the council include:

- a rapidly growing population places increased demands on infrastructure and services; in particular a lack of affordable housing represents one of the most significant problems threatening sustainable growth in East Lothian
- low job density, reflecting the number of people commuting outside the county, which it may be possible to address through the provision of local office space
- inequality, with parts of Prestonpans and Tranent showing as deprived areas measured by the 2009 Scottish Index of Multiple Deprivation and other areas of population living in difficult circumstances; the recession is exacerbating the situation with an increase in people on jobseekers allowance
- addressing carbon management issues and sustainability, which is the responsibility of not just the council, but every citizen
- the impact of the economic downturn on the council's ability to consistently improve the health and well-being of its residents, as well as the local economy, whilst balancing limited public finances.

Statutory performance indicators

- 114.** In 2010/11, a total of 25 Statutory Performance Indicators (SPIs) were required and these show that performance has continued to improve as illustrated in Exhibit 7 below. The results were reported to the Policy and Performance Review Committee in September 2011 with some commentary.
- 115.** The indicators improving by more than 10% include public access for disabled people, cost of collecting council tax, homecare clients receiving evening and weekend services, sport/leisure and museum attendances, housing quality, re-letting of council properties, average debt and number of weeks rent owed by tenants leaving their tenancies and net cost of refuse collection. However, the paper did not identify the reasons for improved performance.
- 116.** The indicators which have declined by more than 10% relate to rent arrears, homelessness cases reassessed and use of museums. The reductions in performance for rent arrears was established as relating to the economic crisis, homelessness cases related to the dynamics of the client group and museums to adverse publicity at one location as well as a museum undergoing renovations.

Exhibit 7 - Improvements demonstrated by SPIs (total 25 indicators)



Progress against audit risks identified in the Shared Risk Assessment

- 117.** The Shared Risk Assessment (SRA) includes areas of scrutiny uncertainty, where associated audit and scrutiny activity was identified. In the Assurance and Improvement Plan (AIP) update 2011-14 we said that we would monitor key service developments and further evidence of performance during the annual audit process and comment within this report. The following paragraphs note the position against the areas of uncertainty identified.
- 118.** In the Assurance and Improvement Plan four areas of significant scrutiny risk were identified. In the main these relate to specific aspects of the following areas. These covered Corporate Services, Corporate Assessment Areas - Use of Resources (Financial and Asset Management) and Performance Management & Improvement. One area of uncertainty covered the National Outcome 'We live in well-designed, sustainable places where we are able to access the amenities and services we need'.

SOA priority: We live in well-designed, sustainable places where we are able to access the amenities and services we need.

- 119.** The AIP update noted that this remains an area of uncertainty. The council has made progress in its investment in affordable housing by its new build programme, increasing the numbers of properties attaining Scottish Housing Quality Standards (SHQS) and an accelerated programme for refurbishing existing council housing stock. Homelessness cases continue to rise though, as the result of economic downturn, but also due to changes in legislation in 2012. However, via the council's homelessness strategy (2009-14) the council are increasing the amount of settled accommodation including the supply of affordable housing. In addition, a temporary Accommodation Strategy was approved in 2010 with the aim of increasing the supply of temporary accommodation.

Corporate Services

120. In view of funding cuts in future years the council has challenging decisions to make in terms of priorities, efficiency plans and cuts. In addition, the council tax collection rate is down for the first time in many years but is still above the national average of 94.4%. However, the council has set a three year budget which they believe is sustainable.
121. The Corporate Property Asset Register is an on-going project. Whole life costings are not available for all assets and asset management is only now being addressed corporately. There is no standard option appraisal format used across the council, nor are options formally recorded for all projects. In the current financial climate this is still an area of risk. This area will be covered in the next Best Value audit.

Use of resources – financial management

122. The council has been improving its capacity for change by developing management expertise through the 'Challenge for Change' transformation programme and adoption of a Workforce Management Plan, the WorkSmart Project, the PrintSmart Project and new ways of delivering services to cut costs, share services and increase income.
123. The council has strong financial management processes and has been proactive in preparing financial plans; a £7.4million statutory surplus was added to the general fund reserves. This surplus was attributable mainly to savings across service budgets, savings on treasury management and windfall receipts. The council recognises that despite this positive position, it still faces severe financial challenges over the next few years. In response to these challenges, the council has set a three year budget, which is sustainable.

Use of resources – asset management

124. The Property Asset Management Plan 2010-2014 was approved by Council on 26 October 2010 and the Corporate Asset Strategy 2010-2014 was approved by Council on 7 December 2010. With full implementation of the Corporate Asset Strategy and property planning, the council will soon be able to more fully demonstrate the achievement of Best Value.
125. However, due to the recent completion of the Property Asset Management Plan 2010-14 and Asset Management Strategy, the council has not yet had the opportunity to see the full impact on council activities. As such, the impact of these changes remains unclear and this is still an area of risk. This area will be covered in the next Best Value audit.

Performance management & improvement

126. Significant progress has been made during the year for risk management with the action to develop the risk monitoring function in "Aspireview" to ensure effective deployment of the risk management framework. This is on-going and has been carried forward into the Council's Improvement Plan 2011/12. Risk Management is also being embedded across the council and is a regular feature on the agenda of management and business group meetings.

127. Adult Social Care has made reasonably good progress with strategic self-evaluation and strategic risk assessment. However, East Lothian's population is rising and people are living longer, placing greater and more complex demands/needs for care. During 2010/11, a new Emergency Care Service was introduced providing a 24/7 service and an Adult Placement Scheme matching adults with learning and physical disabilities with carers in the community. There is a positive direction of travel; however, this is still an area of risk. This area will be covered in the next Best Value audit.

Outlook

128. The Accounts Commission approved a new approach to best value in July 2010. Details of our new approach can be found at www.audit-scotland.gov.uk. It is proposed that East Lothian Council's audit of best value and community planning will take place in 2012/13 as a result of good progress being made against specific improvement points.
129. The Scottish Housing Regulator has undertaken some targeted scrutiny around the progress of the delivery of Homelessness services and the council's delivery of the Scottish Quality Housing Standards in September 2011. SWIA has undertaken its Initial Scrutiny Level Assessments, covering partnership arrangements and service capacity including performance information in August 2011. Audit Scotland, as part of its normal review of Housing Benefit Performance, will undertake a review in 2011/12. HMIE is considering some possible scrutiny activity in 2012/13 to examine shared educational services between East Lothian Council and Midlothian Council.

Appendix A

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit & Governance Committee
Assurance and Improvement Plan – update 2011-14: Provisional final	15 April 2011 22 June 2011	26 April 2011 N/A
Annual Audit Plan 2010/11	3 March 2011	15 March 2011
Website Overview Report	20 June 2011	21 June 2011
Your Business @ Risk Survey	20 June 2011	21 June 2011
Preparations for adoption of International Financial Reporting Standards (IFRS)	9 June 2011	21 June 2011
Review of Governance Arrangements and Main Financial Systems	9 June 2011	21 June 2011
Education Maintenance Allowance	28 June 2011	N/A
Criminal Justice Claim certification	30 September 2011	N/A
Report on financial statements to those charged with governance	20 September 2011	27 September 2011
Improving public sector purchasing	October 2011	November 2011
Financial Statements Management letter	October 2011	November 2011
Audit opinion on the 2010/11 financial statements	20 September 2011	27 September 2011

Appendix B: Action Plan

Key risk areas and planned management action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	14	<p>Group Accounts</p> <p>The failure to have finalised financial statements for Musselburgh Joint Racing Committee, Enjoy East Lothian Ltd and Brunton Theatre Trust, with appended audit certificates for final accounts purposes, needs to be reviewed and a Group reporting timetable needs to be established.</p> <p>Risk</p> <p>The failure to adhere to reporting deadlines and supply appropriate audit certificates may impact on the financial statements opinion.</p>	Deadlines will be set for the receipt of audited accounts from subsidiaries and associates and adhered to as part of the 2011/12 final accounts process.	Head of Finance	March 2012
2	47	<p>Procurement</p> <p>In the latest Procurement Capability Assessment East Lothian Council has demonstrated improvements in conformance with a score of 26%, compared to the previous non-conformance score of 19%. The main area of</p>	Corporate Management Team need to finalise their approach to PCA, including whether it is to be adopted as the measurement of whole organisation improvement in procurement, and whether it will be deployed in full or in	Chief Executive	March 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>non-conformance, with minimal improvement since last year, is Performance measurement where it is not evident that a sound approach to assessing and demonstrating its procurement performance is in place.</p> <p>Risk</p> <p>Recommendations from the procurement review may not be progressed in an efficient manner.</p>	<p>part.</p> <p>Full deployment implies significant organisational change and a cost/benefit assessment of making such changes needs to be completed.</p> <p>Partial deployment where in accordance with the council's procurement strategy is the current approach, but continuing with this approach will limit the extent to which the PCA can improve.</p>		
3	66	<p>Fixed Asset Register</p> <p>The council has implemented a new fixed asset system 'AssetManager.Net' (a CIPFA product). However, in the first year of operation a number of teething problems have been experienced, where accelerated (over) depreciation/ impairment has occurred of around £3.4 million. Management need to review the new system fully, to ensure</p>	<p>The errors are acknowledged and arose from the need for a simultaneous adoption of new IFRS standards alongside a new asset system, the delivery of which was delayed, which created difficulty in meeting closedown deadlines in 2011.</p> <p>These are not conditions that will recur in 2012 and we do not believe that there are any systemic errors that will carry over into the</p>	Head of Finance	Completed with the evidence to be obtained in the 2011/12 audit

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>that that there are no unadjusted systemic errors, which may impact on future accounts.</p> <p>Risk</p> <p>There may be unadjusted systemic errors, which could impact on future accounts.</p>	2011/12 accounts.		

Appendix C: Accounts Commission and Audit Scotland Reports

- Scotland's Public Finances: Addressing the Challenges
- Transport for Health and Social Care
- Arms Length External Organisations
- Review of Community Health Partnerships
- National Scrutiny Plan for Local Government
- Maintaining Scotland's roads – A Follow-up Report.
- The Cost of Public Sector Pensions in Scotland
- Overview of local government in Scotland 2010
- Improving Energy Efficiency: A follow-up report
- Physical Recreation Services in Local Government
- Improving civil contingencies planning - impact report
- Getting it right for children in residential care
- National Fraud Initiative in Scotland 2008/09 – Making an Impact
- How councils work: an improvement series for councillors - Roles and Working Relationship: are you getting it right