

Finance and Resources Committee

10.00am, Thursday, 29 September 2016

Internal Audit Quarterly Update Report: 1 January 2016 – 31 March 2016– referral from the Governance, Risk and Best Value Committee

Item number	7.8
Report number	
Wards	All

Executive summary

The Governance, Risk and Best Value Committee on 23 June 2016 considered a report which detailed the Internal Audit progress for the period 1 January 2016 to 31 March 2016.

The report has been referred to the Finance and Resources Committee on the recommendation that high risk findings from audit reports be submitted to their parent Committee for information. These relate to the internal audit reports for the Governance Arrangements for Arms Length Companies and Continuous Controls for One Time Payments.

Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

Terms of Referral

Internal Audit Quarterly Update Report: 1 January 2016 – 31 March 2016

Terms of referral

- 1.1 On 23 June 2016, the Governance, Risk and Best Value Committee considered a summary of the findings and status of work from the Internal Audit plan of work. The plan is updated throughout the year with additional reviews and any emerging risks.
- 1.2 The report by the Chief Internal Auditor highlighted the progress made along with 18 reports, categorised by level of risk.

Details of the action plans with implementation dates to mitigate any findings were also contained within the report. Any action which remained outstanding after the agreed implementation date would be reported back to the Governance, Risk and Best Value Committee.

- 1.3 The Governance, Risk and Best Value Committee agreed:
 - 1.3.1 To note the progress of Internal Audit in issuing 18 internal audit reports during the quarter and to note the areas of higher priority findings for reviews issued in this quarter.
 - 1.3.2 To refer the 5 reports noted in Appendix 1 of the report to the Audit and Risk Committee of the Edinburgh Integrated Joint Board.
 - 1.3.3 To request that high risk findings from audit reports be submitted to the relevant parent committee for information.

For Decision/Action

- 2.1 The Finance and Resources Committee is asked to note the attached audit reports with high risk findings concerning Governance Arrangements for Arms Length Companies and Continuous Controls for One Time Payments.

Background reading / external references

[Minute of Governance, Risk and Best Value Committee – 23 June 2016](#)

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Links

Coalition pledges See attached report

Council outcomes See attached report

Single Outcome Agreement See attached report

Appendices See attached report

Governance, Risk and Best Value Committee

10.00am, Thursday 23 June 2016

Internal Audit Quarterly Update Report: 1 January 2016 – 31 March 2016

Item number	7.2
Report number	
Executive/routine	
Wards	

Executive summary

Internal Audit has made reasonable progress in the final quarter of the audit year. This report provides details of the activity from 1 January 2016 – 31 March 2016.

Links

Coalition pledges	PO30
Council outcomes	CO25
Single Outcome Agreement	

Internal Audit Quarterly Update Report: 1 January 2016 – 31 March 2016

Recommendations

- 1.1 Committee is requested to note the progress of Internal Audit in issuing 18 internal audit reports during the quarter and to note the areas of higher priority findings for reviews issued in this quarter.
- 1.2 Committee is requested to refer the 5 reports noted in Appendix 1 as potentially being of interest to the Audit & Risk Committee of the Edinburgh Integrated Joint Board to that Committee.

Background

- 2.1 Internal Audit is required to deliver an annual plan of work, which is scoped using a risk-based assessment of Council activities. Additional reviews are added to the plan where considered necessary to address any emerging risks and issues identified during the year, subject to approval from the relevant Committees.
- 2.2 Status of work and a summary of findings are presented to the Governance, Risk and Best Value Committee for consideration on a quarterly basis.

Main report

- 3.1 Internal Audit has made reasonable progress in the final quarter of the audit year with 18 reports being issued for the quarter. These reports contain a total of 8 High, 28 Medium & 11 Low findings.
- 3.2 The status of outstanding recommendations from reports issued prior to this period is discussed in the report 'Internal Audit follow-up arrangements: status report from 1 January 2016 to 31 March 2016'.
- 3.3 Appendix 1 provides a summary of reports and the classification of findings in the period. A copy of all final reports is available to members.
- 3.4 Appendix 2 provides a summary of the High Risk findings and associated management actions.

Measures of success

- 4.1 Once implemented, the recommendations contained within these reports will strengthen the Council's control framework.

Financial impact

- 5.1 None.

Risk, policy, compliance and governance impact

- 6.1 If Internal Audit recommendations are not implemented, the Council will be exposed to the risks set out in the relevant detailed Internal Audit reports. Internal Audit recommendations are raised as a result of control gaps or deficiencies identified during reviews therefore overdue items inherently impact upon compliance and governance.
- 6.2 To mitigate the associated risks, the Committee should review the progress of Internal Audit and the higher classified findings, and consider if further clarification or immediate follow-up is required with responsible officers for specific items.

Equalities impact

- 7.1 No full ERIA is required.

Sustainability impact

- 8.1 None.

Consultation and engagement

- 9.1 None.

Background reading/external references

- 10.1 None.

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Links

Coalition pledges	PO30 - Continue to maintain a sound financial position including long-term financial planning
Council outcomes	CO25 - The Council has efficient and effective services that deliver on objectives
Single Outcome Agreement	
Appendices	Appendix 1 – Summary of Internal Audit report findings issued for period of 1 January 2016 – 31 March 2016. Appendix 2 – Summary of High Risk Findings and Management Actions for period of 1 January 2016 – 31 March 2016.

Appendix 1

Summary of Internal Audit reports issued for period 1 January 2016 – 31 March 2016

Internal Audit reports				
Title of Review	High Risk Findings	Medium Risk Findings	Low risk Findings	Advisory Comment
Contract Management – Roads – SFC 1505	2	4	-	-
Management of Devolved Neighbourhood Environmental Programme & Community Grant Funding CW1503	2	2	-	-
Schools IT Systems – CF1513	1	3	1	-
Continuous Testing - One Time Payments – CG1503	1	3	-	-
Governance Arrangements – Arms Length Companies – CW1502	1	3	-	-
Retention of Corporate Knowledge – CG1515#	1	2	-	-
Edinburgh Shared Repairs Service – Emergency Repairs – SFC1507B	-	4	3	1
LBCJA – Information Governance – JB1504	-	3	1	-
Resilience Planning (Communities & Families) – CF1519	-	2	2	-
Additional Support for	-	1	2	-

Learning – CF1521				
Implementation of 2016/17 Savings - CW15015#	-	1	-	-
Implementation of the Children & Young People's Act – CF1514	-	-	2	-
Continuous Testing – Payroll – CG1512#	-	-	-	-
<i>Total</i>	8	28	11	1
Other Internal Audit Outputs				
Business Continuity Management -Tattoo – JB1503*	2	1	1	-
Review Recommend – Edinburgh Shared Repairs Services – SFC1507A	N/A	N/A	N/A	N/A
Review of Health & Safety Management System with a focus on Asbestos, Driving and Hand Arm Vibration Working Groups#	N/A	N/A	N/A	N/A
Schools Assurance Pilot Framework- Thematic Response – CF1520	N/A	N/A	N/A	N/A
Health & Social Care - Service Matching Unit – Desktop review#	N/A	N/A	N/A	N/A

* Given that the Tattoo is an independent Charity and not part of the Council, the details of the High Risk Findings have not been included within Appendix 2.

These reviews may be of interest to members of the Audit & Risk Committee of the Edinburgh Integrated Joint Board and it is proposed these reviews are referred to that Committee.

City of Edinburgh Council

Internal Audit

**Quarterly Summary of Critical/High Risk
Findings and Management Actions**

(31 December 2015 - 31 March 2016)

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Section 1 – Contract Management - Roads

SFC1505

Total number of findings

	Critical	High	Medium	Low
Total	-	2	4	-

Background

The Neighbourhood Roads Teams across the City are allocated an annual revenue budget of £4.9 million across the six Neighbourhoods (soon to be four Localities) for road repairs and renewal and a Capital budget of £0.9m to spend under the Neighbourhood Environmental Programme and on smaller projects such as carriageway enhancement, drainage improvements and bus stop maintenance.

The Neighbourhood Roads Teams are responsible for designing and commissioning works within the budgets allocated to them. Work is directed first to the Edinburgh Roads Service (ERS), before being sent to a framework contractor where ERS do not have the skills or capacity to complete the work.

This audit focussed on works completed by the ERS which were commissioned by the West Neighbourhood Office. However, the findings should be taken as indicative of areas where it is possible that adequate controls and processes have not been fully adopted by all the neighbourhood offices. Management have proposed actions to address our findings which will be rolled out across the new locality roads teams.

Scope

The scope of this review will be to assess the design and operating effectiveness of the Council's controls for the prioritisation of maintenance and improvement works and controls over works contract management. The sub-processes and related control objectives included in the review are:

- Prioritisation of work;
- Allocation of work; and
- Contract Management

Testing for this audit was limited to work completed by the internal Edinburgh Roads Service and commissioned by the West Neighbourhood Office. We also walked through the process used by the central Transport team to manage works carried out by Edinburgh Roads Service to assess the design and implementation of controls.

Local Roads Programme works completed by external framework contractors are included within the scope of the Neighbourhood Partnerships review.

Summary of High Risk Findings

Budgetary control and financial management

There is no consistent or robust process for managing the costs of works undertaken by ERS. Through discussions with officers at the West Neighbourhood Office and the Central Transport department we noted that:

- There is no schedule of rates for works carried out by ERS. This means budgets for works cannot be completed accurately;
- ERS are not required to obtain approval from the commissioning manager for an extension to approved works, or where additional labour, plant or materials are required;
- As ERS is part of the Planning and Transport service, payment for labour, plant and materials is by internal transfer which does not have to be authorised by the commissioning manager from the Transport department or the Neighbourhood Office;
- There was no evidence retained that costs charged by ERS are reviewed by the commissioning manager; and
- Costs are recorded on Axim, while the estimated works budget is recorded on the Confirm project management system. There is no link between the systems, so budget variances must be calculated manually.
- The additional costs of any remedial works are charged to the commissioning roads teams on top of the original budget. They are not able to reclaim those costs from ERS.

Quality

Reviews undertaken by the Transport Interim Quality Audit Team identified works and materials failures resulting in major remedial works at additional cost to the Council. The Transport Interim Quality Audit Team was a short-life working group and has now been disbanded.

Officers were unable to demonstrate that site visits are carried out as a matter of routine by project or commissioning managers to confirm that the quality and extent of works completed are satisfactory.

Recommendations and Agreed Management Action for High Risk Findings

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>Contract Management - Financial Management</p> <p>The road and footway contract process should include robust monitoring of contract expenditure. This should include:</p> <ul style="list-style-type: none"> • Accurate budgeting of work assisted by a schedule of rates; • Documented approval of variations to agreed work; • Exception reporting to highlight overspend against budget; and • End of works review of expenditure to ensure commissioning managers are satisfied that all work and costs are appropriate. 	<ol style="list-style-type: none"> 1. For Locality (Revenue) Work, estimated works costs are prepared and noted on Confirm (Works Management System) making use of compound rates. Ensure that future works estimates make use of agreed and future schedule of rates. Responsible Officer: North-West Local Transport & Environment Manager 2. For Locality (Revenue) Works, introduce a protocol to ensure that additional works are agreed, where reasonably possible, with the Commissioning team prior to commencement. Responsible Officer: North-West Local Transport & Environment Manager 3. For all Capital and Revenue Work, introduce an internal contract process to manage works estimating, charging, completion sign off by the 	<p>30 June 2016</p> <p>1 October 2016</p> <p>30 October 2016</p>	<p>Not due</p> <p>Not due.</p> <p>Not due.</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
	<p>client and final account closure.</p> <p>Responsible Officer: Transport Infrastructure Manager</p> <p>4. Establish remedial works protocol to ensure Commissioning teams are not charged for defective works.</p> <p>Responsible Officer: ERS Manager</p>	1 October 2016	Not due.
<p>End of Works Quality Assessment</p> <p>An end of works quality assessment should be conducted and documented before final payments are made to contractors and ERS. This review should be carried out by a qualified member of staff who can assess the work carried out against the industry standards and contract requirements.</p>	<p>1. Recommendation accepted – ongoing site visits to be adequately recorded and final quality inspection process to be developed, by the Locality Transport teams, for appropriate works.</p> <p>Responsible Officer: North-West Local Transport & Environment Manager</p> <p>2. Sample Inspections for Revenue works (commissioned by Locality Teams) are currently undertaken and will be recorded through Confirm. (Audits of above to be undertaken to ensure compliance)</p> <p>Responsible Officer: North West Local Transport & Environment Manager</p> <p>3. Site visits (and Final Inspections) to be carried out by commissioning teams for all Capital schemes and significant revenue works.</p>	<p>30 June 2016</p> <p>30 June 2016</p> <p>30 June 2016</p>	<p>Not due</p> <p>Not due</p> <p>Not due</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
	<p>Responsible Officer: Transport Infrastructure Manager</p>		

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

Section 2 – Management of the Devolved Neighbourhood Environmental Programme and Community Grant Funding

CW1503

Total number of findings

	Critical	High	Medium	Low
Total	-	2	2	-

Background

Community Grant Funding

Devolved Community Grant Funding ('CGF') to Neighbourhood Partnerships aims to encourage community-run projects which benefit the local community and support the implementation of Local Community Plans. Constituted groups from the local area can apply for a grant of up to £5,000 for a project which demonstrates community benefit. Each Neighbourhood Partnership Board manages the annual fund according to local structures and priorities but all use the Council's approved community grant funding criteria, standard application form and Council Funding Conditions. Community Grant Funding available to local areas in 2015/16 totalled £405,678.

Following consultation, some Neighbourhood Partnerships have taken this a step further and have fully devolved the budget and responsibility for selecting successful bidders to local residents groups, who arrange open community voting for projects. This is known as 'participatory budgeting'.

Neighbourhood Environmental Programme

The Neighbourhood Environmental Programme ('NEP') covers two distinct work streams: Roads and Footways ('General Fund') and Housing Regeneration Projects ('HRA').

HRA is restricted to areas where there is Council housing and allocated on the basis of local Council rental income. Neighbourhood Partnerships decide how the HRA budget will be spent, but works are commissioned and managed by the central Housing Asset Management team.

The NEP is devolved to the neighbourhoods and managed by Area Roads teams. NEP Community groups and local inspectors identify potential projects in their local area. The Neighbourhood Partnership, community representatives and Area Roads team members then discuss each project and prioritise them to create a works programme. Projects are commissioned and managed by the Area Roads teams, and the processes followed vary from team to team.

In 2014/15, only 70% of the full £1.1 million General Fund budget was spent; HRA spend was 73% of the £2.2 million budget allocation. The projected spend in 2015/16 is 68% of the allocated budget for the General Fund and 59% of the HRA budget.

Scope

The scope of this review was to assess the design and operating effectiveness of the Council's controls for ensuring accountability and appropriate management of spend on behalf of Neighbourhood Partnerships and Council tenants. The audit concentrated on two funding initiatives, Community Grant Funding and the Neighbourhood Environmental Programme.

The sub-processes and related control objectives included in the review were:

- Accountability;
- Management of spend; and
- Performance management.

We visited four of the six Neighbourhood offices to review the CGF and NEP processes.

Summary of High Risk Findings

Project documentation and records retention on Edinburgh Roads Services projects

Neighbourhood Offices commission Edinburgh Roads Services (ERS) to deliver a proportion of General Fund projects and some HRA projects. Where ERS was used, officers from both services were unable to provide documents to demonstrate that key contract and legislative requirements had been met, including:

- Health and Safety risk assessments;

- Scope of works including costs;
- Project acceptance by a senior officer in the Neighbourhood Office;
- Project acceptance by Edinburgh Roads Service;
- Inspection of completed works by the project manager;
- Evidence that costs charged by Edinburgh Roads Service are reviewed by a senior officer in the Neighbourhood Office; and
- Final sign off of completed works by a senior officer in the Neighbourhood Office

The documents should have been retained to comply with the Council's Record Retention policy. It was unclear if they had ever existed and if so, whether they had been destroyed or archived in a manner which made them difficult to recover.

Budget monitoring

Expenditure against budget is not routinely reviewed by locality managers or reported to Neighbourhood Programme Boards. Internal Audit had to specifically request the preparation of financial information as at 29 February 2016 to establish the current financial position for NEP expenditure in each Neighbourhood. 'Committed spend', being the cost to the Neighbourhood Partnership if all planned projects were completed in the year, is reported. However, as indicated by the unspent budget in 2014/15, planned projects are often delayed or dropped. This means that:

- Financial reporting will often show an overspend against budget in the expectation that projects will be postponed or dropped later in the year;
- Budget carried forward from the previous year is not clearly identified; and
- Neither the neighbourhood manager nor the Neighbourhood Partnership Board has sight of actual spend against budget through the year.

Recommendations and Agreed Management Action for High Risk Findings

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>Retention of project documentation</p> <p>The process for commissioning and managing NEP projects undertaken by ERS should be mapped, with key documents such as a schedule of works, a health and safety risk</p>	<p>1. The process for managing NEPs projects (commissioned by locality teams) should comply with the current Locality Quality Assurance Operational Guide, which covers Construction</p>	31 October 2016	Not due

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>assessment and final project sign off identified.</p> <p>Key documents must be retained in accordance with the Council's records management policy.</p>	<p>Design & Management. The Operational Guide will be reviewed and updated by Locality Teams with assistance and support from the core Transport Team to ensure it is fit for purpose and reflects current CDM regulations 2015.</p> <p>Responsible Officer: Locality Manager with support from the Transport & Infrastructure Manager</p> <p>2. Refresher training will be targeted to all locality roads managers and relevant ERS and local roads team members.</p> <p>Responsible Officer: Locality Manager</p> <p>3. Increase awareness of the Council's record management system by ensuring that all team members complete Council-wide mandatory training on information governance.</p> <p>Responsible Officer: Locality Manager</p>	<p>30 November 2016</p> <p>31 July 2016</p>	<p>Not due.</p> <p>Not due.</p>
<p>Budgeted and actual expenditure monitoring</p> <p>A robust budget monitoring process should be introduced for use consistently across the neighbourhoods and localities. This should give neighbourhood managers a clear view of actual spend against budget through the year.</p> <p>Performance should be reported regularly to the</p>	<p>A budget monitoring tool has now been developed to monitor the progress of Locality Commissioned work, including NEPS. This will give Neighbourhood Partnerships up-to-date information on actual and budgeted spend for each project and will be completed and shared with all NEP budget holders each month.</p>	<p>30 June 2016</p>	<p>Not due.</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>Neighbourhood Partnership Board. This should include:</p> <ul style="list-style-type: none"> • Actual expenditure against allocated grant funding; • Projects not completed within the year; • Explanations where there is a significant variance against budget on approved projects; and • Budget carried forward from the previous year. 	<p>Monthly meetings to be established with all Localities NEP budget holders to review job progress, spend to date and budget forecast and budget profile. Progress of projects should be agreed with any variance in costs agreed. Re-profiling of budgets will also be discussed and agreed at the meetings. These meetings should promote best practice and consistent approach throughout all Localities.</p> <p>Responsible Officer: RAMP Planning & Programme Manager</p>		

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

Section 3 – Schools IT systems

CF1513

Total number of findings

	Critical	High	Medium	Low
Total	-	1	3	1

Background

The school IT estate consists of hardware acquired centrally by the Council under a BT service contract and hardware purchased directly by schools. Schools are responsible for managing all devices purchased outside the BT service contract using school funds.

School-managed devices are predominantly iPads purchased for classroom use. Models vary from single classroom iPads to 'one-to-one' schools where each pupil is assigned an iPad. The Digital Learning Team encourages schools to use Meraki to manage iPad use. This is mobile device management software which enables schools to monitor the use of devices and enforce passwords and security settings.

Access to school servers is restricted to devices purchased under the BT service contract. All other devices, including school-managed computers and tablets, only have web access. Office 365 is being introduced to schools to facilitate remote working. Office 365 is a web-based application which allows secure access to emails and cloud storage, and enables users to share documents securely.

Scope

The scope of this review was to assess the design and operating effectiveness of controls relating to access to applications and data in the school IT estate. The review was focussed on school-managed devices and covered:

- Security requirements for access to applications and data;
- IT policy;
- Tracking of hardware; and
- Reporting of security issues.

Summary of High Risk Finding

Use of Non-BT Devices

Teaching staff commonly use personal and school-managed computers for work purposes, which may on occasion involve personal and sensitive data. These are not supported by BT and as such may not have full security such as passwords and anti-virus and encryption software installed. We identified one instance where sensitive personnel data was held on an unencrypted memory stick.

Office 365 has been introduced to all schools. However, use of Office 365 is still limited in some schools and there is evidence that data is still stored on personal and school-managed hard drives.

While staff are required to comply with the corporate Acceptable Use of IT policy, the policy does not specify security required when staff are using their own device for work purposes. We further note that staff at six of 14 schools visited by Internal Audit had not completed mandatory training on information governance at time of our audit visits between September and November 2015.

Recommendation and Agreed Management Action for High Risk Finding

Recommendation	Agreed Management Action	Target Date	Status of Actions Due
<p>School staff should be encouraged to use Office 365 exclusively when using a non-BT managed device for work, and ensure that their device is password protected.</p> <p>Guidance on the use of non-BT managed devices for work should be issued to schools</p>	<p>We will prepare concise, easy-to-use guidance on the use of non-BT managed devices for work, specifying security requirements. The guidance will be introduced to schools at head teachers' and ICT co-ordinators' forums. The guidance will be circulated to schools. Staff will be asked to sign to confirm that they have read and understood the guidance annually.</p> <p>Responsible Officer: Systems Admin Lead Officer –</p>	31 March 2016	This process has been delayed with the revised implementation date now 31 August 2016

Recommendation	Agreed Management Action	Target Date	Status of Actions Due
<p>staff, including</p> <ul style="list-style-type: none"> • Secure storage of data on Office 365 or an encrypted device; • Anti-virus software; • Passwords; and • Physical security. <p>All staff should be required to confirm understanding of and compliance with the guidance.</p>	Digital Learning Team		

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

Section 4 – Continuous Testing – One Time Payments

CG1503

Total number of findings

	Critical	High	Medium	Low
Total	-	1	3	-

Background

A one time payment request is a request for payment that does not relate to any contract for the supply of goods and services. Typical examples of their use are: refunds, (including housing benefits, council tax or parking fines), damage and loss claims, and payroll corrections. Payments are generally made by the completion of a 'One Time Payment' Form. Payments can be made by cheque through the Oracle payment system or by raising a payment through the RBS Bankline system with a 'dummy invoice' being raised within the Oracle payment system.

The payments are processed centrally by the Payments Services Team; with the exception of Benefits, Council Tax, Non-Domestic Rates (NDR), and Payroll. However cancellations or corrections to the subsets above fall to the central team to process. In 2014/15 the activity for one time payments was 20,315 transactions to the value of just under £10.3 million pounds.

Scope

The scope of the review was to assess the design and operating effectiveness of the Council's controls over one time payments. The sub-processes and related control objectives included in the review are:

- Appropriateness;
- Multiple Payments; and
- Channel Shift.

Summary of High Risk Finding

Authorisation controls

There are no effective controls around authorisation and approval of the 'One Time Payment' (OTP) payments.

The current Oracle payment system does not record the name of the person who is authorising the payment; thereby OTP bypasses hierarchy controls. A paper form, requiring two signatures, is sent from the service area to the Payments Services Team, however.

- Some forms are 'pp' by a member of staff within the authorisation field; and.
- Some signatures are illegible therefore it is unclear who the signature belongs to.

These payments are processed by the Payments Services Team as the current assumption is that they have been authorised by the service area; and there is no authorised signatory list or delegated authority level for the team to refer to.

Recommendation and Agreed Management Action for High Risk Findings

Recommendation	Agreed Management Action	Target Date	Status of Actions Due
<p>Effective authorisation controls should be implemented immediately. Each Service area should be required to provide a delegated authority level, for example Level 4 Manager, Team Leader, etc. and advised of the requirement for forms to be completed fully and legibly.</p> <p>Payments Services should act as the key control in this system and the default position should be to return inappropriate or incomplete forms to service area.</p>	<p>With immediate effect, no one time payment form with a 'pp' within the authorisation field will be accepted for payment process by Payment Services, and will be returned to originator.</p>	18 January 2016.	Satisfactorily completed
	<p>Payment Services will take control and act on a new process which will include contacting departmental Heads of Service and requesting an updated signature list of staff (Tier 4 or Team Leader grade), who will be responsible and authorise all One Time Payments relating to their area(s).</p> <p>Payment Services staff will check all OTP's received</p>	29 February 2016	Satisfactorily completed

Recommendation	Agreed Management Action	Target Date	Status of Actions Due
	<p>against agreed authorisation list before processing for payment.</p> <p>Any OTP application received by Payment Services without proper authorisation and backing documentation will be returned to department requester.</p> <p>Service to replace signature confirmation with email confirmation – with OTP requests/approvals only being accepted from agreed email addresses consistent with agreed departmental approval lists. This will remove uncertainty created by signature checks and move away from a paper based system. Emails will be stored in agreed archive to allow for audit checks and ongoing compliance monitoring. Activity to be phased in to ensure no inappropriate interruption to service.</p> <p>Responsible Officer: Payment Services Manager</p>	30 April 2016	Satisfactorily completed
One Time Payment functionality should be considered as part of any on-going review process and / or the new payment system implementation.	The Council will review one-time payment functionality within the new systems being introduced in October 2016 through the new ICT contract. Where opportunities exist to strengthen internal controls, for example, through the use of workflow, these will be explored	31 December 2016	Not due.

Section 5 – Governance Arrangements – Arms Length Companies

CW1502

Total number of findings

	Critical	High	Medium	Low
Total	-	1	3	-

Background

The Council has a significant interest in or provides significant funding to a number Subsidiaries, Associates and Trust Companies and the Council register (at the time of our review) had 20 'Companies' and 38 'Subsidiary companies' listed within the register.

The Council is responsible for ensuring that any company it sets up or funds can demonstrate best value in its use of public money. It is therefore critical that sound governance arrangements are in place for these organisations. Experience has shown how poor governance of Council companies can result in significant financial and reputational cost to the Council and an adverse impact on delivery.

A Capital Coalition working group of elected members ("Members' Working Group") considered officer recommendations and set out the arrangements that members wished to put in place in relation to Council companies. The proposals of the Members' Working Group were summarised within section 2 of the Council Companies report which was presented to 'Full Council' on 13.12.12. This report has formed the basis for the existing governance arrangements in place in respect of Arms Length Companies, concluded that:

- The funding agreements or shareholder agreements (between the Council and the company) should set out the objectives of the company linked to the outcomes the Council wishes to achieve, and specify the services and any other return the Council expects in exchange for funding.
- They should also set out the financial, performance reporting, accounting and audit requirements.
- Appropriate KPI's should be put in place to ensure the efficiency of the company's operations and demonstrate best value.

- The Council should receive monthly information from Council companies providing a level of detail which is appropriate.
- Existing agreements should be reviewed in line with these recommendations and monitoring rights should be rigorously enforced by the Council.
- The director of the relevant service area will be responsible for ensuring that the governance and performance of the companies is managed appropriately.

Scope

The scope of this review was to assess the design and operating effectiveness of the Council's controls relating to governance arrangements over 'Council Controlled Companies'. The sub-processes and related control objectives included in the review were:

- Roles and responsibilities
- Governance Arrangements (entity)
- Governance Arrangements (Council Wide)

Summary of High Risk Finding

Independence

Conflicts of interest are difficult to define due to their inherent subjectivity and are often the subject of public scrutiny.

Elected members routinely sit on the Boards of Arms Length Companies and the linked executive Council Committee that oversees them. This results in a number of Councillors who are responsible for scrutinising Arms Length Companies also being directors of the companies, who are legally responsible for the actions of these companies.

This could be perceived as a conflict of interest as individual councillors are responsible for scrutinising actions that they are responsible for. This could result in the perception that Councillors' decisions are influenced by the Arms Length Companies and this situation does not in our opinion, meet best practice governance standards.

Councillors who are directors of EDI and EICC and scrutinising these companies could be perceived as being outwith the spirit of "The Standards Commission for Scotland Guidance on the Councillors' Code of Conduct".

This code defines holding office in a company as a 'Non-Financial Interest' (4.22). The code determines that an elected member with a non-financial interest should withdraw from any discussion (or vote) impacting the interest until the discussion (or vote) has concluded (5.7) unless the Interest is covered by a general or specific exclusion defined by 5.18 (d) of the code. An exclusion would only apply for a company if it was:

- I. established wholly or mainly for the purpose of providing services to the councillor's local authority; and

II. entered into as a contractual arrangement with that local authority for the supply of goods and / or services to that local authority.

It is not clear that EDI and EICC would meet these conditions. The minutes of the Economy committee do not suggest that Councillors who are directors of EDI & EICC withdraw when these companies are being discussed. .

Recommendation and Agreed Management Action for High Risk Findings

Recommendation	Agreed Management Action	Target Date	Status of Actions Due
<p>To avoid the perception that conflicts of interests exist at Committees' scrutinising Arms Length Companies;</p> <ul style="list-style-type: none"> • We would not recommend elected members being directors of Arms Length Companies, which are subject to scrutiny by committees on which they sit. • Where elected members are directors of an Arms Length Company that is being scrutinised by a committee on which they sit, we would consider that it would be good practise for them to withdraw when the relevant arms length company is being discussed. To facilitate this, we would recommend that the committee clerk's should invite all elected members to consider their position prior to any discussion on Arms Length Companies. 	<p>A report including this recommendation will be presented to Council on 28 April 2016. Any consequent adjustment to Board membership will be undertaken at the Council meeting on 2 June 2016.</p> <p>Committee clerks will immediately act in accordance with the decision taken by Council on 28 April when they consider governance arrangements for the Council's ALEOs and, specifically thereafter in reminding at Committee meetings the actions agreed on declaring interests and minimising the risk of potential conflicts of interest.</p> <p>Responsible Officer: Governance & democratic services manger</p>	<p>2 June 2016</p> <p>28 April 2016</p>	<p>A report proposing changes in line with the IA findings is now due to go to Council on 30 June.</p>

Section 6 – Retention of Corporate Knowledge

CG1515

Total number of findings

	Critical	High	Medium	Low
Total	-	1	2	-

Background

The Council is about to under-go a period of significant change as the restructuring programme gathers pace. This will see a significant number of individuals either change roles within or leave the organisation.

The retention of Corporate Information has historically been problematic for the Council and this has been highlighted in a number of incidents recently. Given the level of significant changes anticipated, it is important to ensure that Corporate Information is retained and managed consistently throughout the restructuring process.

Scope

The scope of this review will be to assess the Record Management (RM) controls in place to ensure that important Corporate Knowledge is retained when individuals change roles or leave the CEC. The sub-processes and related control objectives included in this review are:

- Joiners & Leavers; and
- IT Risk Management Access Controls.

Summary of High Risk Findings

Records Management Procedures

The Council's Records Management (RM) policy has been in force since September 2014 but the mandated local procedures to support compliance have yet to be fully embedded across the organisation.

The Council Records Management policy states that staff must follow local administrative procedures which are documented within local Records Management Manuals. Whilst records management practices are documented and controlled in some Council services, there are, as of yet, no formally approved records management manuals within the Council. We understand these will be developed over the next five years. The large transformation program underway in the council will stress the current local documentation and processes in place and the Council would benefit from approved Records Management Manuals being in place.

The Council Records Management policy states that the Information Governance Unit (IGU) will conduct rolling, periodic reviews of Records Management Manuals but this has not been included in the annual information governance plan.

Recommendation and Agreed Management Action for High Risk Findings

Recommendation	Agreed Management Action	Target Date	Status of Actions Due
<ul style="list-style-type: none"> • Develop a plan for roll out and review which must be tracked by the Information Council and appropriate senior management; • A review of the 'state of play' of any RM documentation needs to be undertaken by each Directorate; • Directorates / teams without a completed and approved RM manual must set a deadline and track through to completion; and • The Council should develop common Records Management procedures for services such as Finance, Health and Safety and HR that can then be 	<p>Development and roll out of a 5 year implementation plan by the IGU for the creation and review of records management manuals across the Council to be included in this year's information governance annual plan</p> <p>The IGU will work with DROs this year to review existing RM documentation – this will be incorporated into the implementation plan. Subsequent reviews will be split between the annual information governance maturity assessment and the IGU's rolling risk based review of RM manuals</p> <p>The IGU will work with the relevant service areas to investigate whether common procedures can be developed – this will be incorporated into the implementation plan</p>	<p>29 February 2016 for implementation plan development</p> <p>31 December 2016</p> <p>30 September 2016</p>	<p>Satisfactorily completed</p> <p>Not due.</p> <p>Not due.</p>

Recommendation	Agreed Management Action	Target Date	Status of Actions Due
<p>implemented in local directorates and teams.</p>	<p>The IGU to regularly report to the Information Council on progress with initial pilots, then the wider roll out and eventually a review and audit schedule</p> <p>Responsible Officers: Information Council / IGU members Directorates Records Officers</p>	<p>Ongoing</p>	