# Governance, Risk and Best Value Committee

## 10.00am, Tuesday 16 January 2018

# Internal Audit Quarterly Update Report: Quarter 2 – (1 July – 30 September 2017)

| | |
|---|---|
| **Item number** | 7.2 |
| **Report number** | |
| **Executive/routine** | |
| **Wards** | |
| **Council Commitments** | |

## Executive summary

This report provides details of the Internal Audit reviews completed in Quarter 2 and an update on progress with the overall delivery of the 2017/18 Internal Audit plan.

As at 30 September, Internal Audit had issued a total of 6 reports (4 were issued in quarter 2) and 14 audits were in progress. The 4 reports issued in quarter 2 incorporated 8 Findings (2 High; 4 Medium; 1 Low and 1 Advisory).

The Starters audit report is recommended for referral to the Edinburgh Integration Joint Board (EIJB) Audit and Risk Committee. No reports were referred by the EIJB Audit and Risk Committee to GRBV at their meeting in September 2017.

Delivery progress as at 30 September left a balance of 37 audits to be completed in the second half of the year, with 15 audits to be delivered in Quarter 4 (for comparison purposes, 13 audits were completed in Quarter 4 2016).

Internal Audit plan delivery has also been significantly impacted by resourcing challenges within the team during this period. A capacity analysis has been undertaken to assess the ability of the team to deliver the balance of the plan, as at 8 January 2018, which is appended to this report.

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THE CITY OF EDINBURGH COUNCIL

# Report

## Internal Audit Quarterly Update Report: Quarter 2 – (1 July – 30 September 2017)

## 1. Recommendations

1.1 Committee is requested to:

1.1.1 Note that Internal Audit issued a total of 6 Internal Audit reports in the 2017/18 plan year with 4 reports being issued in Quarter 2 (1 July to 30 September 2017).

1.1.2 Note the risks associated with the 2 High rated findings raised and consider if further clarification or immediate follow-up is required with responsible officers for specific items.

1.1.3 Refer the Starters and Local Development Plan and Action Programme audit reports to the appropriate Council executive committees for information and further scrutiny where appropriate.

1.1.4 Approve the recommendation to refer the Starters audit report to the EIJB Audit and Risk Committee as this could have a direct impact on the services delivered by the Health and Social Care Partnership.

1.1.5 Note that no reports were referred by the EIJB Audit and Risk Committee to GRBV at their meeting in September 2017.

1.1.6 Note the volume of Internal Audit work in progress as at the end of Quarter 2 (30 September 2017) and the status of progress with the annual audit plan as at 30 November 2017 (refer section 3.2 and Appendix 1, Tables 2 and 3).

1.1.7 Following a request for an update at Committee in November 2017, note the resourcing challenges currently affecting upon Internal Audit capacity and recognise their potential impact on delivery of the 2017/18 Internal Audit plan as detailed at 3.5 and Appendix 2.

1.1.18 Approve option 2 as the best approach to deliver the 2017/18 annual Internal Audit plan based on the options outlined at 3.5 below. This will involve purchasing additional days from PwC under the current co-source agreement to support delivery of the plan and an Internal Audit annual assurance opinion for 2017/18 based on an appropriate level of coverage of the Council's key risks. In doing to, note that this approach will incur additional, unplanned costs and the Executive Director, Resources has endorsed an additional spend of up to £100k to support this critical work.

## 2. 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 The status of progress against the plan and a summary of findings are presented to the Governance, Risk, and Best Value (GRBV) Committee for consideration on a quarterly basis.

## 3. Main report

3.1 **Internal Audit 2017/18 Plan Progress**

As at 30 September 2017 Internal Audit had issued a total of 6 final reports in the 2017/18 plan year, with 4 reports issued in quarter 2. These reports included 2 High; 4 Medium; 1 Low; and 1 Advisory rated recommendations. Further analysis is included at Appendix 1 (Table 1), with details of the High rated findings included at Appendix 2.

The main reason for the low volume of reports issued in the first half of the year reflects the time required to complete the thematic review performed across the Council's 10 care homes in quarters 1 and 2. This involved three team members and required circa 120 audit days.

Detailed outcome reports and management action plans have been issued to individual care homes and the overarching report that outlines the consolidated outcomes and findings was issued to Health and Social Care on 12 October with a request for management responses by 17 November.

Management responses have not yet been received from Health and Social Care. However, the Interim Chief Officer is progressing this with the management team.

3.2 **Referrals to and from the Edinburgh Integration Joint Board**

The review of Starters completed in quarter 2 could have a direct impact on the services delivered by the Health and Social Care Partnership. This report is therefore being recommended for referral by the Committee to the next meeting of the EIJB Audit and Risk Committee.

No reports were referred by the EIJB Audit and Risk Committee to GRBV at their meeting in September 2017.

3.3 **2017/18 Annual Plan Completion**

The position at 30 September 2017 left a balance of 37 audits (based on the rebased plan approved by GRBV at their meeting on 28 November) to be completed in the second half of the plan year. Progress with these audits as at 30 November is detailed below:

- 3 draft reports have been issued;

- 7 draft reports are currently being prepared for issue by Internal Audit;

- 6 audits are in progress;

- 21 audits have not yet started.  4 of these 21 audits are planned to be delivered by specialist PwC resources under the terms of the co-source agreement;

- A further 30 days of PwC generalist support is available in Quarter 4 as per the co-source agreement, which should support delivery of circa 2 audits; and

- This leaves a balance of circa 15 audits to be delivered by the Internal Audit team in comparison to 13 audits in Quarter 4 of the 2015/16 plan year.  Further analysis on whether this is achievable is presented to the Committee in addition to this paper.

Appendix 1 provides a summary of the audits completed and Findings raised (Table 1); a summary of work in progress at the end of the quarter (Table 2); and the status of progress with the Internal Audit 2017/18 annual plan as at 30th November (Table 3).

3.4   **Internal Audit capacity**

One of the two Internal Audit Principal Audit Manager roles has been vacant since August 2017. A second recruitment campaign later in the year was successful at filling the role.  The successful candidate is expected to join the team in April 2018, subject to the successful completion of pre-employment checks to a standard deemed satisfactory to the Council.

Whilst skilled temporary backfill resource was sourced from mid-August, this contractor left on 15 December to take up a permanent role outside the Council.

The importance of ensuring compliance with HM Revenue and Customs Intermediary Regulations (IR) 35 regulations for off-payroll workers has prevented allocation of ongoing management responsibilities to the temporary contractor (for example, review and oversight of audit work performed by the team and people management responsibilities).  This has also impacted delivery of the Internal Audit plan.

No suitable backfill resource has yet been identified from the labour market to cover the ongoing Principal Audit Manager vacancy for the period January to March 2018, therefore there will be a gap.

Additionally, absence due to ill-health within the team since the end of November has further impacted delivery of the plan.  This has been exacerbated by some audits taking longer than planned due to the amount of engagement required with service areas, and the time required to support implementation of the new monthly Internal Audit validation process.

Given these challenges and the need to ensure robust assurance for the Council's operations, the Executive Director of Resources has approved an increase in the Internal Audit team's establishment.  The addition of 2.0 full-time equivalent Senior Auditor roles, which are being recruited at present, will enable the internal delivery of general audits on a more cost-effective basis by reducing the generalist

resource provided by PwC under the existing co-source arrangements. It is expected that successful candidates will be in place for the start of the new financial year.

Given the resourcing issued detailed, further detail on the options to achieve full delivery of the internal audit plan for 2017/18 are detailed in the following section of the report.

3.5 **2017/18 Internal Audit Plan Delivery**

The resourcing challenges noted at 3.4 above have had a significant adverse impact on delivery of the rebased Internal Audit plan that was presented to and approved by the Committee in November 2017.

**Shortfall based on completion of the rebased IA plan approved in November 2017**

A further 611 days of Internal Audit activity is required to deliver and complete the plan by 31 March 2018 in comparison to 278 available days (from the Internal Audit team and PwC co-source contract), this leaves a shortfall of 333 days (or 8.5 FTE) to deliver the current plan (refer Appendix 2, Table 1).

**Proposals for removal of audits and audit activity**

9 audits / Internal Audit activities comprising 185 days have been identified that could be removed from the 2017/18 plan for early inclusion in the 2018/19 plan, if still considered high or medium risk. These include:

- Resources - Finance and Treasury – Travel (20 days)
- Communities and Families - Self Assurance Framework (20 days)
- Place - Waste Services (25 days)
- Place – Fleet Project (20 days)
- Resources – Enterprise Resource Planning (ERP) / Business World Project review (30 days)
- Cycling / Walking Safer Streets Grant (10 days) – there is no longer a requirement for Internal Audit to confirm appropriate disbursement of grant funds.
- Continuous Testing – fraud and key financial controls (20 days)
- Fraud Support – ongoing review of internal fraud cases that can be transferred to the corporate fraud team (10 days)
- Internal Audit - Quality Assurance review (30 days)

Further detail and supporting rationale supporting removal of these audits and activities from the plan is included at Appendix 2, Table 2.

**Revised shortfall position and available options**

Removal of these audits / activities reduces the shortfall position to 148 days or 3.8 FTE.

Options to address this shortfall include:

1. Approve removal of the audit activities outlined above to support delivery of the 2017/18 plan and remove a further 148 days of audit activity from the remainder of the plan to be delivered in quarter 4.  This would enable delivery of the plan to be delivered by the Council's Internal Audit team without additional cost, but would adversely impact provision of the annual Internal Audit assurance opinion over both the Council's and IJB's key risks, and audit services provided to third party arms-length organisations.

2. Approve removal of the audit activities outlined above to support delivery of the 2017/18 plan and draw down additional support from PwC to deliver the remainder of the plan. This additional spend is unplanned and not reflected in the 2017/18 Internal Audit budget.  The Executive Director of Resources has committed to fund up to £100k from the Directorate budget to enable this option to be viable.

The option of approving removal of the audit activities outlined above and recruiting external contract resource from the market to support plan delivery has been carefully considered and is not recommended as it is highly unlikely that this can be achieved in sufficient time to support effective plan delivery.

Option 2 is therefore recommended for the Committee's approval.

3.6 **Overdue Internal Audit Recommendations**

The current status of all overdue recommendations from reports issued prior to this period is discussed in the report 'Internal Audit follow-up arrangements: status report' presented separately to the Committee.

## 4. Measures of success

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

## 5. Financial impact

5.1 If option 2 (as detailed at 3.5) is approved, this will incur an additional unplanned costs of up to £100K that are not reflected in the current Internal Audit budget. Given the critical nature of this work and potential impact on the audit opinion, this additional spend has been approved by the Executive Director of Resources.

## 6. Risk, policy, compliance and governance impact

6.1    If the rebased Internal Audit plan is not fully delivered, there will be insufficient coverage of the Council's High and Medium rated risks, which could impact upon the 2017/18 Internal Audit opinion.

## 7. Equalities impact

7.1    No full ERIA is required.

## 8. Sustainability impact

8.1    None.

## 9. Consultation and engagement

9.1    None.

## 10. Background reading/external references

10.1    None.

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## 11. Appendices

**Appendix 1: Table 1:** Summary of Internal Audit reports issued and findings raised during Quarter 2 2017/18 (1 July 2017 – 30 September 2017)
**Table 2:** Summary of work in progress as at 30 September 2017

**Appendix 2:** Capacity to complete the 2017/18 Internal Audit plan as at 8 January 2018

**Appendix 3:** Summary of High Risk Findings and Management Actions for 1 July 2017 – 31 October 2017.

# Appendix 1

**Table 1: Summary of Internal Audit reports issued and findings raised during Quarter 2 2017/18 (1 July 2017 – 30 September 2017)**

| Internal Audit reports | | | | |
|---|---|---|---|---|
| **Title of Review** | **High Risk Findings** | **Medium Risk Findings** | **Low risk Findings** | **Advisory Comment** |
| Transfer of Management of Development Funding (MIS1702) | - | - | - | - |
| # Starters (RES1704) | 2 | 1 | - | - |
| Treasury Controls Design Review (RES1703) | - | 2 | - | 1 |
| Local Development Plan and Action Programme (PL1705) | 2 | 1 | 1 | - |
| *Total* | 4 | 4 | 1 | 1 |
| **No Audit reports have been referred to the Governance, Risk and Best Value Committee by the Edinburgh Integration Joint Board Audit and Risk Committee.** | | | | |
| **# These reports are recommended for referral to the Edinburgh Integration Join Board as they may have either a direct or indirect impact on the services delivered by the Edinburgh Health and Social Care Partnership.** | | | | |

**Table 2: Summary of work in progress as at 30 September 2017**

| Internal Audit reports | | |
|---|---|---|
| Title of Review | Start Date | Estimated Completion Date |
| Ross Bandstand Project Assurance Review (PR1701) | June | Final report issued October 2017 |
| Lothian Pension Fund – Information Governance (RES1705) | July | Final report issued October 2017 |
| Edinburgh Alcohol and Drug Partnership – Contract Management (HSC1715) | June | Final report issued November 2017 |
| Customer Transformation Project Assurance Review | July | Draft report issued – will be finalised by end January. |
| Lothian Pension Fund Business Continuity / Disaster Recovery | August | Final report issued December 2017. |
| Asset Management Strategy (RES1712) | September | Final report issued November 2017 |

| | | |
|---|---|---|
| Care Homes (HSC1701) | March – September | Thematic draft report was issued 12th October. Management responses have not yet been received from Health and Social Care. The Health and Social Care Interim Chief Officer is progressing this with the management team. |
| Benefits Realisation | September | Draft report being prepared |
| CCTV | September | Draft report being prepared |
| Project Assurance Review – St James | September | Draft report being prepared |
| Project Assurance Review – Zero Waste | September | Draft report being prepared |
| Lothian Pension Fund – Payroll Outsourcing | September | Draft report being prepared |
| Foster Care | September | Fieldwork |
| Records Management – St Katherines | September | Fieldwork |

## Table 3: Plan Status Summary as at 30 November 2017

| | |
|---|---|
| Audits to be completed by 31 March (per rebased plan approved by GRBV) | 37 |
| Draft reports issued | 3 |
| Draft reports in preparation | 7 |
| Audits in progress (fieldwork) | 6 |
| **Audits to be started** | **21** |
| Planned audits to be delivered by PwC Specialists | 4 |
| **Balance of audits to be delivered by CEC IA team by 31st March**<br><br>Note that 30 days general PwC resource is available for in Q4 as part of the co source arrangements (at no extra cost) which should be able to support delivery of circa 1.5 - 2 audits. | **17** |
| **Audits delivered in Q4 2015/16 (for comparison)** | **13** |

# Appendix 2 - Capacity to complete the rebased 2017/18 Internal Audit plan as at 8 January 2018

**Table 1: Calculation of shortfall to deliver the rebased 2017/18 plan**

| | Work Days to 31/3 | Annual Leave | Sickness | Available Days | Average Productive Rate | Available Days |
|---|---|---|---|---|---|---|
| Total IA Team Availability | 413 | 28 | 71 | 314 | 0.725 | 228 |
| Add PwC support - final tranche to be drawn down Q4 | | | | | | <u>50</u> |
| **Total Available days** | | | | | | **278** |
| **Days required to deliver balance of rebased 2017/18 plan** | | | | | | **611** |
| **Current shortfall (days) to deliver plan** | | | | | | **333** |
| **FTE Equivalent required to full 2017/18 rebased plan** | | | | | | **8.5** |
| **Reduction in plan days from audits proposed for cancellation** | | | | | | **185** |
| **Revised shortfall (days) to deliver remainder of 2017/18 rebased plan** | | | | | | **148** |
| **Revised FTE Equivalent to support delivery of plan if proposed cancellations are accepted** | | | | | | **3.8** |

## Table 2: Audits to be completed by 31 March 2018 as at 8 January 2018.

| Audit Title | Days required | Status | Comments |
|---|---|---|---|
| **Health and Social Care** | | | |
| Care Homes | 2 | Draft Report | Will complete end January 2018 |
| Centres – Reconciliations | 3 | Draft Report | Will complete end January 2018 |
| Care Inspectorate Report | 30 | Not started | Retain in plan as high risk. |
| **IJB** | | | |
| Purchasing Budget Management | 25 | Fieldwork | Included in rebased IJB plan approved December 2017. Will complete end February 2018 |
| Community Care Capacity and Access | 50 | Not started | Included in rebased IJB plan approved December 2017 – must be completed. |
| **Resources** | | | |
| Customer Transformation | 2 | Draft Report | Will complete end January 2018 |
| HR and Payroll - Drivers | 25 | Not started | Retain in plan as high risk. |
| CGI Contract Management and Cyber Maturity | 4 | Not started | Will be delivered by PwC specialists, but will require IA time and support |
| **Finance and Treasury - Travel** | **20** | **Not started** | **Propose remove from plan and include in 2018/19.** |
| **Safer and Stronger** | | | |
| CCTV Infrastructure | 2 | Draft Report | Will complete end January 2018 |
| **Communities and Families** | | | |
| Foster Care | 10 | Fieldwork | Will complete end February 2018 |
| **Self Assurance Framework** | **20** | **Not started** | **Propose remove from plan and include in 2018/19.** |
| **Lothian Pension Fund** | | | |
| Pension Tax | 20 | Fieldwork | Will complete end February 2018 |

| Audit Title | Days required | Status | Comments |
|---|---|---|---|
| **Place** | | | |
| St James project | 3 | Draft Report | Will complete end January 2018 |
| Zero Waste project | 3 | Draft Report | Will complete end January 2018 |
| Planning Control | 10 | Fieldwork | Will complete end January 2018 |
| Edinburgh Building Services | 10 | Fieldwork | Will complete end February 2018 |
| Edinburgh Roads Services | 30 | Planning | Will complete end February 2018 |
| Meadowbank Project | 20 | Not started | Retain in plan as high risk. |
| **Fleet Project** | **20** | **Not started** | **Propose remove from plan and include in 2018/19 as a Q1 audit.** |
| Health and Safety – Waste and Recycling | 4 | Not started | Will be delivered by PwC specialists, but will require IA time and support |
| **Waste Services** | **25** | **Not started** | **Propose remove from plan and include in 2018/19.** |
| **Strategy and Insight** | | | |
| Benefits Realisation | 2 | Draft Report | Will complete end January 2018 |
| Resilience | 20 | Planning | **Will complete by March 2018.** |
| **Council Wide** | | | |
| Phishing | 4 | Planning | Will be delivered by PwC specialists, but will require IA time and support. |
| **Business World** | **30** | **Not started** | **The Business World project is aligned to the delivery of the ICT Change Programme, which is the subject of a separate report to the committee. This audit is recommended to be removed from the 2017/18 plan and reinstated in the 2018/19 plan.** |

| Audit Title | Days required | Status | Comments |
|---|---|---|---|
| GDPR Readiness | 4 | Not started | Will be delivered by PwC specialists, but will require IA time and support. |
| Records Management – St Katherine's | 25 | Fieldwork | Completion date to be determined. |
| Validation of previously closed recommendations | 15 | Fieldwork | Addition to the plan in quarter 3. |

| Audit Title | Days required | Status | Comments |
|---|---|---|---|
| Follow-up | 30 | Ongoing | |
| **Other** | | | |
| Tattoo | 5 | Draft Report | One review performed per annum. |
| Port Authority Security | 5 | Fieldwork | Will complete end January 2018 |
| SesTran | 15 | Planning | One review performed per annum. |
| Lothian Valuation Joint Board | 15 | Not started | One review performed per annum. |
| **Cycling / Walking Safer Streets Grant** | **10** | **Not started** | **Remove from plan – there is no longer a requirement for IA sign off** |
| **Continuous Testing – fraud and key financial controls** | **20** | **Ongoing** | **Propose remove from plan and include in 2018/19.** |
| **Governance and Reporting** | | | |
| Preparation of annual plan | 15 | In Progress | |
| Corporate Governance – LVJB and Sestran | 3 | Ongoing | Corporate Governance support provided to arm's length organisations. |
| **Fraud Support** | **10** | **Ongoing** | **Propose remove from plan and transfer to corporate fraud team.** |
| GRBV reporting | 5 | Ongoing | |
| **Quality Assurance** | **30** | **Not started** | **Propose remove from plan and include in 2018/19.** |
| **Total days required to complete rebased plan** | **601** | | |

| | |
|---|---|
| **Total days from proposed cancelled assignments** | **185** |
| **Business World – may be delayed to 18/19** | **30** |

# *Appendix 3*

## *City of Edinburgh Council*

## Internal Audit

## Quarter 2 - Summary of High Risk Findings and Management Actions

## (1 July 2017 – 30 September 2017)

# Contents

# 1.  Starters (RES1704)

| | Critical | High | Medium | Low |
|---|---|---|---|---|
| **Total number of findings** | - | 2 | 1 | - |

**Background**

Statistics provided showed that between April 2016 and January 2017 there were 1596 new employees joining the Council. This included employees beginning casual, fixed term, permanent, supply and temporary contracts. Communities and Families employed the largest number at 900, with Place and Health and Social Care employing 219 and 215 respectively.

The Council aims to give all these new employees an understanding of how their work fits into the Council's work in the city, and the information and support they need to start in their new role. The Council also has a responsibility to ensure that new employees are familiar with core policies and procedures and have the tools and training they need to carry out their work successfully and safely.

This induction is expected to be concluded within 7 weeks of the employee starting in their post.

This review was included in the 2017/18 internal audit plan as a result the weaknesses identified from our review of the leaver's process in 2016/17. Fieldwork for this review highlighted areas of concern in the starter's process, specifically with regards to inventory control over the issue of ICT equipment to employees.

**Scope**

The scope of this review was to assess the design and operating effectiveness of the Council's controls relating to 'on boarding' and induction processes for new employees.

<u>**Summary of High Risk Findings**</u>

**1.  Record Management – On Boarding Files and Employment Contracts**

<u>Finding</u>

Manual 'on boarding' files are maintained in Waverley Court for all new starts until, a new employee account is created on the iTrent system; two payroll periods have passed; and an employment contract is generated. These manual on boarding files include sensitive personal data about prospective employees.

The current contract preparation process involves automated creation of contracts via a 'mail merge' process. Source data for the mail merge is a spreadsheet that is extracted from the iTrent system in Excel format and used as the basis of the mail merge

Review of the record management processes supporting on boarding and contract generation established that:

1. Nine of our requested sample of 46 manual 'on boarding' files could not be immediately located. It was noted that a further 3 files were located between completion of our testing and the time of writing this report. The missing 6 files is attributable to the fact that the record management and retention process for manual on boarding files is dated, incomplete and not consistently applied.

2. Review of a sample of 25 on boarding files identified 16 archived files that had been sent to Iron Mountain containing sensitive personal data such as bank details; PVG applications; criminal conviction questionnaires; and equal opportunities questionnaires. These documents should have been removed and destroyed prior to archiving, in line with the agreed process within the team and standard best practice.

3. There are no reconciliation controls in place between manual on boarding files and data recorded on the spreadsheet used as the basis for the 'mail merge' to ensure that the full population of contracts is produced; and

4. The newly introduced 'mail merge' process results in an inability to automatically upload employment contracts on employee iTrent accounts, or to generate manual / electronic copies of the contracts for retention. Evidence is not retained to confirm that all new starts have received their employment contract within 8 weeks of their start date.

**Business Implication**

- Breach of Data Protection legislative requirements and non compliance with the Council's Records Management Policy
- Breach of employment law requirement to issue full terms and conditions within 8 weeks of employee starting.
- Regulatory fines and penalties for breach of legislation.

**Recommendations**

1. Record management processes should be defined and implemented to ensure that manual files are managed, retained and archived in line with Data Protection legislation and the Council's Records Management Policy. This should include requirements for secure storage; recording of the location and transfer of all manual files and a process supporting either electronic or manual retention of employment contracts.

2. There is no mandatory requirement to destroy sensitive personal information prior to archiving however this approach, supported by retention of a completed checklist was confirmed as good practice by the Information Governance team. An investigation should be performed to establish the full population of missing files and ensure that they are located and either securely stored or archived.

3. A reconciliation should be performed to confirm that the 'mail merge' spreadsheet includes data from the full population of on boarding files to ensure that no contracts are missed.

| Agreed Management Actions | Target Date | Status |
|---|---|---|
| 1. Change in the storage procedure initiated with secure, central storage and indexed records, detailing location and where appropriate details of transfer of manual files to other 3rd parties (internally and Iron Mountain). | 31/07/17 | Closed |
| 2. A retrospective Compliance Project commences on 10/7/17 for 8 weeks to check all 18,500 personal files. Remedial action to be taken to identify any missing files and ensure securely filed in future. | 31/07/17 | Closed |

| | | |
|---|---|---|
| 3. Guidance from the home office recommends retention of some sensitive personal data which evidence right to work etc. This data will be required moving forward to evidence Council compliance with "Right to Work" legislation. Appropriate document retention will be agreed with Information Governance | 29/09/17 | Closed |
| 4. The 'mail merge' process for issuing contracts now includes a reconciliation of on boarding files to contracts issued. This is recorded and signed off for each cycle by TL. | 30/06/17 | Closed |

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

**2. Completeness and Accuracy of 'On Boarding' and Payroll Data**

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**Finding**

Whilst responsibilities for completion of new employee 'on boarding' process and contract generation is segregated between different sections within the team, there are no established technology controls to prevent a single officer from completing the end to end on boarding process, including creation of iTrent and payroll employee accounts.

Additionally, existing payroll exception reports will not identify variances in salaries between 'on boarding' documentation and salary details recorded on iTrent. There is a reliance on manual independent checks performed by Team Leaders to confirm that only authorised new start salary details have been completely and accurately recorded on the payroll system.

Customer Service Advisors review all files to ensure all required documents have been provided prior to making a formal offer of employment and 'on boarding' can be concluded. No additional independent sample testing is performed between 'on boarding' files and iTrent records to confirm that correct details have been entered either before or after the payroll run.

Review of manual 'on boarding' files for Council employees recruited between April 2016 and January 2017 demonstrated that the on-boarding process is not consistently and accurately performed. 100% of the 25 'on boarding' files sample failed due one or more of the following errors being identified:

1. One file did not include a mandatory vacancy e form. Recruitment and 'on boarding' had progressed with no evidence of formal confirmation of a vacancy from the authorised vacancy manager.
2. Three files contained unauthorised Nominated Candidate forms which should be signed as evidence of line manager approval to recruit the preferred candidate.
3. Four files contained checklists that had not been signed by the CSA or supervising officer to confirm that all necessary 'on boarding' documentation had been received.
4. For one employee there were differences in employment start date details between their Itrent system account and those noted on the file checklist, which could result in inaccurate calculation of initial salary.
5. Five files failed to state the Salary Scale point or banding for the post
6. One file showed a difference between the salary banding and Itrent, and
7. One file indicated that a 'Salary Placement' form was required but was not present

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**Business Implication**

- Addition of fictitious employees to the iTrent and payroll systems would not be identified.
- New employees receive incorrect salary payments.
- Weaknesses in references or missing right to work documents are not identified and addressed during the on boarding process.
- Customer Service Advisors training requirements and are not identified and resolved.

**Recommendations**

The 'On Boarding' process should be reviewed and updated to ensure it is performed consistently, accurately and robustly. Consideration should be given to ensuring the revised process includes the following controls;

1. Appropriate segregation of duties in relation to systems access rights.
2. Regular additional independent review of on boarding files prior to offer of employment to ensure that all mandatory forms are present and completed in full.
3. Independent check to ensure that iTrent and payroll accounts have been established accurately in accordance with information provided during the 'On boarding' process, including authorised Salary Placement Forms where a candidate is placed on a scale point higher than the base of the grade.

| **Agreed Management Actions** | **Target Date** | **Status** |
|---|---|---|
| The on boarding process will be updated: | 31/08/17 | Closed |
| 1. System cannot be configured to restrict access to specific elements of the end to end task. This will be built into the new Business World system configuration. To ensure appropriate interim controls, a manual check will be undertaken by Senior Transactions Administrators (these staff will have iTrent systems update access removed) to ensure tasks are undertaken by appropriate/restricted officers, supported by the necessary paperwork | | |
| 2. Files content will be reviewed by Senior Transaction Administrators to ensure accuracy and consistency. A full process of checks and procedures will be documented and signed off at Team Leader level for each transaction cycle. | 31/07/17 | Closed |
| 3. Newly created compliance team will undertake independent sample checks with recruiting managers to ensure new starts are known and correct | 29/09/17 | Closed |
| 4. An independent check to reconcile on boarded files to payroll new starts reports for each payroll cycle will be carried out and jointly countersigned by the Team Leaders in Payroll and Recruitment. Authorised salary placement forms will be part of the check. | 30/06/17 | Closed |

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

# 2. Local Development Plan and Action Programme (PL1705)

| | Critical | High | Medium | Low |
|---|---|---|---|---|
| **Total number of findings** | - | 2 | 1 | 1 |

**Background**

There is a statutory requirement (refer Part 2 (Development Plans) of the Planning etc.(Scotland) Act 2006) for each council in Scotland to prepare a local development plan (LDP). The LDP forecasts how communities will grow and develop during the next 10 years and includes policies that guide decisions on all planning applications. It provides certainty for communities and investors alike about where development should and should not take place and the supporting infrastructure required for growth.

There is also a statutory requirement (refer Section 21 of Part 2 (Development Plans) of the Planning etc. (Scotland) Act 2006) to prepare an Action Programme (AP) to support delivery of the LDP. The AP details the actions required to ensure delivery of the LDP. The Council has chosen to go beyond the statutory requirements and to use the AP as a corporate document to co-ordinate housing development proposals with the infrastructure and service requirements (such as schools and transport) needed to support them.

The first draft of LDP was published in March 2013 and was based on the regional Strategic Development Plan (SESplan) that was approved by Scottish Ministers (with changes in relation to increased housing requirements) in June 2013. These changes to SDP led to the development of the second proposed LDP in June 2014. Representations were accepted from August to October 2014, and the plan was submitted to Scottish Ministers in June 2015, with modifications received in June 2016. These modifications were incorporated into the revised plan that was formally adopted by the full Council on 24 November 2016, with the AP formally adopted by the Planning Committee on 8 December 2016.The risks associated with the LDP and its Action Programme are significant in terms of finance, reputation, and the Council's performance in relation to its statutory duties as Planning, Roads and Education Authority.

**Scope**

The scope of this review was to assess the design and operating effectiveness of the Council's framework and controls over the development, approval and delivery of the LDP and AP.

**<u>Summary of High Risk Findings</u>**

**1. Local Development and Action Plan governance arrangements**

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**<u>Finding</u>**

Separate governance structures were established to support development of both the LDP and supporting AP. Our review of these governance arrangements established that:

1. LDP governance arrangements were documented in the LDP project initiation document, dated April 2010. The LDP was adopted in November 2016 however the governance arrangements were not revisited or reviewed during this period to confirm that they remained appropriate.

2. Meeting frequency – The AP Board and Oversight group should meet monthly and quarterly respectively. No AP Board meetings were held between Jan 2016 - May 2016 and Dec 2016 - Jan 2017. The AP Oversight Group only met twice during 2015 (March and July). The LDP Steering Group is designed to meet once in two months but no meetings were held between January and May 2016. The rationale for missing these meetings was not documented.

3. Management Information – No defined Management Information (MI) was provided to either LDP or AP governance forums to enable progress tracking and inform decision making, with the exception of the risk register submitted to LDP Steering Group meetings. For all LDP and AP governance forums, updates were verbally discussed in the meeting and then documented in the minutes.

4. Risk Registers - Review of LDP and AP risk registers and governance meeting minutes established that:

   - LDP governance arrangements specified that the risk register should be updated prior to each Steering Group meeting to enable a focussed discussion on risks. Review of a sample of 4 meetings established that the risk register had not been updated prior to the October and December 2016 meetings, and that the August 2016 meeting minutes include no evidence of a risk register discussion.

   - The last LDP Steering Group meeting was held on 12 December 2016 following adoption of the LDP by the Council in November 2016, however, the LDP risk register has not yet been closed down and outstanding actions / unresolved risks were not transferred across to the AP governance framework.

   - The AP risk register was created in April 2016 but was not reviewed or approved by either the Head of Planning or the AP governance forums.

5. Issues and Dependencies that could impact development of the LDP and AP were not recorded and reported to governance forums.

6. Communication between LDP and AP Governance Forums - No formal arrangements were established between LDP and AP governance forums to ensure that information regarding the decisions made in these forums and their potential impacts was shared. Instead, knowledge sharing was based on the working knowledge and relationships among Planning team members.

7. LDP steering group progress tracking - Tracking progress of previous meeting's action points is a standing agenda item for the LDP steering group. Review of 2 meetings held in September and December 2015 noted that action points from the previous meeting had not been tracked.

8. Stakeholder Engagement and Communication – No communication strategy or plan was developed and presented to LDP and AP governance forums detailing the Council's approach to engage with relevant stakeholders.

**Business Implication**

- Delayed or ineffective decision making.

- Lack of alignment between LDP and AP.

- Crystallisation of risks, issues and dependencies that have not been identified and managed that could impact on or delay completion of the LDP and AP.

- Delayed completion / finalisation of LDP and AP where action points are not addressed in a timely manner.

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|---|---|
| • Potential risk that stakeholders are not consulted or engaged when required. | |

**Recommendations**

The following recommendations should be considered for implementation now (where appropriate) to ensure effective implementation of Action Programmes, and to support development of the next LDP. Planning to support development of the next LDP is due to commence in December 2017 – the target for an agreed project plan is March 2018.

1. Governance arrangements should be reviewed on an annual basis by the chair and members of steering group during to confirm that they remain appropriate. Any change required as part of developments/changes in project should be reflected in its governance arrangements.
2. If a governance meeting is not required, the rationale for cancelling the meeting should be documented.
3. Roles, responsibilities and expectations regarding quality and timelines for deliverables should be formally clarified for all Service Areas involved in the LDP and AP process.
4. The Chair and the members of LDP and AP governance forums should specify the management information and reports to be presented at each meeting to support their oversight and decision making.
5. A risks, issues and dependencies register should be created, regularly updated and discussed at appropriate governance forum to ensure that all risks, issues and dependencies have been identified and are being managed.
6. The LDP risk register should be reviewed to confirm whether all outstanding risks have been addressed. Any risks not yet addressed should be transferred to the relevant AP governance forum for resolution. The AP risk register will also be reviewed, updated, presented and discussed at the appropriate AP governance forums.
7. Governance forums should maintain a list of open actions that are tracked with their resolutions discussed at subsequent meetings.
8. All key stakeholders should be identified and a long term communications plan or strategy defined, approved by governance forums and implemented. This should outline the approach and frequency of engagement with the key stakeholders identified.

| **Agreed Management Actions** | **Target Date** | **Status** |
|---|---|---|
| 1. Review the LDP risk register at the next relevant governance meeting to confirm that risks have either been addressed or will be transferred across into AP. | 31/10/17 | Validation |
| 2. Agree project plan for LDP 2 project which implements above recommendations. | 30/03/18 | Open |
| 3. Action Programme – review governance arrangements, agree Management Information, prepare and agree Risk, Issues and Dependency Register, agree Communications Plan. | 30/03/18 | Open |

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

**2. Financial Modelling**

<u>**Finding**</u>

Development costs for healthcare and transport infrastructure requirements were prepared by NHS Lothian and the Council's transport service area respectively. The healthcare costs were not independently reviewed and assessed by the Council, and no granular detail is available to support calculation of the transport costs.

Whilst potential funding LDP funding gaps had been highlighted to the Finance and Resources Committee in January and August 2015, financial modelling to determine and quantify the level of funding required to support infrastructure investment was completed in April 2017. Outcomes from the modelling process were presented in draft to the LDP Oversight Group in June 2017, six months after approval and publication of the LDP and supporting APs in December 2016 and highlighted a total funding requirement of £148M over the ten year lifespan of the LDP (after accounting for potential developer contributions).

Whilst there is no regulatory requirement to confirm that funding is available prior to publication of the LDP as per the Planning etc. (Scotland) Act 2006, it would be beneficial to understand potential LDP funding gaps prior to publication. or plan was developed and presented to LDP and AP governance forums detailing the Council's approach to engage with relevant stakeholders.

<u>**Business Implication**</u>

Inability to source funding to support implementation of the infrastructure proposals included in the published LDP

<u>**Recommendations**</u>

1. Costs supporting LDP infrastructure proposals should be reviewed, challenged and approved by the relevant LDP and AP governance forums prior to commencement of financial modelling.
2. Funding gaps identified should be escalated to CLT and the Finance and Resources Committee together with proposals to source the funding required.
3. For the next LDP, financial modelling should be performed in conjunction with LDP/AP development, and (if statutory timeframes permit) the funding plan

| <u>**Agreed Management Actions**</u> | <u>**Target Date**</u> | <u>**Status**</u> |
|---|---|---|
| 1. Challenge of infrastructure proposals will be performed at the LDP Action Programme oversight group. | 30/03/18 | Open |
| 2. Complete and agree Financial Model of 2018 LDP Action Programme | 30/03/18 | Open |
| 3. Annual Report to CLT and F&R Committees | 30/03/18 | Open |
| 4. Prepare update to Financial Model in line with next LDP project plan. | 30/03/18 | Open |

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