Notice of meeting and agenda

Governance, Risk and Best Value Committee

10:00am, Tuesday, 25 September 2018

Dean of Guild Court Room, City Chambers, High Street, Edinburgh

This is a public meeting and members of the public are welcome to attend

Contact –

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1. Order of Business

1.1 Including any notices of motion and any other items of business submitted as urgent for consideration at the meeting.

2. Declarations of Interest

2.1 Members should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.

3. Deputations

3.1 If any

4. Minutes

4.1 Minute of the Governance, Risk and Best Value Committee of 28 August 2018 – submitted for approval as a correct record (circulated)

5. Outstanding Actions

5.1 Outstanding Actions – 25 September 2018 (circulated)

6. Work Programme

6.1 Governance, Risk and Best Value Work Programme – 25 September 2018 (circulated)

7. Reports

7.1 Internal Audit Update Report: as at 31 August 2018 – report by the Executive Director of Resources (circulated)

7.2 Internal Audit: Overdue Findings and Late Management Responses as at 31 August 2018 – report by the Executive Director of Resources (circulated)

7.3 Internal Audit Reports – Drivers Health and Safety and Resilience – report by the Executive Director of Resources (circulated)

7.4 City of Edinburgh Council – 2017/18 Annual Audit Report to the Council and the Controller of Audit – report by the Chief Executive and the Executive Director of Resources (circulated – Appendix 2 to follow)

7.5 Looked After Children – Transformation Programme Progress Report – referral from the Education, Children and Families Committee (circulated)

8.   Motions

8.1   None.

Laurence Rockey

Head of Strategy and Insight

Committee Members

Councillors Mowat (Convener), Main (Vice-Convener), Bird, Jim Campbell, Doggart, Howie, Key, Lang, Munro, Rae and Watt.

Information about the Governance, Risk and Best Value Committee

The Governance, Risk and Best Value Committee consists of 11 Councillors appointed by the City of Edinburgh Council. The Governance, Risk and Best Value Committee usually meet every four weeks in the City Chambers, High Street in Edinburgh. There is a seated public gallery and the meeting is open to all members of the public.

Further information

If you have any questions about the agenda or meeting arrangements, please contact Gavin King, Strategy and Insight, City of Edinburgh Council, Waverley Court, Business Centre 2.1, Edinburgh EH8 8BG, Tel 0131 529 4239, e-mail gavin.king@edinburgh.gov.uk

A copy of the agenda and papers for this meeting will be available for inspection prior to the meeting at the main reception office, City Chambers, High Street, Edinburgh.

The agenda, minutes and public reports for this meeting and all the main Council committees can be viewed online by going to www.edinburgh.gov.uk/cpol.

For remaining items of business likely to be considered in private, see separate agenda.

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Any information presented by individuals to the Council at a meeting, in a deputation or otherwise, in addition to forming part of a webcast that will be held as a historical record, will also be held and used by the Council in connection with the relevant matter until that matter is decided or otherwise resolved (including any potential appeals and other connected processes). Thereafter, that information will continue to be held as part of the historical record in accordance with the paragraphs above.

If you have any queries regarding this, and, in particular, if you believe that use and/or storage of any particular information would cause, or be likely to cause, substantial damage or distress to any individual, please contact Committee Services (committee.services@edinburgh.gov.uk).

Item 4.1 - Minutes

Governance, Risk and Best Value Committee

10.00am, Tuesday, 28 August 2018

Present

Councillors Mowat (Convener), Main (Vice-Convener), Bird, Jim Campbell, Doggart, Howie, Lang, Munro, Rae and Watt.

1.   Minute

Decision

To approve the minute of 31 July 2018 as a correct record.

2.   Outstanding Actions

Details were provided on the outstanding actions arising from decisions taken by the Committee.

Decision

1)   To agree to close the following Actions:

    Action 1 – Committee Report Process

    Action 9 – Spot-checking on the Dissemination of Council Policies

    Action 10(2) – Internal Audit Quarterly Update Report Q3 (1 October – 31 December 2017)

    Action 11 – Internal Audit Report – Building Standards March 2018

    Action 15 – Reports Presented to Council and Committees

    Action 17 – Internal Audit Update Report – 1 January to 31 July 2018

2)   To agree to add the following action from the 31 July 2018 Committee:

    "To ask the Chief Executive to submit a report to the Edinburgh Partnership on workforce planning."

3)   To ask the Chief Officer to provide an expected completion date for Action 3 – Home Care and Re-ablement Service Contact Time.

4)   To otherwise note the outstanding actions.

(Reference – Outstanding Actions – 28 August 2018, submitted.)

3.   Work Programme

Decision

1)   To agree that the expected date for Action 30 – "Other ALEOs to be confirmed" – would be added to the Work Programme by the next meeting.

2)   To otherwise note the Work Programme.

(Reference – Governance, Risk and Best Value Committee Work Programme – 28 August 2018, submitted.)

4.   Revenue Monitoring 2017/18 – Outturn Report

The Finance and Resources Committee had referred a report which set out the provisional 2017/18 revenue outturn position for the Council based on the unaudited financial statements to the Governance, Risk and Best Value Committee for consideration as part of its work programme.

Decision

1)   To note the report by the Executive Director of Resources.

2)   To request a briefing note on the work undertaken to ensure uptake of the Council Tax Reduction Scheme.

3)   To note that spend, with full breakdown, in relation to the remaining £1.836m which had been set aside within the Council Priorities Fund would be reported to the appropriate committee(s).

(References – Finance and Resources Committee, 16 August 2018 (item 5); report by the Executive Director of Resources, submitted.)

5.   Revenue Monitoring 2018/19 – Month Three Position

The Finance and Resources Committee had referred a report, which set out the projected revenue budget position for the year based on analysis of period two data, to the Governance, Risk and Best Value Committee for consideration as part of its work programme.

Decision

1)   To note the report by the Executive Director of Resources.

2)   To agree that the forthcoming Boroughmuir High School - Lessons Learnt report would include lessons learnt from the use and costs of energy.

(References – Finance and Resources Committee, 16 August 2018 (item 6); report by the Executive Director of Resources, submitted.)

6.   Capital Monitoring 2017/18 – Outturn and Receipts

The Finance and Resources Committee had referred a report which detailed the final outturn on the Council's Capital Programme for 2017/18, including details of capital receipts and slippage/acceleration on projects within the Capital Investment Programme, to the Governance, Risk and Best Value Committee for consideration as part of its work programme.

Decision

1)   To note the report by the Executive Director of Resources.

2)   To agree that officers would consider how best to lay out future versions of the report.

(References – Finance and Resources Committee, 16 August 2018 (item 7); report by the Executive Director of Resources, submitted.)

7.   Capital Monitoring 2018/19 – Month Three Position

The Finance and Resources Committee had referred a report which outlined the overall position of the Council's capital budget at the three-month position (based on month two data) and the projected outturn for the year to the Governance, Risk and Best Value Committee for consideration as part of its work programme.

Decision

To note the report by the Executive Director of Resources.

(References – Finance and Resources Committee, 16 August 2018 (item 8); report by the Executive Director of Resources, submitted.)

8.   Treasury Management – Annual Report 2017/18

The Finance and Resources Committee, and subsequently the City of Edinburgh Council, had considered a report on Treasury Management activity in 2017/18. The report was referred by the City of Edinburgh Council to the Governance, Risk and Best Value Committee for scrutiny.

Decision

To note the report by the Executive Director of Resources.

(References – Act of Council No. 10, 23 August 2018; Finance and Resources Committee, 16 August 2018 (item 13); report by the Executive Director of Resources, submitted.)

9. External Audit Review of Internal Financial Controls 2017/18

Details were provided of the 2017/18 external audit review of internal financial controls, which concluded that, whilst opportunities for further improvement existed and that there was a need, in some cases, to embed previous recommendations, the controls assessed were considered to be well-designed.

Decision

1)   To note the findings of the 2017/18 external review of the effectiveness of the Council's internal controls.

2)   To note that a further update on progress in implementation of the improvement actions would be provided to the Committee in January 2019.

(Reference – report by the Executive Director of Resources, submitted.)

10. Corporate Leadership Team Risk Update

An update was provided on the Council's top risks and the key controls in place to mitigate them as at 3 August 2018. These risks and the associated controls had previously been scrutinised and challenged by the Corporate Leadership Team and were presented for oversight and review.

Decision

To note the Corporate Leadership Team Risk Update and the assurance provided by the risk management framework, controls and mitigations in operation.

(References – Governance, Risk and Best Value Committee, 8 May 2018 (item 8); report by the Executive Director of Resources, submitted.)

11. Internal Audit: Capacity to Deliver the 2018/19 Internal Audit Plan

Details were provided of the capacity of Internal Audit (IA) to deliver the 2018/19 IA plan by 31 March 2019, as requested by Committee on 31 July 2018.

Decision

1)   To note that there was a current estimated shortfall in Internal Audit capacity of approximately 239 days (3 FTE) to deliver the full 2018/19 Internal Audit plan by 31 March 2019.

2)   To note that the contingency included in the plan had been fully utilised.

3)   To note that a further update on Internal Audit capacity to deliver the plan would be provided by December 2018.

(Reference – report by the Executive Director of Resources, submitted.)

12. Internal Audit: Proposed Process for Approving Changes to the Internal Audit Plan

The proposed process was set out for considering and approving (or rejecting) both routine and urgent change requests relating to the Internal Audit annual plan, which focused on the Council's most significant risks.

Decision

1) To approve the proposed process for considering and approving (or rejecting) routine and urgent requests for changes to the annual Internal Audit plan.

2) To note that this process would be included as an appendix to the Internal Audit Charter approved by the Committee in March 2018.

(Reference – report by the Executive Director of Resources, submitted.)

13. Internal Audit: Review of General Data Protection Regulation (GDPR) Readiness Programme

The outcomes of the Internal Audit (IA) review of the Council's General Data Protection Regulations (GDPR) Readiness Programme were presented.

Decision

1) To note the outcomes of the GDPR Readiness Programme internal audit review.

2) To note the Council wide potential GDPR risks associated with Information Governance Unit (IGU) resourcing levels.

3) To note that the Corporate Leadership Team would review the adequacy of IGU resource allocation as part of the change strategy and financial planning arrangements, scheduled for September 2018.

(Reference – report by the Executive Director of Resources, submitted.)

14. Internal Audit Opinion and Annual Report for the Year Ended 31 March 2018

The Corporate Policy and Strategy Committee had referred a decision back to Committee on Internal Audit's annual opinion for the City of Edinburgh Council for the year ended 31 March 2018.

Decision

To note the decision of the Corporate Policy and Strategy Committee.

(References – Governance, Risk and Best Value Committee, 31 July 2018 (item 4); Corporate Policy and Strategy Committee, 7 August 2018 (item 20); referral from the Corporate Policy and Strategy Committee, submitted.)

15. Planning and Building Standards Improvement Plans

The Planning Committee had referred a report on the progress made on the Planning and Building Standards Improvement Plans.

Decision

1) To note the report by the Executive Director of Place.

2) To agree that future versions of the report would include overall numbers in addition to the percentages.

(Reference – referral from the Planning Committee, submitted.)

16. Improving the Implementation of Council Decision Making

Following the report to Committee in October 2017 on the dissemination of Council policies, details were provided of the strategic approach to the implementation of Council decisions and the assurance process to ensure successful implementation.

Decision

1) To agree the approach set out in the report by the Chief Executive.

2) To agree to a follow up report providing an update on the activity proposed in early 2019.

(Reference – Governance, Risk and Best Value Committee, 31 October 2018 (item 5); report by the Chief Executive, submitted.)

17. Committee Reporting

On 31 May 2018 the Council agreed a motion by Councillor Doggart exploring the number of reports presented to Council and all committees within the current Council term. Details were provided to Committee along with measures to improve committee reporting, including the possible implementation of a committee management system.

Decision

1) To note the report by the Chief Executive and the steps being taken to improve the overall committee reporting process.

2) To request a report by the end of 2019 to monitor the impact of the steps taken to improve the process.

(References – Act of Council No. 17, 31 May 2018; report by the Chief Executive, submitted.)

18. Accounts Commission – Council's Use of Arms-Length Organisations

Following Audit Scotland's performance audit of Scottish councils' use of arms-length external organisations (ALEOs) between summer 2017 and spring 2018, details were provided on the Council's use of ALEOs, how they were overseen, what they were achieving and their future direction.

Decision

1) To note the report by the Chief Executive.

2) To refer the report to the Corporate Policy & Strategy Committee for its consideration, in particular whether elected members should be on the boards of ALEOs.

(Reference – report by the Chief Executive, submitted.)

19. Whistleblowing Update

An overview was provided of the operation of the Council's whistleblowing service for the period 1 April to 30 June 2018.

Decision

1) To note the report by the Chief Executive.

2) To agree that future reports would include benchmarking comparisons to other large organisations.

(References – Finance and Resources Committee, 27 March 2018 (item 12); report by the Chief Executive, submitted.)

20. Implementation of Garden Waste Charge – Motion by Councillor Jim Campbell

The following motion by Councillor Jim Campbell was submitted in terms of Standing Order 16:

"Committee requests within one cycle a report from the Chief Internal Auditor on the implementation of the Garden Waste Charge, to understand what worked well and where lessons can be learned."

- Moved by Councillor Jim Campbell, seconded by Councillor Doggart.

Decision

To approve the motion by Councillor Jim Campbell, as adjusted:

"Committee requests within one cycle a report from the Chief Internal Auditor to the Transport and Environment Committee on the implementation of the Garden Waste Charge, to understand what worked well and where lessons can be learned."

21.   Princes Street Gardens – Motion by Councillor Mowat

The following motion by Councillor Mowat was submitted in terms of Standing Order 16:

"Committee

Recognises the concern expressed by many in Edinburgh regarding the hoardings that appeared around Princes Street Gardens to facilitate the Summer Sessions events which changed a public space into a private space during the busiest time of the year reducing amenity for residents and visitors to the City and in order to better understand how this happened requests a report in one cycle detailing:

- the process followed to let the contract to hold the event and how the event was approved
- the process followed to agree the use of the hoardings including advice taken and who made the final decision"

- Moved by Councillor Mowat, seconded by Councillor Doggart.

Decision

To approve the motion by Councillor Mowat, as adjusted:

"Committee:

Recognises the concern expressed by many in Edinburgh regarding the hoardings that appeared around Princes Street Gardens to facilitate the Summer Sessions events which changed a public space into a private space during the busiest time of the year reducing amenity for residents and visitors to the City and in order to better understand how this happened requests that the forthcoming report on "Managing the Festival City" to the Culture and Communities Committee in November 2018 covers:

- The process followed to let the contract to hold the event and how the event was approved.
- The process followed to agree the use of the hoardings including advice taken and who made the final decision."

22.   Resolution to Consider in Private

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the following item of business on the grounds that it involved the disclosure of exempt information as defined in paragraph 14 of Part 1 of Schedule 7(A) of the Act.

23.   Whistleblowing: Monitoring Report

Details were provided of the disclosures received and investigation outcome reports completed during the period 1 April to 30 June 2018.

Decision

To note the report by the Chief Executive.

(Reference – report by the Chief Executive, submitted.)

Governance, Risk and Best Value Committee

September 2018

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
1	26/09/16	Corporate Leadership Team Risk Update	To request that progress reports on the additional precautionary surveys currently being undertaken in buildings sharing similar design features to those of the PPP1 schools, would be referred to the Governance, Risk and Best Value Committee for scrutiny.	Executive Director of Resources	December 2018		A report was submitted to the Corporate Policy and Strategy Committee in December 2017 who have called for a further update in 12 months.

The update report will then be referred to this Committee. |

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
2	24/10/16	Home Care and Re-ablement Service Contact Time	To request an update report 6 months after the implementation of the new ICT system for shift allocation.	Chief Officer, Edinburgh Health and Social Care Partnership	31 March 2019		A project is currently underway to look at short term interventions to increase efficiency and contact time within the internal Home Care and Reablement service. This will consider issues such as sickness absence management, mobile working technology, improved management information and efficiency of travel.

The replacement of the existing shift/resource allocation system has been placed on |
| | 29/09/17 | | To ask the Chief Officer, Edinburgh Health and Social Care Partnership to provide an update on why the new ICT system for shift allocation was not implemented earlier in the year | Chief Officer, Edinburgh Health and Social Care Partnership | 31 March 2019 | | |

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							hold pending a wider consideration of the ICT strategy for the Partnership and the wide variety of systems currently utilised within the Partnership. An outline business case is in development for the replacement of the existing Swift system. Any replacement for our shift allocation system would need to interface effectively with the replacement for Swift.
3	20.04.2017	Governance of Major Projects: progress report	1) To note the review underway for how change was reported and managed across the Council which will	Chief Executive	February 2018	20 February 2018	1) **CLOSED**

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			also include strengthening of governance arrangements around project and programme delivery. This would be reported to the Governance, Risk and Best Value Committee with developed proposals in the next reporting period.				
			2) To request that members of Governance, Risk and Best Value Committee have input into the scope of the lessons learned report to be drafted on the New Boroughmuir High School and that this report was referred to the Governance, Risk and Best Value Committee following		November 2018		2) **UPDATE <u>10 August 2018</u>** A report is to be submitted to the Education, Children and Families Committee in October 2018 which will then be referred to this Committee. <u>**8 May 2018**</u> To ask the Executive Director

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			consideration at the Education, Children and Families Committee. 3) To request communication with teachers, parents and parent councils on the progress with WIFI provision in schools.		 June 2017	 June 2017	for Communities and Families to set up a workshop for members to enable them to contribute to the scoping of the lessons learned report 3) **CLOSED** The Chief Information Officer/Head of ICT has met with the Parent Council of JGHS to update them on the progress of WiFi in the school
4	01/08/2017	Governance, Risk and Best Value Work Programme – 1 August 2017	To note an investigation report on retention of case records would be reported to the appropriate committee and a timescale for this would	Executive Director for Communities and Families	January 2019		The internal auditor's investigation is still ongoing therefore it may take a few months before an

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			be provided as soon as possible.				update is provided. The Executive Director for Communities and Families will provide an update once the Chief Internal Auditor's investigation is concluded. The final audit report would be referred from the Corporate Policy and Strategy Committee to GRBV.
5	01/08/2017	Employee Engagement Update 2017	To request the action plan drafted following the 2017 employee survey was reported to GRBV for scrutiny and approval prior to implementation	Chief Executive	September 2018		The report will be provided following completion of the employee survey which is due to commence in March 2018 and

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							following an analysis and reporting of the results an action plan will be developed and reported to committee to address the results. **UPDATE** The employee survey closed at the end of June 2018 and the results are currently being analysed.
6	26/09/2017	Internal Audit: Overdue Recommendations and Late Management Responses	1) To request an update on: a) the progress of actions due to close in September. b) Mortuary	Chief Internal Auditor	October 2017	October 2017	1) **CLOSED**

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			Services 2) To request a scoping report with proposals to address the outstanding actions for Health and Social Care back to GRBV with an appendix highlighting who is responsible for each area.	Chief Officer, Edinburgh Health and Social Care Partnership	October 2018		2) Following discussion with the Chief Officer, Edinburgh Health and Social Care Partnership, it has been agreed that overdue H&SC recommendations will be reviewed in conjunction with the findings of the IJB H&SC purchasing budget audit that is due to complete by 31 March 2018. It

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
							is expected that the emerging findings from this review will replace a number of the historic overdue findings.
7	26/09/2017	Principles to Govern the Working Relationships between the City of Edinburgh Council Governance, Risk and Best Value Committee and the Edinburgh Integrated Joint Board Audit and Risk Committee	To accept the high-level principles subject to further information on how elected members could best engage with the process.	Chief Internal Auditor	27 November 2018		An update will be provided to Committee in August 2018 on how elected members can best engage with the process.

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
8	20/03/18	Internal Audit Quarterly Update Report Quarter 3 – (1 October – 31 December 2017)	1) To circulate performance information in regard to third party suppliers for Adult Drug and Alcohol services to members for information.	Chief Officer, Edinburgh Health and Social Care Partnership	November 2018		
			2) To ask that Internal Audit provide a future update on GDPR readiness.	Chief Internal Auditor	28 August 2018		**CLOSED**
			3) To ask for a report on the Edinburgh Alcohol and Drug Partnership governance and reporting arrangements and that that report be referred on to the Edinburgh Alcohol	Chief Social Work Officer/Head of Safer and Stronger communities	May 2018	8 May 2018	**CLOSED**

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			and Drug Partnership.				
9	05/06/18	Internal Audit Report - Housing Property Follow Up - May 2018	To ask the Executive Director of Place to provide updated information on gas inspection records.	Executive Director of Place	Awaiting update		**UPDATED** **10 August 2018** A briefing note for members has been prepared and will be circulated in advance of Committee
10	05/06/18	Complaints Management - Update	1) To ask the Chief Executive for a briefing note on the reasons for the increase in the timescales for handling complaints. 2) To ask the Executive Director of Place for a briefing note on how the	Chief Executive Executive Director of Place	August 2018 August 2018		**Recommended for closure** – briefing note circulated on 19 September 2018

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
			improvement to waste service complaints had been achieved and what had still to be done.				
11	05/06/18	Change Portfolio	To ask for a report on the Asset Management Strategy Programme Dashboard following a report on the matter being considered by the Finance and Resources Committee	Executive Director of Resources	October 2018		The Asset Management Strategy Transformation Programme – Update' report will be considered at F&R on 27 September and there is a recommendation to refer this report to GRBV. This will be considered at GRBV in October.
12	31/07/18	Internal Audit Opinion and	To request that each Director bring forward a	Chief Executive and all			**9 August 2018**

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
		Annual Report for the Year Ended 31 March 2018	plan on how they will strengthen the control environment within their Directorate and in future include reference to this within each Director's assurance statement.	Executive Directors			Committee Services are co-ordinating with Directorates for date for the presentation of the plans
13	31/07/18	Licensing Forum - Update on Review of Constitution and Membership	To note the progress made on reviewing the appointment process and constitution, with a revised process and constitution to be submitted to the City of Edinburgh Council for approval.	Executive Director of Place	October 2018		
14	31/07/18	Expansion of Early Learning and Childcare from 600 – 1140 hours by 2020. Audit Scotland Report and Risks	To ask the Chief Executive to submit a report to the Edinburgh Partnership on workforce planning.	Chief Executive	Awaiting update		

No	Date	Report Title	Action	Action Owner	Expected completion date	Actual completion date	Comments
15	28/08/18	Revenue Monitoring 2017/18 – Outturn Report	To request a briefing note on the work undertaken to ensure uptake of the Council Tax Reduction Scheme.	Executive Director of Resources	Awaiting update		**11 September 2018** Meeting arranged with Councillor Lang for 20 September to discuss the benefit query. Following the meeting, a briefing note will be prepared as required.
16	28/08/18	Committee Reporting	To request a report by the end of 2019 to monitor the impact of the steps taken to improve the process.	Chief Executive	End of 2019		

Governance, Risk and Best Value Committee

	Title / description	Sub section	Purpose/Reason	Category or type	Lead officer	Stakeholders	Progress updates	Expected date
Section A – Regular Audit Items								
1	Internal Audit: Overdue Recommendations and Late Management Responses		Paper outlines previous issues with follow up of internal audit recommendations, and an overview of the revised process within internal audit to follow up recommendations, including the role of CLG and the Committee	Internal Audit	Chief Internal Auditor	Council Wide	Quarterly	25 September 2018 15 January 2019 7 May 2019
2	Internal Audit Quarterly Activity Report		Review of quarterly IA activity with focus on high and medium risk findings to allow committee to challenge and request to see further detail on findings or to question relevant officers about findings	Internal Audit	Chief Internal Auditor	Council Wide	Quarterly	25 September 2018 15 January 2019 7 May 2019

3	IA Annual Report for the Year		Review of annual IA activity with overall IA opinion on governance framework of the Council for consideration and challenge by Committee	Internal Audit	Chief Internal Auditor	Council Wide	Annually	July 2019
4	IA Audit Plan for the year		Presentation of Risk Based Internal Audit Plan for approval by Committee	Internal Audit	Chief Internal Auditor	Council Wide	Annually	20 March 2019
5	Accounts Commission	Annual report	Local Government in Scotland: Financial Overview	External Audit	Executive Director of Resources	Council Wide	Annually	January 2019
6	Accounts Commission	Annual report	Local Government in Scotland: Performance and Challenges	External Audit	Executive Director of Resources	Council Wide	Annually	August 2019
7	Annual Audit Plan	Scott Moncrieff	Annual audit plan	External Audit	Executive Director of Resources	Council Wide	Annually	March 2019
8	Annual ISA 260 Audit Report	Scott Moncrieff	Annual Audit Report	External Audit	Executive Director of Resources	Council Wide	Annually	25 September 2018 September 2019
9	Interim Audit Report	Scott Moncrieff	Interim audit report on Council wide internal financial control framework	External Audit	Executive Director of Resources	Council Wide	Annually	August 2019

10	IT Audit Report	Scott Moncrieff	Scope agreed during annual external audit planning cycle	External Audit	Executive Director of Resources	Council Wide	Annually	October 2018
11	Audit Charter			External Audit	Executive Director of Resources	Council Wide		March 2019

Section B – Scrutiny Items

12	Governance of Major Projects	TBC	To ensure major projects undertaken by the Council were being adequately project managed	Major Project	Chief Executive	All		November 2018
13	Welfare Reform	Review	Regular update reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	March 2019
14	Review of CLT Risk Scrutiny	Risk	Quarterly review of CLT's scrutiny of risk	Risk Management	Chief Executive	Council Wide	Quarterly	27 November 2018 19 February 2019 7 May 2019
15	Whistleblowing Quarterly Report		Quarterly Report	Scrutiny	Chief Executive	Internal	Quarterly	27 November 2018 19 February 2019 7 May 2019
16	Workforce Control	Staff	Annual report	Scrutiny	Executive Director of Resources	Council Wide	Annual	July 2019

17	Committee Decisions	Democracy	Annual report	Scrutiny	Chief Executive	Governance, Risk and Best Value Committee	Annual	Date TBC Re-examine after improved information tracking.
18	Monitoring of Council Policies	Democracy	Annual report	Scrutiny	Chief Executive	Council Wide	Annual	Spring 2019
19	Edinburgh Shared Repairs Service and Legacy Closure Programme	Review	Progress reports	Scrutiny	Executive Director of Resources	All	Six-monthly	February 2019
20	Revenue Monitoring	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Quarterly	November 2018 March 2019 June 2019
21	Capital Monitoring	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Quarterly	November 2018 March 2019 June 2019
22	Revenue Outturn	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	August 2019
23	Capital Outturn and Receipts	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	August 2019
24	Treasury – Strategy report	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	March 2019

25	Treasury – Annual report	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	August 2019
26	Treasury – Mid-term report	Review	Progress reports	Scrutiny	Executive Director of Resources	Council Wide	Annual	January 2019
27	Status of the ICT Programme	Review	Progress Reports	Scrutiny	Executive Director of Resources	Council Wide	Quarterly	October 2018 February 2019
28	Annual Assurance Schedules	Review	Progress Report	Scrutiny	All Directorates	Council	Annual	October 2018 (Resources) November 2018 (Place and Communities and Families) January 2019 (EIJB) February 2019 (Chief Executive)
Section C – Council Companies								
28	Edinburgh Leisure	Review	Progress Report	Scrutiny	Executive Director for Communities and Families	Council Wide	Annual	November 2018
29	Capital Theatres	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	November 2018
30	Capital City Partnership	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	May 2019
31	Transport for Edinburgh	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	June 2019

32	Lothian Buses	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	June 2019
33	Edinburgh Trams	Review	Progress Report	Scrutiny	Executive Director of Place	Council Wide	Annual	June 2019
34	Edinburgh International Conference Centre	Review	Progress Report	Scrutiny	Executive Director of Resources	Council Wide	Annual	September 2019
35	Marketing Edinburgh	Review	Progress Report	Scrutiny	Chief Executive	Council Wide	Annual	September 2019

GRBV Upcoming Reports

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Appendix 1

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Report Title	Type	Flexible/Not Flexible
October 2018		
Status of the ICT Programme Quarterly Report	Scrutiny	Flexible
IT Audit Report	Scrutiny	Flexible
Change Portfolio	Scrutiny	Flexible
Scoping Report with Proposals to Address the Outstanding Actions for Health and Social Care	Scrutiny	Flexible
Annual Assurance Schedule – Resources	Scrutiny	Flexible
Licensing Forum - Revised Process and Constitution	Scrutiny	Flexible
IA TeamCentral Training Attendance and Feedback	Scrutiny	Flexible
November 2018	Scrutiny	Flexible
Revenue Monitoring - Review	Scrutiny	Flexible

Capital Monitoring - Review	Scrutiny	Flexible
Governance of Major Projects	Scrutiny	Flexible
Review of CLT Risk Scrutiny	Scrutiny	Flexible
Change Portfolio	Scrutiny	Flexible
Update on Internal Audit Capacity to Deliver the 18/19 Audit Plan	Scrutiny	Flexible
CIPFA Benchmarking Results Report (IA)	Scrutiny	Flexible
Whistleblowing Quarterly Reports	Scrutiny	Flexible
Edinburgh Leisure – Annual Review	Scrutiny	Flexible
Festival City Theatres Trust – Annual Review	Scrutiny	Flexible
Principals to Govern the Working Relationships between the City of Edinburgh Council Governance, Risk and Best Value Committee and the Edinburgh Integrated Joint Board Audit and Risk Committee	Scrutiny	Flexible
Governance of Major Projects – Boroughmuir High School	Scrutiny	Flexible
Annual Assurance Schedule – Place	Scrutiny	Flexible
Annual Assurance Schedule – Communities and Families	Scrutiny	Flexible

January 2019	Scrutiny	Flexible
Internal Audit: Overdue Recommendations and Late Management Responses	Scrutiny	Flexible
Internal Audit Quarterly Activity Report	Scrutiny	Flexible
Accounts Commission	Scrutiny	Flexible
Treasury – Mid-term report	Scrutiny	Flexible
Annual Assurance Schedule – Edinburgh Integration Joint Board	Scrutiny	Flexible
Implementation of Garden Waste Charge	Scrutiny	Flexible

Governance, Risk and Best Value Committee

10.00am, Tuesday 25 September 2018

Internal Audit Update Report: as at 31 August 2018

Item number	7.1
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

This report provides details of Internal Audit (IA) reviews completed in the period; progress with the 2018/19 IA plan; and current IA priorities.

The audit of Transfer of the Management of Development Funding Grant was completed in August 2018, and provides positive assurance to the Scottish Government (SG) that development funding received by the Council to provide affordable housing has been effectively managed and allocated.

Work has commenced on delivery of the 2018/19 annual plan with 10 of the 50 planned audits in progress. It is also expected that the 6 audits carried forward from 2017/18 will be completed during September 2018.

IA prioritised review of evidence provided by Service Areas to support closure of agreed management actions during July and August, reverting to Service Areas with feedback at the end of August. To account for the delay in IA reviewing the evidence provided, Service Areas now have a five-week grace period to address feedback prior to open actions that are past their agreed implementation dates being formally recorded as overdue.

The new IA follow-up system was launched Council-wide in mid-July. IA training for the Council's Wider Leadership Team and all employees involved in supporting delivery of agreed management actions will be delivered through to the end of September.

Report

Internal Audit Update Report: as at 31 August 2018

1. Recommendations

1.1 Committee is recommended to note:

1.1.1 the outcomes of the audit of Transfer of the Management of Development Funding Grant;

1.1.2 the progress with the delivery of the 2018/19 IA plan and the carried forward 2017/18 audits;

1.1.3 the progress with follow-up of open IA findings; and

1.1.4 that the new follow-up system has been effectively implemented and will be supported with ongoing training delivered through September.

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 IA progress and a summary of findings raised in the reports issued are presented to the Governance, Risk, and Best Value Committee quarterly.

2.3 All audits performed for the Lothian Pension Fund (LPF) are subject to separate scrutiny by the Pension Audit Sub-Committee and the Pensions Committee, and are included in this report for completeness.

2.4 Audits performed for the Edinburgh Integration Joint Board (EIJB) are presented to the EIJB Audit and Risk Committee for scrutiny, with any reports that are relevant to the Council subsequently referred to the GRBV Committee.

2.5 Audits performed for the City of Edinburgh Council (the Council) that are relevant to the EIJB will be recommended for referral to the EIJB Audit and Risk Committee by the GRBV Committee.

3. Main report

Completed Audits

3.1 The audit of Transfer of the Management of Development Funding Grant was completed in August 2018. This is an annual review performed at the request of the

Scottish Government (SG) to confirm that development funding received by the Council (circa £39M in 2017/18) to provide affordable housing has been effectively managed and allocated. The review confirmed that effective controls are in place supporting management and allocation of the funds received, with three Low rated findings raised. The full report is included at Appendix 1.

Progress with Delivery of the 2018/19 IA Plan and 2017/18 Audits Carried Forward

3.2   Delivery of the remainder of the 2018/19 IA plan is now underway, with a total of 10 of the 50 reviews included in the plan in progress. Further detail is included at Appendix 2.

3.3   It is also expected that the 6 audits carried forward from 2017/18 will be completed in September and October 2018. Further detail is included at Appendix 3.

3.4   Progress with the 2018/19 plan has been impacted by ongoing resourcing challenges related to some new recruits not yet having started due to notice periods; prioritising implementation of the new follow-up system to reduce resource pressure over the medium to longer term; and ongoing review of evidence provided to support closure of IA findings (including the 30 historic findings reopened in June 2018).

Progress with Follow-up

3.5   The challenges noted at 3.4 above had impacted IA's capacity to review evidence provided by Service Areas and provide further feedback or close agreed management actions supporting IA findings in a timely manner. The team has prioritised this work during the last two months, reverting with feedback to Service Areas on the evidence provided at the end of August. It was agreed at the Corporate Leadership Team on 1 August 2018 that Service Areas will now have a five-week grace period to provide additional evidence (where required) prior to open management actions that are past their agreed implementation dates being recorded as overdue. This is to account for the delay in IA being able to look at the evidence provided.

New System Implementation and Training

3.6   The new follow-up system was launched Council wide mid-July, with initial training delivered between 25 June and 2 July. A further five training sessions have been scheduled through August and September. Training attendees will include the Council's Wider Leadership Team (the Chief Executive; Executive Directors; Heads of Service and their direct reports) and all employees involved in supporting delivery of agreed management actions. The training focuses on the role and importance of IA; rebranding IA as 'your safety net'; sharing examples of best practice when finalising audit reports and providing updates and evidence to support closure of findings; and introducing the new system.

4. Measures of success

4.1 Delivery of the IA plan and implementation of agreed management actions to address findings raised in IA reports will strengthen the Council's control framework.

5. Financial impact

5.1 No direct financial impact.

6. Risk, policy, compliance and governance impact

6.1 Internal Audit findings are raised as a result of control gaps or deficiencies identified during audits. If agreed management actions are not implemented to support closure of Internal Audit findings, the Council will be exposed to the risks set out in the relevant Internal Audit reports.

7. Equalities impact

7.1 Not applicable.

8. Sustainability impact

8.1 Not applicable.

9. Consultation and engagement

9.1 Not applicable.

10. Background reading/external references

10.1 None.

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Legal and Risk Division, Resources Directorate

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11. Appendices

Appendix 1   Internal Audit Report - Transfer of the Management of Development Funding Grant.

Appendix 2   Summary of 2018/19 IA Plan Progress

Appendix 3   Summary of 2017/18 Audits Carried Forward

The City of Edinburgh Council
Internal Audit

Transfer of the Management Development Funding Grant

Place

Final Report

2 August 2018

PL1805

Contents

1. Background and Scope

Background

The Council receives an annual development funding grant from the Scottish Government for the Affordable Housing Supply Programme (AHSP). The purpose of the funding is to provide assistance for housing under section 92 of the Housing (Scotland) Act 2001.

TMDF grant funding received in 2017/18 totalled £38.465M, and was paid in monthly instalments following receipt of draw down notices from the Council on specified dates. The terms of the grant offer specify that the Council must manage the AHSP, and disbursement of the grant, in accordance with the grant procedures issued by the Scottish Ministers, and the procedures set out in the Council's Local Housing Strategy.

The 2017/18 grant was spent in full and resulted in the completion of 623 affordable housing units against a target of 600. 1,032 units were approved for funding, exceeding the target of 1,001; and 691 sites starting during the year, exceeding the target of 600.

Allocation of funding to the respective registered social landlords is administered via the Scottish Government's HARP system which was introduced in quarter 3, 2017/18, replacing the RESOURCE system. The Scottish Government monitors allocation of grant funds across the specified social housing categories by agreeing the initial allocation and meeting with CEC Officers to agree subsequent changes to the programme.

The Scottish Government administers the HARP System; user names and passwords are allocated to new users for their initial log on where they are requested to change the password. One of the Housing Development Officers within the Council also has administration rights. This allows for the set up of new users; unlocking an account where the user has forgotten their password; and requesting the Scottish Government to deactivate any staff who no longer require access to the system.

The HARP system permits the Council's Head of Service and Housing Operations Manager to approve grant offers and payments up to £7M. The Executive Director of Place approves payments above this level, with the countersignature of a Scottish Government Director. These levels are in line with nationally set authorisation limits. In practice, Council approvals are restricted to £5M for the Head of Service and £1M for the Housing Operations Manager in line with the Council's approved delegation scheme.

The Scottish Government's Offer of Grant for the management of development funding states that 'The Council will include the management of Development Funding in its annual Internal Audit plan and will submit a report to the Scottish Ministers on Internal Audit coverage from 1 April 2017 to 31 March 2018.

Scope

The scope of this review assessed the design adequacy and operating effectiveness of controls established to ensure that the development funding grant is managed and disbursed in line with Scottish Government requirements.

Our approach was as follows:

- Obtained an understanding of the management of development funding through discussions with key personnel; review of systems documentation; and process walkthroughs;
- Identified the key risks associated with management of development funding;
- Evaluated the design of the key controls in place to address the key risks; and
- Assessed the operating effectiveness of the key controls.

2. Executive summary

Total number of findings: 3

Summary of findings raised	
Low	1. System Access Controls
Low	2. Grant Offer Letter Conditions
Low	3. Place Scheme of Delegation

Opinion

Our review confirmed that effective controls are in place to support the ongoing management and allocation of development funding. The grant offered for 2017/18 was spent in full, and due to the success of the programme, additional funding received during the year resulted in the number of units approved, started and completed exceeding the numbers planned.

Good working relationships between the Council TMDF Team and the Scottish Government were demonstrated, with regular meetings held to review programme progress. There is also regular engagement between the Team and RSLs, at both operational and strategic levels.

The Scottish Government monitors allocation of grant funds across the social housing categories by agreeing the initial allocation and meeting with CEC Officers to agree subsequent changes to the programme. The Scottish Government confirmed that this monitoring control and process is in place, however, this has not been tested by Internal Audit.

Whilst no significant control gaps were identified, our review identified some minor weaknesses in the design and operating effectiveness of the controls established to support access to the HARP system used to administer the funding programme, and some minor areas of non compliance with the terms of the grant offer letter.

The minor control weaknesses identified related specifically to a lack of review of the current HARP Council user access list, lack of monitoring processes to ensure compliance with contract clauses covering site signage and contract default; and use of a scheme of delegation in the Place directorate that does not reflect current roles and responsibilities.

Additionally, following the introduction of the HARP system, some of the SG clauses within the grant offer letter (for example tables 1 – 5), would merit review and update.

Consequently, three Low rated findings have been raised. These should be addressed to ensure ongoing compliance Scottish Government grant offer conditions.

The introduction of the HARP system enhances a control framework supporting the allocation and disbursement of grant funding, and it is our opinion that there are no significant risks associated with this process. On this basis Internal Audit will recommend to the Scottish Government that this review is no longer required annually, and could be performed every three years in line with the Internal Audit risk based approach to provide assurance on the Council's medium rated risks.

Our detailed findings and recommendations are laid out at Section 3 below.

3. Detailed findings

1. System Access Controls

Finding	Low Risk

Allocation of funding to the respective registered social landlords is managed via the Scottish Government's Housing and Regeneration Resource Programmes (HARP) system. HARP was rolled out for implementation by the Scottish Government in October in October 2017.

The current system user list had not been reviewed on a regular basis. Audit testing identified that one current user now works in a different role in another team. There are robust management arrangements in place to ensure this could not have resulted in any breaches occurring. Additionally, a number of Scottish Government temporary user accounts and email addresses set up for testing purposes were still noted as active.

During the audit the Housing Development Officer who is designated as the local systems administrator undertook a review and deactivated the accounts no longer used.

The updated list includes a finance inputter (typically Customer or Finance team members involved in processing payments) who has never accessed the system. No rationale was provided for this access.

The system does not prompt users to update passwords regularly.

Risk

- Access rights to systems have been retained for staff who may no longer require them; and
- Inaccurate amendments could be inadvertently made to the content of the HARP system. It is acknowledged that any significant changes would be identified through compensating payment controls and ongoing review of funding allocations.

Action Plan

1.1 Review of User Lists

1. The current user list should be reviewed to ensure that all active accounts have a legitimate business purpose;
2. Any inactive accounts no longer required should be removed;
3. The system should be updated immediately to reflect any team changes; and
4. A quarterly review of user access rights should be performed.

Agreed Management Action

1. Review current user list to ensure that all active accounts have a legitimate business purpose;
2. Any inactive accounts no longer required will be removed;
3. The system will be updated immediately to reflect any team changes; and
4. Review user access rights on an annual basis

Owner

Paul Lawrence, Executive Director of Place

Contributors

Michael Thain; Elaine Scott; Lisa Mallon; Alastair Ranyard

Agreed Implementation Date
1 November 2018

1.2 Password Update

1. The CEC Systems Administrator should liaise with the Scottish Government to investigate the possibility of implementing system enforced password changes; and

Agreed Management Action

1. CEC Systems Administrator to liaise with the Scottish Government to investigate the possibility of implementing system enforced password changes;

Owner
Paul Lawrence, Executive Director of Place

Contributors
Michael Thain; Elaine Scott; Lisa Mallon; Alastair Ranyard

Agreed Implementation Date
1 November 2018

2. Grant Offer Letter Conditions

Finding	Low Risk

2.1 Grant Offer Conditions

Clauses 5.2 to 5.5 of the grant offer letter require that the grant will be allocated, and units approved, started and completed within set programme categories; area types; and designated areas specified in tables 1 - 5.

In practice, reports cannot be run from the HARP system per categories outlined in these tables. The actual position is monitored and reviewed regularly during the year via tenures outlined in the strategic local programme agreement; table 10 in the grant offer letter.

Other requirements of the grant offer letter were noted which pre-dated the HARP system, for example:

- Schedule part [2] Draw Down Notice - the certification proforma detailed is no longer required as draw downs are now internally authorised within HARP by CEC Finance Officers.

- Schedule part [3] clause 4 – by agreement between both parties, submission of monthly reports to Scottish Ministers is no longer required. The Council Team meet with the Scottish Government on a monthly basis to review progress directly via HARP.

2.2 Site Signage

The grant offer letter (clause 6.3) requires the Council to ensure that the Scottish Government's funding towards housing provision is acknowledged by including the Scottish Government's logo on all signage at development sites.

Confirmation was provided that signage is designed, ordered and delivered directly to all sites by the Council's Edinburgh Road Services team, and a tracker maintained by the TMDF team to record key dates. Evidence was provided that signage was displayed at one site, and four further sites were visited to confirm compliance. Signage was not in place at one of the five sites. It was noted that the sign had been temporarily taken down and stored elsewhere on site to accommodate landscaping work.

2.3 Breaches

The grant offer letter (clause 8) outlines the default action that can be taken by the Scottish Ministers in the event of any material breach by the Council of its obligations or undertakings, or the proper application of the grant.

Key Officers within the TMDF; Finance; and Payments teams confirmed that there had been no breaches in 2017/18.

Management has the view that settlement of all draw down notices and receipt of the full grant from the Scottish Government is considered evidence of satisfactory compliance with clause 8, and that there is no need to establish a formal breach process or register.

Additionally, monthly meetings held with the Scottish Government ensure a close working relationship to discuss and resolve issues, however breaches are not currently a standing agenda item.

Risk

- The Council and Scottish Government are signing a contract which includes out of date terms and conditions; and
- There is a low risk that non compliance with the signage and breach reporting elements of grant offer conditions could result in the potential loss of government funds.

Action Plan

2.1 Grant Offer Conditions

The Council's TMDF team should engage with the Scottish Government to request that they refresh the annual grant offer letter to ensure that it reflects the actual processes now being applied by both parties.

Agreed Management Action

1. TMDF team to engage with the Scottish Government to request the annual grant offer letter is refreshed to reflect the processes being applied.

Owner

Paul Lawrence, Executive Director of Place

Contributors

Michael Thain; Elaine Scott; Lisa Mallon; Alastair Ranyard

Agreed Implementation Date

November 1st 2018

2.2 Site Signage

Compliance checks should be undertaken by the TMDF team to ensure that affordable housing signage is displayed at all sites from site start to completion.

Agreed Management Action

1. Visual inspection of a random sample of site signs undertaken by the Council's TMDF team on a six monthly basis

Owner

Paul Lawrence, Executive Director of Place

Contributors

Michael Thain; Elaine Scott; Lisa Mallon; Alastair Ranyard

Agreed Implementation Date

1 November 2018

2.3 Breaches

The TMDF Team should ensure that discussion of breaches is included as a standing agenda item for monthly meetings with the Scottish Government to evidence transparency in issue resolution.

Agreed Management Action

Confirmation to Internal Audit that compliance with grant conditions is discussed at Scottish Government Liaison meetings, undertaken on a quarterly basis

Owner

Paul Lawrence, Executive Director of Place

Contributors

Michael Thain; Elaine Scott; Lisa Mallon; Alastair Ranyard

Agreed Implementation Date

1 November 2018

3. Place Scheme of Delegation

Finding	Low Risk

A scheme of delegation is in place within Place, covering authority to approve grant offers and payments to Registered Social Landlords, and to sign documentation as Proper Officer. This scheme was last updated in January 2017, and covers payments authorised for the TMDF grant.

The delegation provided by the Executive Director of Place to each five Senior Managers specifies that the authority levels will remain applicable so long as the individuals remain in these specified roles.

One of these Managers is no longer with the Council and the other four now have different job titles and remits.

The HARP system permits the Council Head of Service and Housing Operations Manager to approve grant offers and payments up to £7M. The Executive Director of Place approves payments above this level, with the countersignature of a Scottish Government Director. These levels are in line with nationally set development funding authorisation limits.

In practice, Council approvals are restricted to £5M for the Head of Service and £1M for the Housing Operations Manager in line with the Place delegation scheme.

Management has advised that the Place scheme of delegation is in the process of being revised. The updated version will cover other Departmental functions, such as the 21st Century Homes programme.

Risk

Grant offers and payments approval levels may no longer be relevant given changes in job titles and remits.

Action Plan

3.1 Authority to Approve Grant Offers & Payments to RSLs

- The existing Place scheme of delegation should be updated to reflect the current senior management structure and approval limits in place; approved by the relevant executive committee; and consistently applied;

- Management should consider whether it is appropriate to apply the Council's delegation scheme to development funding payments, or whether a separate development funding scheme of delegation is required that is aligned with specified national limits should be established; and
- If a specific development funding scheme of delegation is established; this should be approved by the relevant executive committee and consistently applied.

Agreed Management Action

Update scheme of delegation in relation to delegation of responsibilities from director to managers to reflect the current senior management structure

Owner

Paul Lawrence, Executive Director of Place

Contributors

Michael Thain; Elaine Scott; Lisa Mallon; Alastair Ranyard, Alison Coburn, Rona Guild

Agreed Implementation Date

1 April 2019

Appendix 1 - Basis of our classifications

Finding rating	Assessment rationale
Critical	A finding that could have a: • ***Critical*** impact on operational performance; or • ***Critical*** monetary or financial statement impact; or • ***Critical*** breach in laws and regulations that could result in material fines or consequences*; or* • ***Critical*** impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: • ***Significant*** impact on operational performance; or • ***Significant*** monetary or financial statement impact; or • ***Significant*** breach in laws and regulations resulting in significant fines and consequences*; or* • ***Significant*** impact on the reputation or brand of the organisation.
Medium	A finding that could have a: • ***Moderate*** impact on operational performance; or • ***Moderate*** monetary or financial statement impact; or • ***Moderate*** breach in laws and regulations resulting in fines and consequences; or • ***Moderate*** impact on the reputation or brand of the organisation.
Low	A finding that could have a: • ***Minor*** impact on the organisation's operational performance ; or • ***Minor*** monetary or financial statement impact; or • ***Minor*** breach in laws and regulations with limited consequences; or • ***Minor*** impact on the reputation of the organisation.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Appendix 2 – Summary of 2018/19 IA Plan Progress

Audit Review		Expected Completion Date
Completed		
1.	Transfer of the Management of Development Funding Grant	Completed 2 August 2018
Draft Reporting		
2.	Planning and Section 75 Developer Contributions	14 September 2018
3.	Garden Waste – Lessons Learned	14 September 2018
Fieldwork		
4.	Public Sector Cyber Security Action Plan	21 September 2018
5.	Street Lighting and Traffic Signals	21 September 2018
6.	Compliance with IR35 and Right to Work Requirements	5 October 2018
7.	Schools Assurance Framework Review	31 October 2018
Planning		
8.	Carbon Reduction Commitment Scheme	Mid November
9.	System Access Rights	Mid November
10.	Edinburgh Tram Extension	Ongoing

Appendix 3 – Summary of 2017/18 Audits Carried Forward

Audit Review	Expected Completion Date
Draft Reporting	
1. The Edinburgh Mela	14 September 2018
2. Customer Transformation	28 September 2018
3. St James Project	28 September 2018
4. Zero Waste Project	28 September 2018
5. Structures and Flood Prevention	28 September 2018
Fieldwork	
6. Fleet Project	19 October 2018

Governance, Risk and Best Value Committee

10.00am, Tuesday 25 September 2018

Internal Audit: Overdue Findings and Late Management Responses as at 31 August 2018

Item number	7.2
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

This report sets out details of all overdue Internal Audit (IA) findings, and audit reports issued in draft, where final management responses have not been received within the agreed service standard timeframes.

There were 141 open IA findings across the Council as at 31 August 2018, including the 30 historic findings that were reopened earlier this year.

This compares to 130 as at 25 July 2018. This movement reflects 20 new findings raised in the Health and Social Care Purchasing Budget; Drivers; General Data Protection Regulation Readiness; Phishing Resilience; and Transfer of the Management of Development Funding Grant audits, and closure of 9 overdue findings (6 High; 1 Medium; and 2 Low).

Of the 141 open IA findings and associated management actions:

1. 94 (66%) are currently reported as overdue as they have missed all of their originally agreed implementation dates;

2. a total of 47 (34%) of these are open, but not yet overdue;

3. evidence in relation to 66 (70%) of the 94 overdue findings is currently being reviewed by IA to confirm that it is sufficient to support their closure;

4. 28 (30%) residual overdue actions still require to be addressed; and

5. Revised dates and progress updates have been provided for 22 (78%) of these 28 remaining overdue findings.

Report

Internal Audit: Overdue Findings and Late Management Responses as at 31 August 2018

1. Recommendations

1.1 Committee is recommended to note:

1.1.1 the status of overdue findings arising from IA reports as at 31 August 2018;

1.1.2 that IA is focussed on reviewing the significant quantity of evidence provided by Directorates/Divisions to support closure of open and overdue findings during August, with a five-week window (to 5 October 2018) being given to services to address and resolve any subsequent IA queries raised prior to findings being formally recorded as overdue (where appropriate);

2. Background

2.1 Overdue findings arising from IA reports and late management responses are reported monthly to the CLT and quarterly to the GRBV Committee.

2.2 It is anticipated that the greater visibility that monthly CLT reporting provides will result in more IA findings being closed off in a timely manner.

2.3 The IA definition of an overdue finding is any finding where all agreed management actions have not been implemented, evidenced as implemented and validated as closed by IA by the date agreed by management and IA and recorded in IA reports.

2.4 The IA Charter includes a requirement for receipt of management responses to draft IA findings within 10 working days. Where management responses are not received on time, details are included in this report.

2.5 IA is currently reviewing the end to end process for addressing IA findings to ensure that IA validation is also managed within a formal standard as part of an enhancement of the IA Charter. This will enable a fully transparent and clear reporting of performance across the whole of the IA process for the Committee in the future.

3. Main report

Quality of Evidence and Management Responses

3.1 Quality of evidence provided by management to support follow-up and closure of IA findings remains an ongoing challenge. This has resulted in IA providing further engagement and advice and having to reperform follow-up work to support final

closure. This impact is expected to reduce as more people attend the IA training which provides guidance and examples of best practice.

3.2 Quality and timely receipt of management responses is also a challenge when finalising IA reports. The responses provided do not always fully address the findings raised and associated management actions and the 10-working day timeframe specified in the IA charter is not consistently adhered to. Again, it is expected that the impact of this will reduce through the rollout of the training.

3.3 Delays in receipt of management response presented a challenge when finalising draft reports to support the 2017/18 IA opinion for presentation to GRBV in July 2018.

IA Solutions to Address Quality of Evidence and Management Responses

3.4 IA launched the new Team Central automated follow-up system in July 2018.

3.5 IA training is being provided for the Wider Leadership Team, all employees who are involved in implementing agreed management actions and executive support. An update on training attendance and feedback will be provided to Governance, Risk and Best Value Committee in October 2018.

3.6 IA has also implemented a new 'workshop' approach when finalising draft reports, with the objective of confirming factual accuracy of the draft report and agreeing management actions in a collaborative rather than an iterative way. This is proving to be particularly effective where the findings and recommendations span a number of Directorates or Divisions, as it facilitates an opportunity for them to agree how best to work together to address the control gaps identified.

Open and Overdue Findings

3.7 The 141 open IA findings across the Council have been split into the following two categories to enable separate monitoring and reporting of the historic findings that were reopened in June 2018:

3.7.1 The current overdue findings (112 in total) shows progress with findings raised, tracked and reported on as part of the routine IA assurance cycle; and

3.7.2 the historic overdue findings highlights progress with the 30 historic findings that were reopened.

Current Overdue Findings

3.8 Of the 112 open findings, 65 (58%) are now technically 'overdue' in comparison to 71 as at 25 July 2018. However, IA is currently reviewing requests to close 49 (75%) of these findings, and they have been classified as 'IA Validation in progress', leaving a balance of 16 overdue findings (2 High; 13 Medium; 1 Low) still to be addressed.

3.9 Additionally, 11 management actions associated with a further 7 open and overdue findings have now been closed, with further evidence required to support closure of the remaining management actions associated with these findings.

3.10 The balance of 16 overdue findings includes 3 Medium findings that became overdue (based on originally agreed implementation dates) between 25 July and 31 August 2018. These related to:

3.11.1 Place – Waste and Cleansing Health and Safety;

3.11.2 Communities and Families – Foster Care; and

3.11.3 Resources – Care Homes

3.11 Management has provided revised implementation dates and status updates for 11 of these 16 overdue findings. Further details are included at Appendix 1, with findings where revised implementation dates and further updates are required highlighted in red.

Historic Overdue Findings

3.12 A total of 30 historic findings that had either not been implemented, or implemented but not sustained, were reopened as overdue in June 2018.

3.13 IA has now been able to confirm closure of 1 of these and has reviewed evidence to support closure of a further 17 (59%), which are currently classified as 'IA validation in progress'. Details of the remaining 12 (3 High and 9 Medium) to be addressed are included at Appendix 2. Revised implementation dates have been provided for 11 of the remaining 12 findings, with the finding where revised implementation dates and further updates are required highlighted in red.

IA Validation timeframes

3.14 Evidence provided to support closure of open and overdue findings was reviewed by IA by the end of August. Where evidence provided was not fully sufficient to support closure, the 'IA validation in progress' status will be maintained until Friday 5 October, enabling Service Areas to respond and provide additional evidence, before changing the status to overdue (where appropriate).

3.15 This timeframe has been agreed with the Corporate Leadership Team and recognises that IA has not historically had sufficient capacity to review the evidence provided by Directorates/Divisions in a timely manner.

4. Measures of success

4.1 An increase in effective implementation and closure of IA findings within their agreed dates.

4.2 An improvement in the time taken to receive management responses and finalise IA Reports.

5. Financial impact

5.1   No direct financial impact.

6. Risk, policy, compliance and governance impact

6.1   If IA findings and associated management actions are not implemented, the Council will be exposed to the risks set out in the relevant detailed IA reports. IA findings are raised as a result of control gaps or deficiencies identified during reviews therefore overdue items inherently impact upon effective risk management, compliance, and governance.

7. Equalities impact

7.1   Not applicable.

8. Sustainability impact

8.1   Not applicable.

9. Consultation and engagement

9.1   Not applicable.

10. Background reading/external references

10.1   None.

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11. Appendices

Appendix 1: Overdue IA findings not yet ready for closure

Appendix 2: 13 Historic IA findings not yet ready for closure

Appendix 1:   Overdue IA findings not yet ready for closure

Reference	Report		Rating	Action By	Comments
3 new overdue findings not yet ready for closure					
PL1706ISS.5	Waste and Cleansing – Health and Safety		Low	Place	Implementation date was 31 July 2018. No updates received.
CF1702ISS.3	Foster Care		Medium	Communities and Families and Resources (Business Support)	Updates and supporting evidence received (end August) to support close of this finding.
HSC1701ISS.7	Care Homes		Medium	Resources	This finding includes 6 agreed management actions. Of these 3 have been proposed for closure, and 3 implementation dates have been extended. Latest progress update on the 3 remaining actions was provided 27 August 2018
13 existing overdue findings not yet ready for closure					
SSC1701ISS.5	Short Term Homelessness Provision		Medium	Safer and Stronger Communities	Update and request to support closure provided 29 August 2018.
HSC1604ISS.1	IJB Data Integration & Sharing		High	E.I.J.B	Revised date requested on 13 September 2018. Now working to a revised implementation date of 31 December 2018.
HSC1604ISS.2	IJB Data Integration & Sharing		High	E.I.J.B	Working to revised date of 30 September 2018. Last update received in May 2018.
HSC1604ISS.3	IJB Data Integration & Sharing		Medium	E.I.J.B	Latest implementation date was 31 May 2018. Last update received was May 2018.
HSC1503ISS.3	Personalisation SDS - Option 3		Medium	Resources (Customer)	Request received from Resources in August (Business Support) to transfer ownership to Health and Social Care. IA has advised that both Services will need to agree prior to transfer.
HSC1503ISS.6	Personalisation SDS - Option 3		Medium	Resources (Customer)	Request received from Resources in August (Business Support) to transfer ownership to Health and Social Care. IA has advised that both Services will need to agree prior to transfer.

RES1603ISS.5	Leavers Process		Medium	Resources (Property and FM)	Revised date of was 31/08/2018. Progress update provided 27 August confirming that exercise is taking longer than anticipated. Revised date now required.
RES1615ISS.4	Property Maintenance		Medium	Resources	Status updates provided 3 August and now working to revised date of 31 December 2018.
RES1615ISS.5	Property Maintenance		Medium	Resources	Working to revised date of 31 December 2019. Latest update as was provided to GRBV in June 2018.
RES1701ISS.2	Edinburgh Shared Repairs Service		Low	Resources	Working to revised date of 30 September 2018. Latest update received July 2018.
PL1601ISS.5	Recycling Targets		Medium	Place	Revised date 31 August 2018 – awaiting committee approval of revised strategy to support closure in August.
PL1603ISS.5	Mortuary Services		Medium	Place	Latest implementation date was 30 June 2018. Last update received was June 2018 with revised action plan. Now require evidence to confirm whether June timeframes were achieved.
PL1603ISS.3	Mortuary Services		Medium	Place	Latest implementation date was 30 June 2018. Last update received was June 2018 with revised action plan. Now require evidence to confirm whether June timeframes were achieved.

Appendix 2:   12 Historic IA findings not yet ready for closure

Reference	Original Report Title	Rating	Action By	
CW1801ISS.10	HSC1603 Management Information	High	Health and Social Care	Working to revised date of 28 February 2019. Latest update as was provided in July 2018.
CW1801ISS.13	HSC1502 Swift Access Controls	Medium	Health and Social Care	Working to revised date of 30 August 2018. Latest update provided in August 2018. Evidence was submitted 13 September 2018 and IA is no reviewing to confirm whether this can now be closed.
CW1801ISS.11	HSC1603 Management Information	Medium	Health and Social Care	Working to revised date of 28 February 2019. Latest update provided July 2018.
CW1801ISS.16	RES1617 Information Governance Framework	High	Strategy and Insight	Working to revised date of 30 November 2018. A comprehensive update was provided at the end of August together with supporting evidence to support closure of some management actions. This is currently being reviewed by IA.
CW1801ISS.17	RES1617 Information Governance Framework	Medium	Strategy and Insight	Working to revised date of 1 October 2018. A comprehensive update was provided at the end of August together with supporting evidence to support closure of some management actions. This is currently being reviewed by IA.
CW1801ISS.18	RES1617 Information Governance Framework	Medium	Strategy and Insight	Working to revised date of 31 August 2018. A comprehensive update was provided at the end of August together with supporting evidence to support closure of some management actions. This is currently being reviewed by IA. Revised completion date required.
CW1801ISS.19	CG1515 Retention of Corporate Knowledge	High	Strategy and Insight	Working to a revised date of 30 November 2018. A comprehensive update was provided at the end of August
CW1801ISS.20	CG1515 Retention of Corporate Knowledge	Medium	Strategy and Insight	Working to revised date of 30 November 2018. A comprehensive update was provided at the end of August together with supporting evidence to support closure of

				some management actions. This is currently being reviewed by IA.
CW1801ISS.21	RES1608 Risk Management	Medium	Strategy and Insight	Working to revised date of 30 November 2018. Latest update as was provided to GRBV in June 2018.
CW1801ISS.23	SFC1502 Planning Controls and the LDP	Medium	Place	This finding has now been covered by a subsequent IA review of the design of the controls supporting S75 developer contributions, which confirmed that it has not been implemented.

The finding will be reflected in the IA report to be produced, but will remain open and continue to track as overdue until agreed actions have been implemented. Management actions will be reviewed / refreshed as part of the report finalisation process. |
| CW1801ISS.24 | SFC1502 Planning Controls and the LDP | Medium | Place | This finding has now been covered by a subsequent IA review of the design of the controls supporting S75 developer contributions, which confirmed that it has not been implemented.

The finding will be reflected in the IA report to be produced, but will remain open and continue to track as overdue until agreed actions have been implemented. Management actions will be reviewed / refreshed as part of the report finalisation process. |
| CW1801ISS.6 | ED1501 Sustainable Energy Action Plan | Medium | Place | Revised date was 29 June 2018. No evidence to support closure has been received. |

Governance, Risk and Best Value Committee

10.00am, Tuesday 25 September 2018

Internal Audit Reports – Drivers Health and Safety and Resilience

Item number	7.3
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

The purpose of this paper is to present the outcomes of the final two Internal Audit (IA) reviews (Drivers Health and Safety and Resilience) that support the 2017/18 Internal Audit opinion presented to the Committee in July 2018.

Both reviews identified some significant control weaknesses that could adversely impact the Council's ability to confirm that all Council employees and agency workers engaged by Council services remain legally and medically fit to drive; and the ability of the Council to recover critical services in the event of a future major incident.

3 High and 5 Medium rated findings were raised in the Drivers Health and Safety review; with a further 2 High; 2 Medium; and 1 Low in the Resilience review.

Management actions and implementation dates have been agreed and will be monitored as part of the ongoing IA follow-up process to ensure that agreed management actions are implemented and the risks identified mitigated effectively.

Report

Internal Audit Reports – Drivers Health and Safety and Resilience

1. Recommendations

1.1 The Committee is requested to note:

1.1.1 the outcomes of the Drivers Health and Safety and Resilience reviews;

1.1.2 the Council wide risks associated with the findings raised; and

1.1.3 that agreed management actions will be monitored as part of the IA follow-up process.

2. Background

Drivers Health and Safety

2.1 Driving at work is heavily regulated by the Drivers and Vehicles Standards Agency (DVSA); the Health and Safety Executive; and the Department for Transport.

2.2 The Council has significant number of employees who are required to drive for their role, with most of these drivers in Place. As at 1 March 2018, Fleet Services had issued a total of 3,872 driving permits.

2.3 The fatal bin lorry incident in Glasgow in December 2014 that killed 6 and injured a further 15 members of the public reinforced the Council's ongoing responsibility to ensure that all permanent and agency employees who are required to drive to fulfil the requirements of their role are both legally and medically fit to drive.

2.4 In addition to its permanent staff, the Council also uses temporary drivers from external agencies. Since December 2017, Pertemps has been the principal supplier of agency employees. Additionally, 'grey fleet' drivers drive their own vehicles for business purposes and claim mileage and other related expenses. During the period 1 February 2017 to 31 January 2018, 1,900 employees had driven 2.27M miles in their own vehicles and had claimed £1.03M in mileage expenses.

2.5 The objective of the review was to assess the adequacy of the Council's driving policy; supporting procedures and guidelines; and the design adequacy and operating effectiveness of key controls established to ensure ongoing compliance with applicable legislation, ensuring that all Council employees and agency staff are, and remain, legally and medically fit to drive.

Resilience

2.6   The Council's Business Plan or "Programme for the Capital" includes an aim to have 'a resilient city, where citizens are protected and supported with access to sustainable and well-maintained facilities'.

2.7   Ensuring that both statutory and critical services can be effectively recovered in the event of a disaster, is a key Council priority. Additionally, there is a legislative requirement for the Council to establish Business Continuity Management (BCM) arrangements under the Civil Contingencies Act (CCA) 2004.

2.8   Consequently, it is vital that the Council has identified and prioritised recovery of critical services by completion of business impact assessments (BIAs), and can demonstrate that adequate and effective resilience plans have been established for these services; are regularly tested; with lessons learned incorporated into ongoing resilience activities.

2.9   It is also essential to ensure that third party suppliers involved in delivery of critical services (including e.g. third-party technology systems suppliers) can demonstrate their ability to recover quickly and effectively. Consequently, BIAs and resilience plans should include details of supplier recovery arrangements, with (at least) annual assurance provided by third parties that they remain effective.

2.10   Effective citizen and employee communications are also critical elements of Resilience arrangements, and it is essential that customer communication plans and employee emergency call trees are maintained and tested.

2.11   Our review assessed the adequacy of design and operating effectiveness of the key resilience controls established to ensure that the Council is able to provide an appropriate level of service in the event of a major incident that renders Council buildings; employees and / or systems non-operational.

3.   Main report

Drivers Health and Safety

3.1   Review of the Council's key Drivers Health and Safety controls identified a number of significant and systemic control weaknesses. Consequently, 3 High and 5 Medium rated findings were raised.

3.2   The first High rated finding reflects the need to finalise; approve; and publish the current draft Driving policy, ensuring that it is supported by driving procedures across Service Areas that are consistently designed and effectively applied.

3.3   Control gaps in relation to the design and consistent application of both pre-employment and in service driver legal and medical checks – especially for drivers of heavy goods vehicles (HGVs) are covered in the second High rated finding. This finding highlights concerns that knowledge of driving rules and safety standards is not consistently tested as part of the selection process; identified pre-recruitment checks that were completed post start date; and confirmed that whilst pre-

employment health checks are adequately designed to meet statutory obligations, they do not include obtaining independent confirmation from GPs in relation to the applicant or employee's medical ability to drive.

3.4   The report also notes that the Corporate Policy and Strategy Committee decided (in August 2017) that employee drug and alcohol testing would not be implemented as the existing Alcohol, Drug and Substance Misuse policy was considered fit for purpose.

3.5   The third High rated finding reflects the need to define and implement a control framework for grey fleet drivers, to ensure that all employees driving personal vehicles for Council business are also legally and medically fit to drive in line with Health and Safety legislation and guidance.

3.6   The five Medium rated findings highlight control gaps in relation to ongoing assessments of and delivery of training to the full population of vocational drivers; cancelling driver permits and fuel cards for leavers; ensuring ongoing compliance with driving hours regulations; and fully recording and addressing driving incidents and complaints.

Resilience

3.7   Thankfully, none of the recent resilience incidents have resulted in any unavoidable loss of service. However, the review identified some significant control weaknesses that could adversely impact the Council's ability to recover in the event of a future major incident, as the full population statutory and critical services provided by the Council have not been identified, and are not supported by fully adequate, effective and up to date resilience plans (including resilience arrangements of third party service and technology providers) that are regularly reviewed and tested. Consequently, two High; two Medium; and one Low rated findings have been raised.

3.8   The first High rated finding reflects that the Health and Social Care Partnership is not currently included within the Council's Resilience framework, and that there is a lack of clarity in relation to Directorate/Divisions and Resilience team operational resilience responsibilities. As a result, the Resilience team have become involved in delivery of service area resilience planning activities. Consequently, resilience activities are not being performed in line with the established resilience management framework.

3.9   The second High rated finding reflects the need to prioritise and complete Business Impact Assessment (BIAs) and resilience plans across the Council, as only 31% of the full population of BIAs was complete as at 28 February 2018, and only a limited number of service area resilience plans (which themselves require to be updated) have been established. Additionally, completed BIAs do not capture details of critical services and technology systems (shadow IT) provided by third party suppliers, or consider the adequacy of their resilience arrangements and their potential impact on the Council's ability to recover. This finding also highlights the need to establish a Council-wide emergency call tree to ensure that all employees can be contacted in

the event of a major incident. Currently, reliance is placed on Directorates/Divisions to ensure that all employees can be contacted appropriately.

3.10   The Medium and Low rated findings raised highlight the need for ongoing maintenance of Council wide resilience plans; delivery of resilience training; and ensuring lessons learned from completion of resilience exercises are communicated and addressed.

4.   Measures of success

4.1   Appropriate management actions have been agreed and will be implemented to address the risks identified in relation to Drivers Health and Safety and Resilience.

5.   Financial impact

5.1   Not applicable.

6.   Risk, policy, compliance and governance impact

6.1   A total of 5 High; 7 Medium; and 1 Low rated findings have been raised reflecting the control gaps identified.

7.   Equalities impact

7.1   Not applicable.

8.   Sustainability impact

8.1   Not applicable.

9.   Consultation and engagement

9.1   The Executive Director of Resources; Executive Director of Place; Head of Human Resources; Head of Place Management; Head of Strategy and Insight; and the Democracy, Governance and Resilience Senior Manager have been consulted and engaged.

10. Background reading/external references

10.1 [Workplace Policy on Alcohol Drug and Substance Misuse Paper to Corporate Policy and Strategy Committee 8 August 2017](#)

10.2 [Corporate Policy and Strategy Committee Meeting Minutes 8 August 2017](#)

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11. Appendices

Appendix 1: Internal Audit Report – Council Wide Drivers Health and Safety

Appendix 2: Internal Audit Report Resilience

Appendix 1

The City of Edinburgh Council
Internal Audit

Council wide Drivers Health and Safety Audit

Final Report

2 August 2018

Contents

1. Background and Scope

Background

The fatal bin lorry crash in Glasgow in December 2014 that killed 6 and injured a further 15 members of the public reinforces the City of Edinburgh Council's (the Council's) ongoing responsibility to ensure that all permanent and agency employees who are required to drive to fulfil the requirements of their role are both legally and medically fit to drive.

Following the Fatal Accident Inquiry into the Glasgow bin lorry crash (December 2015), the Sheriff published recommendations for drivers; doctors; Glasgow City Council; and the DVLA to prevent reoccurrence of a similar event. These recommendations can be viewed at FAI Sheriff Determination

Additionally, driving at work is regulated by the following legislation:

- Road Traffic Act;
- The Road Vehicles (Construction and Use) Regulations;
- The Health and Safety at Work etc. Act 1974; and
- Transport Act 1968

The Drivers and Vehicles Standards Agency (DVSA) is responsible for enforcing applicable domestic; and European requirements for driving as part of employment which specify daily allowable driving and working hours limits; and the requirement for employers to monitor mobile working hours.

These requirements also include specific requirements for drivers of passenger carrying vehicles that cover breaks and continuous driving; length of working day; and daily and fortnightly rest periods.

The 'Driving at work - Managing work-related road safety checklist' published jointly by the Health and Safety Executive and Department for Transport also requires that all drivers are adequately trained, with priority given to highest risk drivers, for example, those with high annual mileage; poor accident records; or those new to the job.

Additionally, the Driver and Vehicle Standards Agency (DVSA) requires professional drivers to complete 35 hours of training every 5 years to maintain their Certificate of Professional Competence.

As part of the DVLA professional driving licence application process, applicants are required to submit a medical examination report (D4) completed by a Doctor and Optician. The same documentation is required to support renewal applications, completed every 5 years once the driver has reached 45 years of age.

The Council has significant number of employees who are required to drive for their role, with most of these drivers in Place.

Every Council driver should have a Driving Permit, issued by Fleet Services, before they can drive Council vehicles. Prior to issuing permits to new employees, checks are performed to assess the eligibility; and compliance history of the potential candidates.

As at 1 March 2018, Fleet Services had issued a total of 3,872 driving permits.

All new Council employees, including drivers, are required to complete an Occupational Health Questionnaire. This includes medical history and lifestyle questions to determine fitness to work. The current Driving Permit procedure also requires drivers to notify their line managers and Fleet Services of any health concerns that could compromise their ability to drive. When employees return from

sickness absence line managers are required to perform a return to work interview and file a fit note for a sickness absence of 8 days or more.

The Council also uses temporary drivers from external agencies. Since December 2017, Pertemps has been the sole supplier of agency employees.

The Council also has a population of 'grey fleet' drivers who drive their own vehicles for business purposes and claim mileage expenses. During the period 1 February 2017 to 31 January 2018, 1,900 employees had driven 2.27M miles in their own vehicles and had claimed £1.03M mileage expenses.

To register a personal vehicle for business use, employees are required to complete a registration form; provide valid documentation such as their Driving Licence; insurance and MOT certificates; and evidence of road tax payment to their line manager, who reviews these documents and authorises the registration form. Line Managers are expected to perform an annual review of these documents to confirm their ongoing validity.

The HR Compliance project team recently performed a one-off exercise to validate registered grey fleet driver documents for drivers who had claimed mileage expenses in the last year. This work was ongoing at the time of our review and management has advised that, as at 13 June 2018, documents for 965 grey fleet users (52% of the full population registered) had been validated.

The Council also has an established policy covering alcohol, drugs and substance misuse and drug and alcohol and an employee code of conduct that prohibits alcohol and drugs consumption in the workplace; specifies that Employees have a responsibility to check whether any prescription or over the counter medication they are taking has the potential to impair their ability to carry out their work in a safe manner; and enables employees who are unfit to undertake their contractual duties due to the consumption of alcohol or drugs to be sent home.

Scope

Our work was performed as at 31 March 2018, and objective of the review was to assess the adequacy of the Council's driving procedures; driving policy; supporting guidelines; and the design adequacy and operating effectiveness of key controls established to ensure ongoing compliance with applicable legislation, ensuring that all Council employees and agency staff are and remain legally and medically fit to drive.

Please refer Appendix 2.for the detailed terms of reference.

2. Executive summary

Total number of findings

Critical	-
High	3
Medium	5
Low	-
Advisory	-
Total	**8**

Summary of findings

Our review of the Council's key controls established to ensure that all Council and agency employees remain legally and medically fit to drive; whist ensuring ongoing compliance with applicable legislation, identified a number of significant and systemic control weaknesses.

Consequently, 3 High and 5 Medium rated findings have been raised.

Given the increased focus on driver and pedestrian health and safety following the fatal Glasgow bin lorry crash in December 2014, and the subsequent recommendations from the fatal accident inquiry in December 2015, it is important that these control gaps are addressed.

Our first High rated finding reflects that the current draft Driving policy has not been finalised; approved and published. Additionally, whilst some driving procedures are in place across Service Areas, they are not consistently designed or effectively applied.

We established a number of significant control gaps in relation to the design and consistent application of both pre-recruitment and ongoing driver legal and medical checks – especially for drivers of heavy goods vehicles (HGVs). Our main concerns are that knowledge of driving rules and safety standards is not consistently tested as part of the selection process; a number of these checks are often completed post start date; and that whilst pre-employment health checks are adequately designed to meet statutory obligations, they do not include obtaining independent confirmation from GPs in relation to the applicant or employee's medical ability to drive.

The Council's Corporate Policy and Strategy Committee decided (in August 2017) that employee drug and alcohol testing would not be implemented, and that the existing Alcohol, Drug and Substance Misuse policy was fit for purpose (refer: Corporate Policy on Alcohol Drug and Substance Misuse and Corporate Policy and Strategy Meeting Minutes 8 August 2017). Whilst neither the paper presented to the Committee or the policy make specific mention of the risks associated with Drivers, management has confirmed that the population of Council drivers are included in this decision. The paper presented also noted that the Corporate Leadership team (CLT) had agreed in principal to random testing for 'High Risk Roles' and that further work was being undertaken to identify these roles. Management has advised that this has not progressed following a decision not to progress with a testing regime.

Our third High rated finding reflects the need to define and implement a control framework for grey fleet drivers, to ensure that all employees driving personal vehicles for Council business are also legally and medically fit to drive in line with the requirements of Health and Safety legislation and guidance.

We did notice well designed system based controls in HR that prevent grey fleet mileage claims from being processed unless the vehicle has been registered.

Our five Medium rated findings highlight control gaps in relation to ongoing assessments of and delivery of training to the full population of vocational drivers; cancelling driver permits and fuel cards for leavers; ensuring ongoing compliance with driving hours regulations; and fully recording and addressing driving incidents and complaints.

Further detail is provided at Section 3 below.

3. Detailed findings

1. Driving Policy and Procedures

Findings
The draft Driving Policy and supporting draft driving policy toolkit dated 31st August 2017 has not been finalised and published.

There is also no established Council wide framework to support consistent recruitment and ongoing management of both professional and grey fleet drivers. |

Business Implication	Finding Rating
• Existing procedures supporting recruitment and ongoing management of drivers are not aligned with the draft policy and may not be compliant with applicable legal and regulatory requirements; and • Lack of awareness among Service Areas and Line Managers regarding procedures to be applied to ensure that drivers remain legally and medically fit to drive.	**High**

Action plans	
Recommendation	**Responsible Officer**
1. The Driving Policy and the supporting Policy Toolkit should be reviewed (considering any relevant recommendation from the Glasgow bin lorry fatal accident inquiry); finalised and subsequently approved by the Corporate Leadership Team and relevant Executive Committee; 2. The policy should be reviewed and approved, and updated with legislative and supporting procedural changes; 3. Operating procedures covering both recruitment and ongoing management of drivers (including grey fleet and agency employees) that are aligned with policy requirements should be prepared; 4. Once approved, the Policy and supporting procedures should be circulated to, and implemented by, all Service Areas; and	Katy Miller, Head of HR with support from Fleet Services and Corporate Health and Safety.

5. A proactive blended learning approach should be developed for all employees and line managers and employees to ensure ongoing awareness of the Driving policy, with evidence of learning retained.	
Agreed Management Action	**Estimated Implementation Date**
1. The Driving Policy and the supporting Policy Toolkit will be reviewed and updated to include relevant recommendation(s) from the Glasgow bin lorry Fatal Accident Inquiry and any recent legislative changes. The policy will be approved by the Corporate Leadership Team, the Corporate Policy and Strategy Committee; communicated to all Council employees and published on the Orb. 2. The policy will be reviewed as the need arises to reflect any legislative or procedural changes; approved by the Corporate Leadership Team and the Corporate Policy and Strategy Committee; communicated to all Council employees and published on the Orb. 3. Operating Procedures, aligned with driving policy requirements, for recruitment and ongoing management of drivers (including grey fleet and agency employees) will be prepared and issued across all service areas for implementation 4. An awareness raising/learning campaign will be developed in conjunction with key stakeholders as part of the implementation plan for the new Driving Policy.	1. Review and consultation will be undertaken between Jul-Nov 18. Report to CLT-Nov 18 Finance and Resources 7 Dec 18 2. N/A 3. and 4, 31 December 18 4. December 2018 through to January 2019.

2. Pre-employment and ongoing checks – Council Drivers

> **Findings**

Interview documentation and references

Review of interview notes for a sample of 5 new joiners and three internal transfers to roles with driving responsibilities confirmed that there was no evidence of assessment of the candidate's knowledge of driving rules and safety standards. Notably:

- There was no evidence of assessments in the interview notes for all 5 new employees;

- Evidence was recorded in the interview notes for one internal transfer;

- No interview notes were available for one internal transfer; and

- The employee file for the third internal transfer could not be located by HR

Additionally, reference requests were issued 3 days after the joining date for 1 of the sample of 5 new joiners and there is no evidence of their fit to work assessment on the employee file.

This contradicts one of the 19 recommendations made by Sheriff John Beckett QC, following the Glasgow bin lorry crash inquiry, which was: '*Glasgow City Council, when employing a driver, should not allow employment to commence before references sought have been received.*'

Driving Licence Checks

Currently, the driving checks required to support issue of driving permits to new employees are completed by Fleet Services after a new driver has been offered employment or they have joined the Council.

Health Assessments

Whilst the Council currently meets its statutory obligations for pre employment medical checks for all new HGV drivers and HGV driver checks at five yearly intervals from age 45 onwards through pre employment questionnaires and follow-up occupational health assessments (where appropriate), there is currently no established requirement within the Council to obtain medical reports from GPs confirming the applicant or employee's current and historic medical ability to drive.

Additionally, there is no established procedure for completion of ongoing driver medical assessments, for other Council vocational drivers.

One of the 19 recommendations made by Sheriff John Beckett QC following the Glasgow bin lorry crash inquiry was: '*Glasgow City Council should carry out an internal review of its employment processes with a view to ascertaining potential areas for improvement in relation to checking medical and sickness absence information provided by applicants, for example by having focussed health questions within reference requests for drivers and obtaining medical reports in relation to health related driving issues from applicants' GPs.'* Whilst this is not a formal legal requirement, the recommendation should be considered as 'best practice'.

During the year 2017-18, 69 Council drivers had recorded sickness absences of 8 or more days. Review of a sample of 5 confirmed that no fit note was available and no return to work interview had been performed for 2 of these drivers.to confirm that they were medically fit to drive.

Business Implication	Finding Rating
- Candidates are recruited and on boarded who are not legally or medically fit to drive; and - Health and Safety and reputational risk in the event of a significant incident where the driver is not legally or medically fit to drive following a return to work after sickness absence	**High**

Action plans	
Recommendation	**Responsible Officer**
1. Knowledge of the driving rules and safety standards should be adequately assessed as part of the selection process, with the outcomes recorded and retained by recruiting managers; 2. An appropriate risk based decision should be made in relation to the extent of onboarding and ongoing driver legal and medical checks to be performed for both Council and agency employees. This decision should consider the recommendations from the outcomes of the Glasgow bin lorry fatal accident; and relevant legislative requirements; The decision should be approved by the Corporate Leadership Team and relevant Executive Committee; with the draft Driving policy updated and supporting procedures developed and implemented across the Council; 3. Final employment offers should only be made once all pre-recruitment checks (including driving eligibility and medical checks) have been satisfactorily completed.	1. to 5 Katy Miller, Head of HR

Pre-recruitment checklists (which includes references, fit to work assessment etc.) should be completed by recruiting managers and provided to HR for review before the employment contract is issued;

4. The draft Driving policy should be updated to include the requirement for line managers to discuss possible alternative working options, when a professional driver reports health concerns that could impact their ability to drive; and

5. Line Managers should also be reminded that they should not allow any driver to drive prior to completing a return to work interview following sickness absence.

Agreed Management Action	Estimated Implementation Date
1. The selection process will be updated to include adequate assessment of the candidates' knowledge of the driving rules and safety standards, with line managers advised that they are required to obtain evidence of this assessment; 2. Potential options in relation to enhanced pre-employment screening medical checks will be investigated for specific categories of drivers. This will consider the recommendations from the Glasgow bin lorry fatal accident inquiry and benchmark against existing practice in other organisations. 3. The recruitment procedure will be update to state that a pre-recruitment checklist, which will also include driving eligibility checks, must be completed signed by the recruiting manager and provided to HR before an employment contract is issued. 4. The draft Driving Policy Toolkit will be updated to include the requirement for line managers to discuss possible alternative working options, when a professional driver reports health/medical concerns impacting their ability to drive; and 5. Line Managers will be reminded to not allow any driver to drive prior to completing a return to work interview following a significant sickness absence where the condition could impact the employee's ability to drive safely.	1. 30 September 2018 2. 31 March 2019 3. 30 September 2018 4. 7 December 2018 5. 31 October 2018

3. Grey Fleet Drivers

Findings

Driving permits

Driving permits are currently not issued to grey fleet drivers. Grey fleet user registration forms are only submitted to HR to support mileage claim reimbursements.

This contradicts the requirements of the draft driving policy which states that it is a responsibility of the Fleet Services to *'Manage **all** staff who drive on behalf of the Council through a Driver permit and licence checking scheme'* and the draft Driving Policy Toolkit states, *'All Authorised Car Users will be required to have a Council Drivers Permit'*.

Grey Fleet registrations

Line managers are expected to review employee driving documents annually to confirm their ongoing validity, and reauthorise the employee's grey fleet registration.

A sample of 25 grey fleet users were selected (based on mileage claims) and confirmation requested from line managers that they had performed the necessary annual checks. This highlighted that most line managers were not aware of this annual requirement and only checked employee driving documentation at the point of initial registration. Specifically:

a) 14 line managers did not perform an annual review of driving documents;

b) 2 line managers confirmed that they check the documents annually, but could not provide any supporting evidence;

c) Line Managers could not be established for 2 of the employees in the sample; and

d) Responses were not received from 7 line managers.

Review of a sample of 25 grey fleet drivers who had claimed business mileage in the last 12 months to confirm that they were registered grey fleet drivers established that:

- 11 registrations had been destroyed as the vehicles were registered more than five years ago;

- 2 registrations could not be located by HR; and

- 9 users had registered their vehicles after the date of first use specified on the registration form, with an average delay of 25 days and maximum delay of 126 days between first use and completion of registration documents.

Business Implication	Finding Rating
- Grey fleet drivers using personal vehicles for Council business may not be legally and medically fit to drive; - Potentially adverse reputational impact in the event of a significant incident when employees are driving for business purposes; and - Inability to monitor completeness of registrations and completion of ongoing line manager checks if the full population of grey fleet is not recorded and maintained.	**High**

Action plans	
Recommendation	Responsible Officer
1. A decision should be made regarding the requirement for grey fleet drivers to hold a valid Council driving permit, and the draft Driving policy updated to reflect this. If it is decided that grey fleet drivers will *not* move to driving permits, *then the following agreed actions will be implemented*: 2. The policy should also be updated to prohibit the use of private vehicle for Council business, without prior registration, unless authorised by the Head of Service in exceptional circumstances. 3. The requirement for line managers to review grey fleet driving documentation annually, and retain evidence of this check, should be reinforced; and 4. Details of the full population of grey fleet drivers should be centrally maintained, and sample checking implemented to confirm that line managers have reviewed driving documents annually.	1. Katy Miller, Head of HR with support from Gareth Barwell, Head of Place Management 2. and 3 Katy Miller, Head of HR 4. Gareth Barwell, Head of Place Management

Agreed Management Action	Estimated Implementation Date
1. The requirement for grey fleet drivers to hold a driving permit will be discussed and decided, and the draft Driving policy updated. If the decision is made that all drivers must hold a permit, a process will be established to ensure that all grey fleet drivers are issued with driving permits and their details recorded and maintained on the system operated by Fleet, and annual checks on eligibility to drive performed. The Driving policy will also be updated to prohibit use of private vehicles for Council business, without either a permit or prior grey fleet registration, unless authorised by the Head of Service in exceptional circumstances. **If it is decided that grey fleet users will not be required to hold driving permits then actions 2 and 3 below will be implemented** 2. Line Managers will be reminded annually to review the documentation for their grey fleet drivers; retain evidence of this check; and confirm with HR that the check has been performed; 3. A one-off exercise is being completed centrally to validate the documents of all grey fleet users who have claimed mileage during last 12 months. Users with invalid documents will be removed from the grey fleet registration database and the mileage claim system; and 4. Details of the full population of grey fleet drivers should be centrally maintained, and sample checking implemented to confirm that line managers have reviewed driving documents annually.	1. 7 December 2018 Dates for 2, 3, and 4 will be agreed if it is decided that grey fleet users will not be required to hold driving permits.

4. Driving Assessments and Training

Findings

Driving Assessments

There are currently no centralised driving assessment and training processes established across the Council to ensure consistent completion of periodic driving assessments and delivery of ongoing training.

There are Royal Society for the Prevention of Accidents (RoSPA) certified driving assessors in some service areas such as Waste and Road Services, who conduct driving assessments for their drivers.

Review of a sample of 20 heavy goods vehicle (HGV) drivers to establish whether driving assessments had been performed confirmed that:

- no evidence could be provided to support completion of driving assessments for 12 drivers
- 1 assessment had been completed in 2017
- 3 assessments were completed in 2016;
- 3 assessments were completed in 2015; and
- 1 driver was an agency employee who no longer works with the Council.

Training

The Council currently assesses competence of, and provides training for, HGV drivers. There is no established process to assess competence and deliver training to other existing and newly recruited vocational drivers.

We reviewed a sample of 20 training records for drivers with HGV licences to confirm that mandatory training had been completed and noted that:

- 12 HGV drivers had recently received training;
- training records for 3 drivers could not be located by Fleet Services;
- 2 were agency drivers and no training was provided to them; and
- 3 were no longer applicable as they no longer drive HGV vehicles or had completed their mandatory training in a previous role.

Business Implication	Finding Rating
- Potential non-compliance with legislative training requirements; - Potential increase in the number of driving incidents and customer complaints; and - Adverse reputational impact in the event of a significant driving incident.	**Medium**

Action plans	
Recommendation	**Responsible Officer**
1. An appropriate risk based decision should be made and implemented in relation to the extent of ongoing assessment checks to be performed and delivery of training to all vocational Council drivers. This decision should consider relevant legislative and professional competence requirements. The decision should be approved by the Corporate Leadership Team and relevant Executive Committee; with the draft Driving policy updated and supporting procedures developed and implemented across the Council; 2. An assessment of the capacity of existing RoSPA certified driving assessors should be performed to confirm whether they can support completion of Council wide driving assessments and delivery of training in line with the policy. If this is not sufficient, management should consider whether additional resources are required or, alternatively procure these services externally; 3. A review of completion of HGV drivers training should be performed, and any gaps immediately addressed.	Gareth Barwell, Head of Place Management
Agreed Management Action	**Estimated Implementation Date**
1. A risk based decision, considering relevant legislative and professional competence requirements, will be made and implemented for the extent of performing driving assessments and training delivery to Council's vocational drivers; 2. The decision will be approved by the Corporate Leadership Team and the Corporate Policy and Strategy Committee; and the draft Driving policy and supporting procedures will be updated and implemented;	1. and 2, 29 March 2019 3. 7th January 2019 4. 1st February 2019

3. Capacity of existing RoSPA certified driving assessors will be assessed to confirm if they can support Council wide driving assessments. If the existing capacity is not sufficient, a business case will be prepared to either recruit competent certified driving assessors or alternatively procure these services externally; and

4. A review of completion of HGV drivers training will be performed, and any gaps noted will be addressed.

5. Management and use of Driver Permits and fuel FOB cards

Findings
There is currently no established process to ensure that the Council vehicles are provided only to authorised drivers with a Council driving permit as no documents are checked when the vehicle keys are given to drivers at the Russell Road depot. Additionally, there is no established process to ensure that Fleet Services is informed of all Council and Agency drivers who have left the Council. Consequently: • Driving Permits are not cancelled and Fuel FOBs are not returned before they leave; and • The annual Driving Licence check is performed on leavers' licences.

Business Implication	Finding Rating
• Potential theft and unauthorised use of Council vehicles, including but not limited to any criminal use by former Council and agency employees; • Misuse of Council driving permits and fuel FOBs by former Council and agency employees; and • GDPR breach resulting in financial penalties and reputational damage.	**Medium**

Action plans	
Recommendation	**Responsible Officer**
1. A list of all Council and agency drivers who have left the organisation should be provided to Fleet Services by HR monthly; 2. Cancellation of driving permits and return of fuel FOB should be included in the leavers checklist for completion by line managers; 3. Fleet Services should cancel the leaver's driving permit and the line manager should recover the fuel card and return to Fleet Services on the driver's last working day (where practical); and 4. Fleet Services should remove all leavers from their database and no DVLA check should be performed on their licences. 5. Fleet Services should develop a process to ensure that Council vehicles are only handed over to authorised drivers.	1. and 2 Katy Miller, Head of HR 3. to 5 Gareth Barwell, Head of Place Management
Agreed Management Action	**Estimated Implementation Date**

1. A procedure to provide Fleet Services with monthly leavers details will be developed and implemented;
2. Cancellation of driving permits and return of fuel FOB will be included in the leavers checklist for completion by line managers;
3. On a driver's last working day, the line manager will recover the leavers driving permit and fuel FOB and return those to Fleet Services, driving permits will be cancelled and destroyed, with details removed from the system;
4. Fleet Services will perform an exercise to remove all historic leavers from their database and advise the external third party who performs the annual licence checks to ensure that no subsequent checks are performed on former employees; and
5. Fleet Services will develop and implement a process to ensure that the vehicles are only handed over to the authorised drivers at its depots and workshops.

1. and 2, 30 September 2018
3. 1 April 2019
4. 1 February 2019
5. 1 December 2018

6. Ongoing compliance with driving hours regulations

Findings

The Council's Fleet Services Compliance Team run a weekly exception report on the FTA Vision system, detailing all driving hours infringements. This is then shared with line managers who are expected to discuss it with the relevant drivers.

We were unable to establish whether line managers proactively monitor the system to identify exceptions, or whether they rely on production of the weekly exception reports by the Compliance team.

Review of a sample of 22 driving hours infringements included in the weekly exception reports over a period of 5 weeks highlighted that:

- 2 line managers did not receive the reports and were unable to discuss with the drivers;
- Line managers for 3 Council and 5 agency employees confirmed that driving infringement are produced from FTA Vision; discussed with and signed by drivers, but could not provide any evidence of this sign-off; and
- 12 line managers did not respond to our request to confirm receipt and review of the exception reports.

Business Implication	Finding Rating
• Potential non-compliance with the requirements of the Operator Licencing and Transport Act 1968; and • Increased driving hours leading to fatigue and a potential safety risk for commuters and residents/visitors to Edinburgh and the surrounding area.	**Medium**

Action plans	
Recommendation	**Responsible Officer**

1. Fleet Services should remind all line managers that it is a legislative requirement to monitor and discuss driving infringements report with all drivers (including agency employees). They should also be reminded that they should access FTA vision directly to monitor team driving hours;	1. Gareth Barwell, Head of Place Management
2. The requirement for line managers to monitor driving hours should be included in the draft Driving Policy and supporting procedures;	2. and 3 Katy Miller, Head of HR
3. All drivers should be reminded (at least annually) of the requirement to disclose any additional driving hours not recorded on their tachograph cards as required per the Council's Employee Code of Conduct;	4. to 6 Gareth Barwell, Head of Place Management
4. Fleet Services should regularly review and update their population of line managers (including line management responsibilities for agency drivers) to ensure that it is complete and accurate;	
5. Fleet Services should request confirmation from Line Managers that they have discussed the infringements report with the relevant drivers, with details of the actions to be taken; and	
6. Failure to respond should be escalated to the Head of Service for action.	
Agreed Management Action	**Estimated Implementation Date**
1. A communication will be issued to line managers of all the drivers reminding them of the legislative requirement to monitor and discuss driving infringements report with their drivers (including agency employees). They will also be reminded and encouraged to access the FTA vision directly to monitor their team members driving hours.	1. 1 December 2018 2. and 3, 7 December 2018 4. 1 February 2019 5. and 6, 1 March 2019
2. The requirement for line managers to monitor driving hours will be included in the Driving Policy and supporting procedures.	
3. An annual communication will be issued to all drivers reminding them of the requirement to disclose any additional driving hours that are not recorded on tachograph cards;	
4. Fleet Services will reconcile its records of Council/agency drivers and their line managers with HR records on a quarterly basis to ensure that it is complete and accurate; and	
5. and 6 In the email where infringements report is shared with line managers, Fleet Services will include the requirement for Line Managers to confirm that they have discussed the infringements report with the relevant drivers along with details of the actions to be taken. Responses will be monitored and failure to respond will be escalated to the Head of Service for action.	

7. Driving Incidents – complaints reporting and resolution

Findings

We noted that Council vehicles currently display the Council's website address. Good practice recommends that a specific complaints web address/contact helpline should be clearly displayed on vehicles to encourage residents and visitors to report any unsafe driving incidents.

Review of the status of customer complaints related to driving incidents and behaviours on the Confirm and Capture complaints management systems established that a significant volume of complaints are not being closed on the systems by their target resolution date, and identified a total of 43 open complaints that had missed their target resolution dates. Specifically:

Capture system

- whilst 254 driving incident complaints were closed during 2017-18, only 110 (43%) of these were closed in the system on time;

- 144 complaints (57%) were closed after their target resolution date, with 101 (70%) closed within 0-10 days after their target resolution date, and the balance closed later.

- there are currently 27 open driving incident complaints, aged between 57 to 407 days post their target resolution date; and

- 85%(23) of those complaints are outstanding for more than 90 days post target resolution date and 37%(10) complaints for more than 240 days.

Confirm System

- There are 16 open driving incident complaints relating to Waste Services aged between 3 to 328 days after their target resolution date; and

- 75%(12) of those complaints were outstanding on the system for more than 60 days after their target resolution date and 38% (6) complaints for more than 120 days.

Please refer Appendix 3 for further detail on open and closed driving incident complaints.

Business Implication	Finding Rating
Increased customer dissatisfaction among customers if complaints are not addressed and delayed/no action on customer complaints causing rise in the unsafe driving incidents and behaviours	**Medium**

Action plans

Recommendation	Responsible Officer
1. The draft Driving policy should be updated to reflect the requirement for service areas to ensure that all open complaints are resolved and closed on the systems in a timely manner; 2. Service Areas should ensure that all resolved complaints are closed on the systems; that open complaints are addressed in a timely manner with their progress recorded on the systems; and customers kept informed; and 3. The Council's Complaints web page; email address and contact helpline should be clearly displayed on Council vehicles to encourage	1. and 2 Katy Miller, Head of HR 3. Gareth Barwell, Head of Place Management

reports of any unsafe driving incidents and positive driving behaviours.	
Agreed Management Action	**Estimated Implementation Date**
1. and 2 The draft Driving policy and supporting Toolkit will be updated to include the requirement for Head(s) of Service to review all overdue complaints on the systems monthly and obtain confirmation as to why they have not been closed on time Where the complaints remain open, they will need to ensure that all necessary actions required to resolve and close the complaints are being taken, with the system updated to reflect the current position and the complainant informed; and 3. The Council's Complaints web page; email address and contact helpline will be displayed on Council vehicles.	1. and 2, 7 December 2018 3. 1 December 2019

8. Recording and addressing driving incidents

Findings
As per the Council Health and Safety (H&S) policy and procedures, all accidents, incidents, and near miss events should be reported by employees (drivers) to their line managers who should record them on the H&S SHE system.
Line managers are also required to report the driving incident to the Corporate Transport Network team (Fleet Services) as per Fleet Services' Driving Permit and Drivers Handbook. A total of 342 driving incidents were reported to this team during 2017-18.
Of the 342 driving incidents reported to Fleet Services only 30 had been recorded on SHE.
Additionally, there is currently no analysis of the root cause of recorded driving incidents performed across service areas, and no consolidated reporting of the full population of driving incidents across the Council.

Business Implication	**Finding Rating**
• Increased volumes of driving incidents with recurring root causes that are not addressed; and • Corporate Health and Safety reporting could be understated if incidents are not recorded on the SHE system.	**Medium**

Action plans	
Recommendation	**Responsible Officer**
1. The requirement for line managers to record all driving incidents (including grey fleet) on SHE should be reinforced in the Driving policy; 2. A monthly reconciliation should be performed between the incidents reported to Fleet Services and those recorded on SHE;	1. Katy Miller, Head of HR 2. Gareth Barwell, Head of Place Management, with support from

3. Quarterly analysis of driving incidents/ accidents should be performed and provided to Service Areas with a request to ensure that key themes are incorporated into training; and 4. Six monthly reporting on the volume and nature / root causes of driving incidents across the Council should be provided to the Corporate Leadership Team, together with relevant actions taken.	Corporate Health and Safety 3. And 4 Gareth Barwell, Head of Place Management,
Agreed Management Action	**Estimated Implementation Date**
1. The Driving policy and supporting toolkit will be updated to reflect the requirement to report all driving incidents to the Corporate Transport Network team and record them on SHE; A communication will also be issued to line managers reminding them to record all driving incidents on SHE; 2. A monthly reconciliation between the incidents reported to Fleet Services and those recorded on SHE will be performed, with line managers advised re any gaps on the SHE system that need to be addressed; 3. Quarterly analysis of driving incidents will be performed and provided to Service Areas with a request that any recurring themes or root causes are incorporated into ongoing driver training; and 4. Six monthly reporting will be provided to the Corporate Leadership Team together with details of relevant actions taken.	1. 31 December 2018 2. 1 April 2019 3. 1 February 2019 4. 1 October 2019

Appendix 1 - Basis of our classifications

Finding rating	Assessment rationale
Critical	A finding that could have a: • ***Critical*** impact on operational performance; or • ***Critical*** monetary or financial statement impact; or • ***Critical*** breach in laws and regulations that could result in material fines or consequences*; or* • ***Critical*** impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: • ***Significant*** impact on operational performance; or • ***Significant*** monetary or financial statement impact; or • ***Significant*** breach in laws and regulations resulting in significant fines and consequences*; or* • ***Significant*** impact on the reputation or brand of the organisation.
Medium	A finding that could have a: • ***Moderate*** impact on operational performance; or • ***Moderate*** monetary or financial statement impact; or • ***Moderate*** breach in laws and regulations resulting in fines and consequences; or • ***Moderate*** impact on the reputation or brand of the organisation.
Low	A finding that could have a: • ***Minor*** impact on the organisation's operational performance; or • ***Minor*** monetary or financial statement impact; or • ***Minor*** breach in laws and regulations with limited consequences; or • ***Minor*** impact on the reputation of the organisation.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Appendix 2 – Terms of Reference

Terms of Reference – Council wide Drivers Health and Safety Audit

To: Stephen Moir, Executive Director, Resources
        Paul Lawrence, Executive Director, Place
        Alistair Gaw, Executive Director, Communities and Families
        Michelle Miller. Interim Chief Officer Health and Social Care Partnership

From: Lesley Newdall, Chief Internal Auditor   Date: 2 April 2018

Cc: Katy Miller, Head of Human Resources
        Gareth Barwell, Head of Place Management

This review is being undertaken as part of the 2017/18 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2017.

Background

The fatal bin lorry crash in Glasgow in December 2014 which killed 6 and injured a further 15 members of the public reinforces the City of Edinburgh Council's (the Council's) ongoing responsibility to ensure that all permanent and agency employees who are required to drive to fulfil the requirements of their role are both legally and medically fit to drive.

Additionally, driving at work is regulated by the following legislation:

- Road Traffic Act
- The Road Vehicles (Construction and Use) Regulations
- The Health and Safety at Work etc. Act 1974

Work related road traffic accidents and fatalities are investigated by the Police. In some cases, there could also be involvement from the Health and Safety Executive.

The Drivers and Vehicles Standards Agency (DVSA) is responsible for enforcing applicable GB domestic and European requirements for driving as part of employment which specify that:

- Drivers must not drive for any more than 10 hours in one day;
- Drivers must not be on duty for any more than 11 hours in one working day;
- Employers must monitor mobile workers' working time to ensure that limits are not exceeded, and must record working time and maintain the records for at least 2 years.

The requirements also include specific requirements for drivers of passenger carrying vehicles that cover breaks and continuous driving; length of working day; and daily and fortnightly rest periods.

The Council currently employs a significant number of employees who have driving as a key requirement of their role, with the majority of these drivers in Place. The Council also has a grey fleet where council employees drive their own vehicles for work and claim mileage expenses.

During the period of 12 months between 01 February 2017 and 31 January 2018, 1900 employees have driven 2.27 million miles in their own vehicles and have claimed £1.03 million as mileage expenses. As on 01 March 2018, the Fleet Services has issued a total of 3,872 number of driving permits.

Scope

The objective of this review is to assess the adequacy of the Council's driving procedures Council's driving policy and supporting guidelines and the design adequacy and operating effectiveness of key controls established to ensure ongoing compliance with applicable legislation, ensuring that all Council employees and agency staff are and remain legally and medically fit to drive.

Limitations of Scope

The use of other small vehicles such as forklift trucks, mobile ride on vehicles etc. is excluded from the scope of this review.

Approach

Our audit approach is as follows:

- Obtain and review the Council's driving policy and supporting guidance;
- Obtain an understanding of recruitment and on boarding processes (for permanent and agency staff) for roles where driving is involved;
- Obtain an understanding of the processes established to assess whether drivers remain legally and medically fit to drive on an ongoing basis;
- Obtain an understanding of the processes supporting recording of driving hours across Service Areas, including retention of records;
- Confirm whether the key risks associated with these processes are being effectively managed;
- Confirm that adequate controls have been implemented; and
- Test the operating effectiveness of the key controls.

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

Sub-process	Control Objectives
Policy and Guidance	• The Council has a documented and approved driving policy that clearly articulates a) requirements and process for issuance of drivers permits and b) checks performed for drivers and other employees, who drive for work, when they join and also on an ongoing basis; • An appropriate policy owner has been established, the roles and responsibilities of various stakeholders have been clearly defined and the policy has been approved by the relevant Council committees; • There are clear policies, arrangements and defined roles and responsibilities for checks to be performed when agency staff are recruited into driving roles; • Responsibilities for driving checks have been communicated to all agencies used by the Council; and • Clear and effective guidance has been prepared and issued across all Service Areas to support ongoing policy compliance.
Drivers recruitment on-boarding and leaving	• The relevant driving licence/certificate requirements and expected knowledge of driving safety standards are specified in job adverts; • The interview process includes assessment of knowledge of necessary driving rules and driving safety standards; • Appropriate background and criminal checks are performed to ensure the successful candidate has no inappropriate driving convictions; • Where relevant to the role, successful candidate(s) is required to i) provide evidence of Protecting Vulnerable Groups (PVG)

	certification, ii) disclose if they have any unspent convictions and iii) disclose spent convictions for offences on the always disclose list;
	• A health test is performed on the successful candidate to ensure they don't have any significant health conditions or use medication that could compromise their ability to safely drive vehicles;
	• All applicable pre recruitment checks are completed for both permanent and agency staff, before an offer of employment is made: Checks include: DVLA driving eligibility checks, CPC (Certificate of Professional Competence) and associated training requirements, international driving licence checks, driving assessments, assessment of driving safety standards including drivers smart card data, confirmation of existing health conditions including results of fitness to drive tests;
	• Where the employees register their private vehicle for business use, valid driving licence, MOT, insurance and other requirements are checked before issuing the drivers permit;
	• There are controls in the employees' mileage claim reimbursement process to ensure that the drivers claiming mileage for use of own vehicles had been issued a valid driving permit by the council;
	• Newly recruited drivers and existing drivers, identified with new or increased risk exposure, are provided with relevant training and guidance to ensure that they comply with the road safety standards with training records maintained;
	• When a driver is no longer required to drive a council vehicle, as a result of leaving/retirement/end of contract/ job rotation/suspension, there is a process to ensure that their drivers permit is returned and cancelled; and
	• There are established controls to ensure that council vehicles are only provided to drivers who are authorised to drive by their service area managers and who have a valid driving permit.
Regular review and monitoring	• A fit to drive assessment is regularly performed for all drivers and specifically for drivers returning after sickness absence, to ensure that they don't have any new health conditions which may compromise their ability to safely drive the vehicle; • The pre-employment and annual fit to drive assessments are sufficiently robust to identify any underlying health conditions that may not be identified or disclosed at a medical appointment (other than the individual's GP); and • Compliance team within Fleet Services performs adequate checks to ensure that the necessary legislation(s) is(are) complied with, especially around the shift patterns and recording and monitoring of working times; • There are established procedures to ensure that the compliance team are aware of drivers' working time commitments on other jobs; • There is an established self-declaration process where drivers can voluntarily declare their inability to drive due to physical/mental conditions or any other safety concerns. They are then engaged to discuss alternative short or long-term options in relation to their employment;

	- Where a concern is identified regarding ability to drive, there is an established process to ensure that the driving is prohibited, with the affected employees consulted to discuss alternative employment options; - There are documented arrangements for alternative options, where the drivers are no longer fit to drive. - There are established controls to ensure that no driver drives under the influence of drugs/ alcohol with spot checks performed. Where any violation is noted, there are formal procedures to deal with those violations; and - There are procedures in place to ensure that all the council vehicles are duly insured and the necessary insurance requirements are complied with.
Complaints and Accidents	- A contact helpline number/email is clearly displayed on all Council vehicles to enable citizens to report any unsafe driving incidents; - There is a clearly documented and approved process to deal with all complaints received, with management information collated and reported to Service Areas for review and action where appropriate; and - There is a clearly defined and documented process for recording accidents and near-miss events, with appropriate action taken to prevent recurrence.

Internal Audit Team

Name	Role	Contact Details
Lesley Newdall	Chief Internal Auditor	lesley.newdall@edinburgh.gov.uk 0131 429 3216
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Key Contacts

Name	Title	Role	Contact Details
Katy Miller	Head of Human Resources	Review Sponsor	0131 4695522
Grant Craig	People Support Manager (HR)	Key Contact	0131 5297585
Gareth Barwell	Head of Place Management	Key Contact	0131 5295844
Scott Millar	Fleet & Workshops Manager	Key Contact	0131 3471902

Timetable

Fieldwork Start	19 March 2018

Fieldwork Completed	16 April 2018
Submission of Draft Report	23 April 2018
Response from Auditee	4 May 2018
Final Report to Auditee	11 May 2018

Follow Up Process

Where reportable audit findings are identified, the extent to which each recommendation has been implemented will be reviewed in accordance with estimated implementation dates outlined in the final report.

Evidence should be prepared and submitted to Audit in support of action taken to implement recommendations. Actions remain outstanding until suitable evidence is provided to close them down.

Monitoring of outstanding management actions is undertaken via monthly updates to the Director and his executive assistant. The executive assistant liaises with service areas to ensure that updates and appropriate evidence are provided when required.

Details of outstanding actions are reported to the Governance, Risk & Best Value (GRBV) Committee on a quarterly basis.

Appendix 1:   Information Request

It would be helpful to have the following available prior to our audit or at the latest our first day of field work:

- Process, procedure notes, forms, statement/confirmation of compliance to legal driving requirements associated with drivers recruitment, on-boarding , and ongoing checks

This list is not intended to be exhaustive; we may require additional information during the audit which we will bring to your attention at the earliest opportunity.

Appendix 3: Open Complaints – Driving Incidents (Finding 8)

A. Capture System (Council-wide Complaints except Waste)

	Before resolution date	0-30 days after resolution date (a.r.d)	30-60 days a.r.d	60-90 days a.r.d	90-120 days a.r.d	120-240 days a.r.d	240-300 days a.r.d	300-450 days a.r.d	TOTAL
Closed Complaints	110	123	6	8	2	4	1	0	254
Percentage of Closed Complaints	43%	49%	2%	3%	1%	2%	0%	0%	100%
Open Complaints	-	0	1	3	7	6	5	5	27
Percentage of Open Complaints	-	0%	4%	11%	26%	22%	18%	19%	100%

B. Confirm System (Waste Services)

	Before resolution date	0-30 days after resolution date (a.r.d)	30-60 days a.r.d	60-90 days a.r.d	90-120 days a.r.d	120-240 days a.r.d	240-300 days a.r.d	300-450 days a.r.d	TOTAL
Open Complaints	-	3	1	6	0	4	0	2	16
Percentage of Open Complaints	-	19%	6%	37%	0%	25%	0%	13%	100%

C. All Open Complaints (A+B)

	0-30 days after resolution date (a.r.d)	30-60 days a.r.d	60-90 days a.r.d	90-120 days a.r.d	120-240 days a.r.d	240-300 days a.r.d	300-450 days a.r.d	TOTAL
Open Complaints	3	2	9	7	10	5	7	43
Percentage of Open Complaints	7%	5%	21%	16%	23%	12%	16%	100%

The City of Edinburgh Council
Internal Audit

CW1702 - Resilience
Draft Report

7 September 2018

Contents

This internal audit review is conducted for the City of Edinburgh Council under the auspices of the 2017/18 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2017. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there is a number of specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

1. Background and Scope

Background

In September 2017, the Council published its strategic business plan ("Programme for the Capital") to build upon Edinburgh's successes, and demonstrate a commitment to improve services and amenities across the City.

The business plan includes five strategic aims, and one notable aim is to have 'a resilient city, where citizens are protected and supported with access to sustainable and well-maintained facilities'.

Delivery of certain services are necessary to meet statutory requirements or are critical for citizens. Ensuring that both statutory and critical services can be effectively recovered in the event of a disaster, is a key priority for the Council. Additionally, there is a legislative requirement for the Council to establish Business Continuity Management (BCM) arrangements under the Civil Contingencies Act (CCA) 2004.

Consequently, it is vital that the Council has identified and prioritised recovery of critical services by completion of business impact assessments (BIAs), and can demonstrate that adequate and effective resilience plans have been established for these services; are regularly tested; with lessons learned incorporated into ongoing resilience activities.

It is also essential to ensure that third party suppliers involved in delivery of critical services (including third party technology system suppliers) can demonstrate their ability to recover. Consequently, BIAs and resilience plans should include details of supplier recovery arrangements, with (at least) annual assurance provided by third parties that they remain effective.

Third party assurance can be obtained through provision of International Standard for Assurance Engagements (ISAE) 30402 service organisation control (SOC) reports from suppliers. This standard is designed to provide customers with assurance that suppliers operate adequate and effective service delivery or technology provision internal controls. ISAE 3402 assurance work is commissioned annually by the service provider; is performed by an independent auditor (usually a professional services firm); is tailored to covers a range of controls (including resilience); and the final report is provided free of charge to the organisation's customers. Further information is available at ISAE3402:

Effective citizen and employee communications are also critical elements of Resilience arrangements, and it is essential that customer communication plans and employee emergency call trees are maintained and tested.

The Council's Resilience Management System document (RMSD) outlines the current resilience risk management framework, including responsibility and accountability for management of resilience risks and activities, and the established resilience governance framework.

The Three Lines of Defence model can be applied to management of resilience risks and activities, and is aligned with the roles and responsibilities specified in the Council's RMSD. The 'first line' comprises service areas that own and manage service delivery resilience risks; the 'second line' includes specialist centralised teams (i.e. the Resilience team within Strategy and Insight) who establish and oversee compliance with relevant policies and frameworks and challenge the effectiveness of resilience risk management by service areas; with the third line (for example, Internal Audit) providing independent assurance on the operation of key resilience controls.

In the past 18months the council has faced a number of significant incidents that has required an emergency response from the Resilience team. The elevation of the UK terrorist Threat Level to 'Move to Critical' on two occasions; the Council's detailed response to Grenfell Tower fire; and a serious Severe Weather Incident in February / March 2018).

Additionally, the Council was a lead agent in a UK wide counter-terrorism exercise in 2017, which required extensive multi-agency planning.

The Council's Resilience team has also achieved and maintained ISO22301 International Standard for Business Continuity accreditation.

Scope

Our review was performed as at February 2018 and assessed the adequacy of the design and operating effectiveness of the key resilience controls established to ensure that the Council can continue to provide an appropriate level of service in the event of a major incident that renders Council buildings; employees and / or systems non-operational.

Our review focused on the adequacy and effectiveness of controls in the following areas:

- The Council's Resilience Management System (RMS);
- Emergency response plans;
- Oversight and governance of the RMS and emergency response plans; and
- Completion of resilience plans and BIAs for critical service areas.

Our full terms of reference are included at Appendix 2.

2. Executive summary

Total number of findings

Critical		-
High		2
Medium		2
Low		1
Advisory		-
Total		**5**

Summary of findings

Management has advised that none of the recent resilience incidents have resulted in any unavoidable loss of service, however, our review identified some significant control weaknesses that could adversely impact the Council's ability to recover in the event of a future major incident, as the full population statutory and critical services provided by the Council have not been identified, and are not supported by adequate and effective resilience plans (including resilience arrangements of third party service and technology providers) that are regularly reviewed and tested.

The Health and Social Care Partnership (H&SCP) is responsible for delivery of a number of statutory and critical services, and ensuring that effective resilience arrangements have been established across the entirety of these services, and by the Council; NHS Lothian; and partner providers. Currently, partnership services provided by the Council are not included within the Council's Resilience framework. Resilience management has advised that they provide advice and support on an ongoing basis as agreed with Partnership senior management.

Management has advised that (following completion of our review) the H&SCP has developed a resilience plan in consultation with both the Council and NHS Lothian that was approved by the Edinburgh Integration Joint Board (EIJB) in May 2018, and will be tested later in the year.

There is also a lack of clarity in relation to service area (first line) and Resilience team (second line) resilience responsibilities across the Council, with no clearly defined responsibilities and accountabilities in Directorates and Service Areas for completion and maintenance (with the support of the Resilience team) of the full population of BIAs and Resilience plans considered necessary (a total of 158 excluding the Health and Social Care Partnership). As a result, the Resilience team have become involved in delivery of first line service area resilience planning activities. Consequently, resilience activities are not being performed in line with the resilience framework detailed in the RMSD.

This is supported by the fact that that BIAs across the Council have not been fully completed (only 31% of the full population of BIAs was complete as at 28 February) and only a limited number of service area resilience plans (which are predominantly out of date) have been established.

Additionally, BIAs do not capture details of critical services and technology systems (shadow IT) provided by third party suppliers, or consider the adequacy of their resilience arrangements and their potential impact on the Council's ability to recover.

Whilst management has advised that communication in the recent severe winter weather worked effectively, we also confirmed that there is no established Council wide emergency call tree to ensure that all employees can be contacted in the event of a major incident. Instead, reliance is place on service areas to ensure that they maintain contact details for their employees. The resilience team do maintain contact details for employees with resilience responsibilities, and have advised that that plans are being progressed to upload all employee details into the resilience management system, however there is currently no completion date for this activity.

We also identified some moderate control gaps in relation to the ongoing maintenance of Council wide resilience plans; delivery of resilience training; and lessons learned from completion of resilience exercises.

Consequently, two High; two Medium; and one Low rated findings have been raised.

Further information on the findings raised is included at Section 3: Detailed findings.

3. Detailed findings

1. Resilience responsibilities

Findings

The Council's Resilience team do not provide oversight and challenge on Health and Social Care Partnership resilience arrangements in relation to Partnership services delivered by the Council, but provide advice and support on an ongoing basis. Resilience management has advised that this approach was agreed with Partnership senior management.

Our review also established that service areas (first line) and the Resilience team (second line) are not delivering their respective resilience responsibilities effectively. These responsibilities are detailed in the current resilience management system document (RMSD) and include the requirement for Directorates and Service Areas to effectively manage their resilience risks; and prepare and maintain the total population of 158 (excluding the Health and Social Care Partnership) business impact assessments (BIAs), and resilience plans considered necessary across the Council. Additionally, where resilience responsibilities have been allocated, they are not consistently reflected in performance objectives and conversations. Currently, the Resilience team is performing the majority of these first line service area resilience activities.

Our testing also confirmed that there is an insufficient number of resilience coordinators and deputy coordinators established across the Council to support resilience incidents. The RMSD notes that there are currently:

- 3 locality resilience coordinators
- 4 service area coordinators; and
- 5 cross council resilience specialists

Finally, we noted that the Resilience Manager is also chair of the Council's Resilience Group (CRG) that is responsible for review and approval work delivered by the Resilience team (for example the RMSD and the annual resilience test programme), and that the roles and responsibilities of this group have not been formally defined.

Business Implication	Finding Rating
- Potential gaps in Health and Social care business impact assessments and resilience plans for services delivered by the Council are not identified and addressed; - Service area resilience responsibilities (for example completion of business impact assessments and preparation and maintenance of resilience plans) are not effectively performed; - Potential lack of clarity in relation to responsibility for implementing service areas resilience plans in the event of a major incident); - Employees with resilience responsibilities are not assessed on how effectively these are discharged; - Lack of segregation of duties when the CRG reviews and approves work delivered by the Resilience team; and - CRG members are not clear on their roles and responsibilities.	**High**

Action plans	
Recommendation	**Responsible Officer**
1. The Council's Resilience team responsibilities in relation to resilience support provided to the Health and Social Care Partnership for Partnership services delivered by the Council should be reconsidered and clearly defined; 2. A review of voluntary resilience coordinators will be performed in each Directorate to ensure that numbers are sufficient to provide support in the event of a resilience incident. Where numbers fall short, Directorates will endeavour to recruit additional volunteers; 3. Operational resilience responsibilities for completion and ongoing maintenance of Directorate and Service Area Business Impact Assessments; Resilience plans; and coordination of resilience tests in conjunction with the Resilience team will be clearly defined and allocated. The total number of employees with operational resilience responsibilities will be determined with reference to the volume of business impact assessments and resilience plans that require to be completed and maintained to support recovery of critical services; 4. Corporate; management; and team member objectives for operational resilience responsibilities (for example completion of Service Area Business Impact Assessments; Resilience Plans; and coordination of Resilience tests) will be established, with ongoing oversight performed by Directors and Heads of Service to confirm that these are being effectively delivered to support the resilience responses included in both the Directorate and Council's annual governance statements; 5. An alternative chair of the CRG should be considered to ensure effective segregation of duties; and 6. Formal terms of reference should be established and approved for the CRG.	1. Resilience Team and H&SC 2. to 4 All service areas 5. Resilience management 6. Resilience team
Agreed Management Action	**Estimated Implementation Date**

1. Strategy and Insight Head of Service to meet with the Chief Officer EHSCP, as the responsible officer, to agree appropriate, clear resilience support arrangements.	1. 5 and 6 – 30 November 2018
	2. and 3 - 20 December 2018
2. to 4 – IA recommendations agreed by all Directorates;	4. 31 July 2019
5. Governance arrangements for the Council Resilience Group and its subgroups will be considered as part of the regular resilience management review; and	5. and 6 - 28 September 2018
6. Formal terms of reference for the CRG will be developed by Resilience and submitted for approval at the September CRG meeting.	

2. Completion and adequacy of service area business impact assessments and resilience arrangements

<table>
<tr><td>Findings</td></tr>
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Business impact assessments

The Council's Resilience team are heavily involved in completion of service area business impact assessments (BIAs). Service area BIAs are categorised as complete only when all underlying lower level BIAs have been completed and approved.

Completion of BIAs has not been prioritised on the basis of statutory and critical services. Instead, the Resilience team are facilitating completion of BIAs once service area restructures are complete. Management has advised that this has been agreed with the Corporate Leadership Team.

The Resilience team monitors completion of the 158 BIAs to be completed across the Council (excluding Health and Social Care) using a tracker. Review of the tracker as at 28 February 2018 established that:

- 35 (22%) BIAs have not been started. Of the 123 (78%) BIAs in progress, only 49 (31%) have been fully completed; and
- 27 of the 49 completed BIAs (55%) are more than one year old and past the annual review date specified on the front of BIA document.

Review of a sample of 20 completed BIAs also confirmed that:

- they do not consistently include reference to critical third party supplier resilience arrangements and agreed recovery objectives;
- they do not include resilience arrangements for all technology systems, notably critical shadow technology systems that are externally hosted. Of the 95 technology systems detailed in the 20 BIAs reviewed, only 12 were classified as either internal or externally hosted systems;
- the Artifax system used by Culture within the Place Directorate is recorded on the Culture BIA as internally hosted by the Council, but is also included in the shadow IT return completed by Place and provided to the Council's ICT team;
- whilst BIAs include recovery time objectives, they do not include recovery point objectives - the maximum targeted period in which data might be lost from a technology system following a major incident;

Resilience plans and emergency call trees

There is only a limited number of established resilience plans across service areas detailing the process to be followed in the event of an incident, however these are predominantly out of date.

Resilience management has advised that resilience plans will be created across the Council once all BIAs have been completed, as agreed by the Corporate Leadership Team.

Additionally, there is no established Council wide emergency call tree to ensure that all employees can be contacted in the event of a major incident.

The Resilience team maintains a directory that includes contact details for all Council employees with resilience responsibilities (there are currently 12 employees included in the resilience management system document who have resilience responsibilities) that is regularly tested.

Resilience management has advised that plans are being progressed to upload all employee details into the resilience management system, however there is currently no completion date for this activity.

Business Implication	Finding Rating
• The Council may be unable to recover critical services in the event of a significant or major incident and • The Council may be unable to contact employees in the event of a significant or major incident.	**High**

Action plans	
Recommendation	**Responsible Officer**
1. Existing BIA templates should be reviewed and refreshed to include details of third parties involved in service delivery; shadow technology systems; recovery time objectives for services; and both recovery time (RTOs) and recovery point objectives (RPOs) for all both CGI hosted and shadow technology systems used by the service; RTOs and RPOs for CGI hosted systems should either be aligned with established CGI contractual recovery arrangements, or change requests initiated where shorter RTO timeframes are required by Service Areas. 2. Completion of BIAs and emergency call trees should be prioritised by service areas (with guidance provided by the Resilience team) and provided to Resilience for review, oversight and challenge, and a target date set for completion; 3. Processes should be established within service areas to ensure emergency call trees are updated to reflect employee changes; 4. Once BIAs have been completed, they should be reviewed and a list of statutory and critical services established and presented to CLT for agreement; 5. Following CLT agreement on the Council's population of statutory and critical services, development of resilience plans for these areas should be prioritised by services areas, with support provided by the Resilience team; 6. Existing third party contracts supporting critical services should be reviewed by Directorates in consultation with contract managers / owners to confirm that they include appropriate resilience arrangements. Where gaps are identified, Procurement Services should be engaged to support discussions with suppliers regarding inclusion of appropriate resilience clauses requiring third parties to establish adequate resilience arrangements for both services and	1. 4; 8; 9 - Resilience Team 2. and 3 Resilience Team 5. 10 and 11 - All service areas and Resilience Team 6. All service areas / procurement 7. Procurement 12. Service Areas

systems that are tested (at least annually) with the outcomes shared with / provided to the Council. Where these changes cannot be incorporated into existing contracts, they should be included when the contracts are re tendered. ;

7. When procuring critical services, procurement specification requirements should be considered at the design stage and enhanced to require third party confirmation that they have established adequate resilience arrangements for both services and systems that are tested at least annually; with the requirement to maintain and test resilience plans and provide assurance on the outcomes to the Council included in final supplier contracts;

8. Resilience plan templates should be revised to ensure that they include details of critical third party service and technology provider resilience arrangements in relation to the service, with appropriate recovery time and recovery point objectives;

9. All statutory and critical service resilience plans and emergency call tress should be reviewed at least annually by the Resilience team, with specific focus on ensuring that third party recovery time objectives for services, and recovery time and point objectives for shadow IT systems are aligned with the Council's recovery objectives for re-establishing the service;

10. Once established, all statutory and critical service BIAs; resilience plans; and emergency call trees should be reviewed and refreshed annually, and provided to resilience for review;

11. All statutory and critical service plans should be tested at least annually (this could either be an independent test or could form part of a council wide resilience test), with outcomes recorded and lessons learned factored into resilience plans; and

12. Assurance should be obtained annually for statutory and critical services from third party service providers that their resilience plans remain adequate and effective; and have been tested to confirm that the recovery time objectives for systems and recovery time and point objectives for technology systems agreed with the Council were achieved. Where this assurance cannot be provided, this should be recorded in Service Area and Directorate risk registers.

Note that the requirement for provision of annual assurance by suppliers could be satisfied by provision of their annual ISAE 3402 service organisation controls reports; sharing the outcomes of internal audit reviews of resilience; and sharing the outcomes of resilience testing performed.

Agreed Management Action	**Estimated Implementation Date**
1. The BIA template will be reviewed by Resilience, including recovery objectives, in conjunction with key internal stakeholders (dependent on Procurement's action 2.7);	1. 31 July 2019
	2. and 3 – 29 March 2019
2. And 3 Resilience to develop and provide appropriate methodology,	4. 31 January 2019

protocols and templates for BIAs, call trees and resilience plans. Resilience will oversee and coordinate the completion and maintenance of all BIAs and emergency call trees, providing support, review and challenge to service areas and ensuring consistency of approach;

4. A list of Council essential activities will be submitted to CLT for final approval;

5. Following CLT agreement on the Council's list of essential activities, resilience plans for these areas will be prioritised on a risk-assessed basis, as far as practicable, with support provided by Resilience. The development of resilience plans will include capacity workshops, training on the Resilience Management Information System and scenario planning about key potential resilience incidents and their impact for each essential activity business areas. The development of resilience plans will prioritise high-risk essential activities (approximately 70) and these will be completed first; Following this, resilience plans for the remaining essential activities (approximately 105) will also be prioritised for completion on a risk basis;

6. and 7 – IA recommendations agreed by all Directorates;

8. Resilience plan templates, including recovery objectives, will be reviewed by Resilience, in conjunction with key internal stakeholders;

9. Resilience will, on the basis of risk assessment and in conjunction with key internal stakeholders, document which statutory and service resilience plans required to be reviewed annually in particular ensuring alignment of third party and shadow IT recovery time objectives with service re-establishment; these will be aligned with the revised BIA template (see management action 2.1), government and Resilience Partnership set priorities and confirmed annually as part of the CRG management review programme.

10. Once the new BIA template and initial resilience plans for essential activities are completed and established, Resilience will continue to support service areas to annually review their BIAs, essential activity resilience plans and call trees;

11. Resilience will, on the basis of risk assessment and in conjunction with key internal stakeholders, document which statutory and service resilience plans required to be tested annually. Relevant exercise actions for Resilience will be recorded and significant lessons learned incorporated into resilience plans, pending approval by multi-agency partners and the CRG, as appropriate; and

12. Agreed by all Directorates.

5. 30 June 2020 for first group and December 2021 for second

6. 20 December 2019

7. 21 December 2018

8. 29 March 2019

9. 21 December 2018

10. 21 December 2021

11. And 12 – 28 June 2019

3. Adequacy, maintenance, and approval of Council wide resilience plans

Findings

Review of the Resilience team plan review schedule that details the timeframes for review of Council wide resilience plans, protocols, and procedures confirmed that there is currently no cyber security Council wide resilience plan, and no Council wide significant incident framework to ensure that the

appropriate people are contacted and a critical response team established in the event of a serious incident (e.g. fatality or dangerous incident).

Additionally, 15 documents had been archived. Of these, 6 were noted as having been archived as there were insufficient resources to maintain them, with no further rationale provided.

Of the 36 remaining documents:

- 20 were reviewed in 2017
- 4 are in currently being reviewed
- 12 were not reviewed in 2017, but had been allocated 2018 review dates

The Edinburgh Major Incident Evacuation Plan was last published in July 2016 and is scheduled for review in December 2018, whilst the Corporate Bomb Threat and Suspicious Item Procedure was published in March 2016 and is scheduled for review in November 2018.

Finally, review of a sample of five council wide resilience plans confirmed that:

- they included references to the business continuity plan which has not been reviewed and updated since 2015; and
- As at 28 February 2018, the emergency response plan on Council's intranet (the Orb) was dated 2014. Resilience management has advised that this has now been addressed and the December 2017 version is now available.

Business Implication	Finding Rating
- The Council may be unable to recover critical services in the event of a cyber security attack and employees may not be aware of their responsibilities; - The Council may be unable to respond appropriately in the event of a critical occurrence; - Archived plans may include relevant resilience risks that could potentially crystallise and impact the Council; and - If a major incident or corporate bomb threat occurs, plans and procedures to be applied could be out of date and no longer relevant.	**Medium**

Action plans	
Recommendation	**Responsible Officer**
1. A Council wide significant incident escalation framework should be developed, communicated, and maintained together with the current population of council wide resilience plans; 2. A clear process should be established for archiving plans, and the rationale for archiving clearly documented; 3. The 6 plans archived on the basis of insufficient resources should be reviewed to confirm that they can be archived as the risks are no longer relevant; and 4. Review of the major incident evacuation plan; the corporate bomb threat and suspicious item procedure; and the business continuity plan should be prioritised.	1. to 5 Resilience team
Agreed Management Action	**Estimated Implementation Date**

1. a) Resilience will prepare a paper for CLT highlighting the risks associated with lack of a Council wide significant incident management framework that is linked to Service Area incident management processes. If this proposal is accepted, the current resilience management framework will be shared with Directorates and guidance and support provided on how this can be linked with Service Area incident management processes.
 	
b) Resilience will develop guidance and promote best practice to enable managers to develop incident management procedures for their respective areas as they deem appropriate.
 	
2. The process and rationale for archiving corporate resilience plans will be documented.
 	
3. And 4
 	
   a) As part of the Resilience management review programme and priorities assessment Resilience will, on the basis of risk assessment and in conjunction with key internal stakeholders, document the review frequency for corporate resilience plans, aligning with government and Resilience Partnership set priorities and prioritising on a risk basis.
 	
   b) Under this methodology the Major Incident Evacuation Plan and Bomb Threat and Suspicious Items will be reviewed by January 2019.
 	
   c) The Council Business Continuity Plan (which was based only on the Council's structure) is being replaced on an interim basis by refreshed BIA data, based on each Council building, which will provide data to support a wider range of incident scenarios, including loss of premises – this is scheduled to be completed by November 2019.
 	
   d) A full Council Business Continuity Plan is scheduled to be completed by December 2020, which will include contingency plans for essential activity areas.
	1. a) and b) - 29 March 2019
	2. 20 December 2018
	3 and 4 a) - 28 June 2019
	b) 31 January 2019
	c) 29 November 2019
	d) 18 December 2020

4. Resilience Training

Findings

Employees with resilience responsibilities across the Council receive training delivered by the Resilience team. However, there is no established process to ensure that all new employees or existing employees who have assumed resilience responsibilities receive the necessary training.

Additionally, whilst some evidence of training attendance was available (calendar invites and e mails), it is not formally recorded and monitored by the Resilience team.

Review of a sample of 20 employees with resilience responsibilities (including the Chief Executive; four Corporate Leadership Team Members; one Head of Service; and the Council Leader) confirmed that:

- 1 resilience coordinator had not yet attended the training;
- no evidence of training attendance could be provided for 2 cross-council resilience specialists; and

- no evidence of training attendance could be provided for 1 service area resilience coordinator.

Business Implication	Finding Rating
Employees with resilience responsibilities who have not received training may not discharge their duties effectively in the event of an incident.	**Medium**

Action plans	

Recommendation	Responsible Officer
1. A process should be established to ensure that the Resilience team are made aware of all employees (new and existing) who have assumed resilience responsibilities, enabling them to be enrolled for training; 2. A training delivery tracker should be established and maintained to record training delivered to Council employees and identify potential opportunities for delivery of refresher training;	1. Service Areas and Resilience team 2. Resilience team

Agreed Management Action	Estimated Implementation Date
1. a) Resilience will provide an updated list of Council staff with a named resilience responsibility from the RMS to the CLT detailing all Resilience Coordinators and Specialists every 6 months to identify new employees with resilience responsibilities. (Resilience Deputies will be determined as part of the resilience plans being developed with each essential activity area.) b) Resilience will support Resilience Coordinators to undertake and complete a training needs analysis for direct resilience roles. c) Resilience to meet with HR (Margaret-Ann Love and Christine McFadzen, the HR Resilience Specialist) to discuss corporate resilience training needs. 2. The Resilience Training and Exercising records tracker will be updated and maintained.	1. 30 November 2018 2. 21 December 2018

5. Lessons learned from resilience exercises

Findings
Review of a sample of five internal and external resilience exercises established that: - no debrief report was written for the Dark Star Phase 2 exercise completed in March 2017; and - there was no evidence of a completion of a debrief for the Lothian Pension Fund workshop completed in October 2017. Additionally, there was no evidence available to confirm that debrief actions had been implemented for the following resilience exercises / workshops: - business continuity, completed in July 2017; - Magpie, completed in September 2017; and - Lothian Pension Fund workshop, completed October 17.

Business Implication	Finding Rating

Lessons learned are not incorporated into future exercises or live resilience incidents.	**Low**

Action plans	
Recommendation	**Responsible Officer**
1. Debrief reports or notes should be prepared or obtained for all Council-led resilience exercises performed and the outcomes shared with all participants and all relevant employees with resilience responsibilities; and 2. Evidence should be retained to confirm implementation of all debrief actions.	Resilience team
Agreed Management Action	**Estimated Implementation Date**
1. Debrief reports / notes will continue to be maintained for Council-led resilience exercises and outcomes shared with all participants and relevant employees with direct resilience responsibilities (as noted in the RMS). 2. Agreed Resilience debrief actions will be captured and monitored on Pentana as part of the resilience management review programme.	1. and 2 – 30 November 2018

Appendix 1 - Basis of our classifications

Finding rating	Assessment rationale
Critical	A finding that could have a: • *Critical* impact on operational performance; or • *Critical* monetary or financial statement impact; or • *Critical* breach in laws and regulations that could result in material fines or consequences*; or* • *Critical* impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: • *Significant* impact on operational performance; or • *Significant* monetary or financial statement impact; or • *Significant* breach in laws and regulations resulting in significant fines and consequences*; or* • *Significant* impact on the reputation or brand of the organisation.
Medium	A finding that could have a: • *Moderate* impact on operational performance; or • *Moderate* monetary or financial statement impact; or • *Moderate* breach in laws and regulations resulting in fines and consequences; or • *Moderate* impact on the reputation or brand of the organisation.
Low	A finding that could have a: • *Minor* impact on the organisation's operational performance; or • *Minor* monetary or financial statement impact; or • *Minor* breach in laws and regulations with limited consequences; or • *Minor* impact on the reputation of the organisation.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Appendix 2 – Terms of Reference

Draft Terms of Reference – Resilience Governance Review

To: Laurence Rockey, Head of Strategy and Insight
        Mary-Ellen Lang, Resilience Manager

From: Lesley Newdall, Chief Internal Auditor   Date: 20th February 2018

This review is being undertaken as part of the 2017/18 internal audit plan approved by the Governance Risk & Best Value Committee in March 2017.

Background

In September 2017, the Council published its strategic business plan ("Programme for the Capital") to build upon Edinburgh's successes, and demonstrate a commitment to improve services and amenities across the City.

Five strategic aims are included in the business plan. One notable aim is to have:

- A resilient city, where citizens are protected and supported with access to sustainable and well-maintained facilities.

Certain services are a statutory requirement or are critical for citizens, such as health and social care and education. Ensuring that statutory and critical services continue to operate and are restored effectively in the event of a disaster or disruptive event, is a key priority for the Council.

Additionally, there is a legislative requirement for the Council to establish Business Continuity Management (BCM) arrangements under the Civil Contingencies Act (CCA) 2004.

The Council's Resilience team is currently accredited under the British Standards Institute's International Standard for Business Continuity (ISO22301) which specifies the requirements for a management system to protect against, reduce the likelihood of, and ensure business recovery from disruptive incidents.

As a capital city, one of the most significant disruptive events that could occur in Edinburgh is a terrorist attack. The Council participated in exercise Border Reiver (counter-terrorism exercise) in October 2017. This exercise, which forms part of the UK Home Office's National Counter-Terrorism Exercise Programme was designed to test effectiveness of emergency services; government; local authority; and other relevant agency responses to a terrorist incident.

It should also be noted that the Resilience team do not include the Health and Social Care Partnership within their Council wide remit, but provide resilience advice and support to the partnership an ongoing basis. This was agreed with the Health and Social Care Senior Colleagues.

The Council is currently undergoing a period of significant change and consequently Business Impact Assessments (BIAs) are being undertaken as structures are finalised by the Council. Resilience has confirmed that this is significantly impacting the ability to finalise and maintain council wide resilience plans.

Scope

We will assess the adequacy of design and operating effectiveness of the key resilience controls in place to mitigate the following Corporate Leadership Team risk:

Major incident - A sudden high impact event causes harm to people and damages infrastructure, systems or buildings. Buildings, staff and/or systems are non-operational for a time, resulting in a reduced ability to deliver services. Failure to deliver an appropriate level of service in the event of a sudden operational requirement may lead to harm to people and reputational damage to the Council.

Our review will focus on the adequacy and effectiveness of controls in the following areas:

- The Council's Resilience Management System (RMS);
- Emergency response plans;
- Oversight and governance of the RMS and emergency response plans; and
- Completion of resilience plans and BIAs for high risk Service Areas.

Limitations of Scope

The audit will not provide assurance on the following areas:

- Adequacy of Service Area resilience plans, and
- Adequacy of key third party suppliers' resilience arrangements.

Approach

Our audit approach is as follows:

- Obtain an understanding of the Council's RMS through interviews with key stakeholders, and review of supporting documentation;
- Identify the key risks related to the RMS, including oversight;
- Evaluate the design of the controls in place to address the key risks; and
- Test the operating effectiveness of the key controls.

Specific Control Objectives

Sub-process	Control Objectives
Resilience Management System	- A RMS is defined and implemented that is aligned with applicable legislation and standards. - Resilience roles, responsibilities and accountabilities have been clearly defined for both the Resilience team and Service Areas across the Council. - BIAs have been prepared by all Service Areas that clearly define the service delivered and its criticality. - BIAs completed by Service Areas have been consolidated (where possible) into appropriate resilience arrangements to support prioritisation for reinstatement of business-critical services across the Council. - BIAs are regularly reviewed and refreshed to reflect changes in service, and these changes are reflected in the overall Council resilience plan. - All third parties have been identified and prioritised on the basis of criticality of services provided to the Council, and the outcomes recorded in BIAs. - The RMS is subject to regular ongoing review to ensure that it remains aligned with changes within the Council; and changes to statutory and critical services. - A resilience training programme covering all areas of the Council that have a resilience responsibility has been established and delivered on an ongoing basis. The content of the training plan is sufficient to ensure that all those with a resilience responsibility are aware of the nature of resilience, external threats and their resilience responsibilities.

Resilience Exercising	• An annual resilience exercise programme has been established, and the test schedule approved by the relevant governance forum. Results, supporting evidence and lessons identified are recorded. • Performance against the overall plan and objectives is monitored and reviewed, and exercise outcomes are reported to management for review. Remedial actions are identified, and action plans for improvement are produced and authorised, and incorporated into the Council's resilience plan.
Incident Response and Management	• An incident response and management plan to deal with the Council's response to city wide incidents has been established and is regularly reviewed, refreshed and tested. • An incident response and management incident management team is in place, and includes appropriately senior levels of management who are responsible for providing direction, strategic & tactical decision making, and supporting the operational response. • All individuals in the incident response and management co-ordination group are fully aware of their roles and responsibilities, with new member and refresher training provided. • The incident response and management plan includes a communications strategy and plan to ensure that employees and citizens are aware of action being taken. • Incident response and management and communications plans are regularly tested with outcomes recorded and lessons identified factored into the incident response plan. • Incident response and management and communications plans have been updated to reflect the outcomes and lessons identified from the Border Reiver exercise that occurred in October 2017.
Oversight and governance	• Appropriate committees / governance forums have been established to provide scrutiny and oversight of the Council's RMS. • Committees / governance forums are supported by approved Terms of Reference that sets out roles and responsibilities. • The Council's overarching resilience plans have been approved.

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Internal Audit Team

Name	Role	Contact Details
Lesley Newdall	Chief Internal Auditor	0131 469 3216
Fiona Mathewson	Internal Auditor	07802660187

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Key Contacts

Name	Role	Contact Details
Laurence Rockey	Head of Strategy and Insight	0131 469 3493

Mary-Ellen Lang	Resilience Manager	0131 529 4686

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Timetable

Fieldwork Start	05/02/2018
Fieldwork Completed	09/03/2018
Draft Report	16/03/2018
Receipt of Management Responses	23/03/2018
Final Report Issued	06/04/2018

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Follow Up Process

Where reportable audit findings are identified, the extent to which each recommendation has been implemented will be reviewed in accordance with estimated implementation dates outlined in the final report.

Evidence should be prepared and submitted to Audit in support of action taken to implement recommendations. Actions remain outstanding until suitable evidence is provided to close them down.

Monitoring of outstanding management actions is undertaken via monthly updates to the Director and his executive assistant. The executive assistant liaises with service areas to ensure that updates and appropriate evidence are provided when required.

Details of outstanding actions are reported to the Governance, Risk & Best Value (GRBV).

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Governance, Risk and Best Value Committee

10am, Tuesday, 25 September 2018

City of Edinburgh Council – 2017/18 Annual Audit Report to the Council and the Controller of Audit

Item number	7.4
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

The report summarises the principal findings arising from the Council's 2017/18 external audit. While primarily focused on the review of the financial statements, the wider scope aspects of the audit include consideration of the Council's financial management, financial sustainability, governance and transparency and arrangements to secure and demonstrate value for money.

The proposed audit certificate provides an unqualified audit opinion on the financial statements and other prescribed matters but the accompanying report notes the failure of the Council's remaining Significant Trading Operation (STO) to break even over a rolling three-year period.

The report concludes that the Council has a well-developed and responsive medium-term revenue funding framework and appropriate arrangements in place for managing its financial position. In common with other councils, the projected savings requirement over the next four years nonetheless remains challenging and will require development of robust savings proposals and a focus on strategic priorities.

The report further concludes that appropriate governance arrangements are in place, with effective scrutiny by elected members. There is a continuing need, however, to ensure co-ordinated partnership working and monitoring of outcomes to deliver the Council's vision. In addition, in some areas, particularly health and social care, performance remains poor and a step change is required to deliver necessary improvements.

Report

City of Edinburgh Council – 2017/18 Annual Audit Report to the Council and the Controller of Audit

1. Recommendations

1.1 Members are asked to:

1.1.1 note that, following the audit process, it is anticipated that an unqualified audit opinion will be issued on the Council's Annual Accounts for 2017/18;

1.1.2 refer the audited Annual Accounts for 2017/18 to the Finance and Resources Committee for approval and thereafter to Council for noting;

1.1.3 note that, following approval by the Finance and Resources Committee, the audited Annual Accounts will be signed and submitted to the external auditor; and

1.1.4 note the areas of strength identified within the wider scope audit work and that progress in the delivery of the remaining improvement actions set out in the action plan in Appendix 4 of the auditor's report will be reported to the Committee during the year.

2. Background

2.1 The Council submitted its unaudited Annual Accounts to the external auditor by the required date of 30 June.

2.2 The review of all matters relating to external audit forms part of the remit of the Governance, Risk and Best Value Committee and is an important aspect of the overall governance arrangements of the Council. The external auditor will attend the Governance, Risk and Best Value Committee meeting to provide an overview of the accompanying report and respond to specific queries members may have on its content. Given the Committee's scrutiny function, however, approval of the annual accounts will be secured by onward referral to the Finance and Resources Committee meeting taking place on 27 September. The external auditor will also attend the Finance and Resources Committee meeting.

2.3   In discharging its work, the external auditor is required to comply with Audit Scotland's revised Code of Audit Practice and ISA260: Communications with those charged with governance. As part of the standard, the auditor is required to highlight:

- Relationships that may bear on the independence, integrity and objectivity of the appointed auditor and audit staff;
- The overall scope and approach to the audit, including any expected limitations, or additional requirements;
- Expected modifications to the audit report;
- Management representations requested by him/her;
- Unadjusted misstatements other than those that are clearly trivial;
- Material weaknesses in internal control identified during the audit;
- Qualitative aspects of accounting practice and financial reporting, including accounting policies; and
- Matters specifically required by auditing standards to be communicated to those charged with governance and any other matters that are relevant to the audit.

3.   Main report

3.1   There are no qualifications to the proposed audit certificate. As in previous years, however, the audit opinion includes an explanatory paragraph in respect of the Council's remaining significant trading organisation (STO). The Edinburgh Catering Services – Other Catering STO failed, over the three-year rolling period to 2017/18, to meet the statutory requirement to break even, although in-year financial performance in 2017/18 showed an improvement on the preceding years.

3.2   As part of the audit work, two material adjustments were incorporated within the unaudited accounts in respect of (i) property, plant and equipment valuation and (ii) movements between the respective net pension liabilities in January and March 2018. Neither adjustment, however, has an impact on the Council's reported outturn for the year which remains an overall underspend of £2.416m. While no further amendments are anticipated, as of the time of writing, the accounts remain to be finalised and members will therefore be advised of any further material changes at the Committee's meeting.

3.3   As with the equivalent report for 2016/17, the audit reflects the revised approach to best value agreed by the Accounts Commission in June 2016. This "wider scope" audit comprises four elements:

- Financial management;
- Financial sustainability;
- Governance and transparency; and
- Value for money.

3.4   The key messages from the audit are presented on page 1 of the Scott-Moncrieff report, with a number of action points for the Council to address in the coming months also noted. These, together with the management responses provided by the Council (including assigned responsibility and associated timescale for implementation), are shown on pages 54 to 61. The report also summarises on pages 62 to 69 the good progress made in implementing the recommendations contained in last year's report.

Annual accounts (pages 6 to 19)

3.5   An unqualified opinion has been given on the financial statements and other prescribed matters, albeit the report notes that the Edinburgh Catering Services – Other Catering STO failed to meet the statutory requirement to break even over a rolling three-year period. The in-year deficit for 2017/18 was £42,000, forming part of a cumulative three-year deficit of £465,000. The external auditor's report notes the in-year reporting to the Governance, Risk and Best Value Committee on measures being taken to return the service to overall profitability, alongside consideration of alternative delivery models.

3.6   The report notes that working papers received to accompany the financial statements were of a good standard, with the results of the Council's group bodies also appropriately reflected within the financial statements and no instances of concern with regard to the legality of transactions or events identified.

3.7   Progress in reviewing the contents of the Council's Common Good register is set out, along with recommendations on updating, where appropriate, subsequent years' valuation of the assets held by the fund in accordance with the outcome of this review. Additional detail on in-year income and expenditure pertaining to these assets is also recommended for inclusion in the annual accounts.

3.8   The report also apprises members, in paragraph 86, of the outcome of three objections received in respect of the annual accounts. One of these objections was received outside the statutory period, with the others not upheld following the respective scheduled hearings. The external audit also confirmed that the Council's accounting treatment of Lender Option, Borrower Option (LOBO) loans was appropriate.

Financial management (pages 20 to 27)

3.9   The report notes that the Council has appropriate arrangements in place for managing its financial position, with the 2017/18 outturn being the eleventh successive year in which expenditure has been maintained within approved levels. In addition, overall reserve levels, taking into account sums earmarked for specific purposes, are assessed to be adequate based upon the risks the Council faces.

3.10   Paragraphs 124 to 138 set out the findings of an initial review of the options appraisal process and financial model used to inform consideration of the extension of the existing tram system from York Place to Newhaven. The report recommends that a high-level assessment be undertaken to validate the earlier Line One options appraisal prior to the taking of any decision on the proposed extension.

3.11   The external auditor's report also concludes that the Council's system of internal financial control is well-designed and that the arrangements with regard to the detection of fraud and irregularity are sufficient and appropriate, with active participation in the most recent National Fraud Initiative.

Financial sustainability (pages 28 to 31)

3.12   The report assesses that the Council has a well-developed and responsive medium-term revenue funding framework and appropriate arrangements in place to manage its financial position. In common with other councils, however, the projected savings requirement over the next four years nonetheless remains challenging and will require development of robust savings proposals and a focus on strategic priorities.

Governance and transparency (pages 32 to 40)

3.13   The report further concludes that appropriate governance arrangements are in place, with effective scrutiny by elected members. Members may be particularly interested in the assessment of the effectiveness of the Governance, Risk and Best Value Committee on pages 34 and 35. While this assessment is largely favourable, it is recommended that future years' annual assurance statements be scrutinised by the Committee prior to inclusion in the Annual Accounts and this, alongside streamlining of the existing Corporate Governance Framework, will be undertaken for the 2018/19 reporting cycle.

3.14   The Council is assessed to be open and transparent in affording physical and on-line access to Committee and Council meetings. Some room for improvement is highlighted, however, with regard to maintaining up-to-date registers of interest by some elected members. There is also a continuing need to ensure co-ordinated partnership working and public monitoring and reporting of jointly-agreed outcomes is in place to deliver the Council's vision.

3.15   Paragraphs 189 to 194 remind members of progress in addressing the main recommendations contained within the CGI information security audit. A further follow-up on these outstanding actions will be reported to the Committee in the coming year.

Value for money (pages 41 to 46)

3.16   The report notes the development of a robust performance framework to measure progress against the aims and outcomes set out within the Council's 2017-22 Business Plan, allowing members to provide appropriate scrutiny in delivery of these aims and outcomes.

3.17   While necessarily based on 2016/17 Scotland-wide data, paragraphs 219 and 220 highlight a continuing decline in comparative performance against Scotland's other local authorities as captured by the Local Government Benchmarking Framework. Of particular concern is performance across a number of Health and Social Care indicators, with persistent high levels of delayed discharge and numbers of those awaiting assessment, and an acknowledged step change in performance required. Regular updates in respect of necessary transformation of services will continue to be reported to the Edinburgh Integration Joint Board, Finance and Resources and Governance, Risk and Best Value Committees.

3.18   The report notes, however, that the Council demonstrates good self-awareness of areas where action is required, with recent improvement apparent within the waste service and a refreshed plan now in place for building standards.

4.   Measures of success

4.1   The Council receives an unqualified audit certificate from the external auditor by 30 September 2018.

4.2   Agreed measures are implemented to address any actions identified within the Annual Audit Report in accordance with the timescales indicated.

5.   Financial impact

5.1   There is no direct additional impact arising from the report's contents, although the on-going effectiveness of the Council's current financial management and planning arrangements has been noted.

6.   Risk, policy, compliance and governance impact

6.1   The Committee's remit includes the review of all matters relating to external audit, including reports and action plans to monitor implementation of external audit recommendations.

6.2   The Council's arrangements for risk management, fraud prevention and internal control, as well as its wider governance framework, have been assessed to operate effectively.

7. Equalities impact

7.1 There is no direct relevance of equalities and rights issues to the report's contents.

8. Sustainability impact

8.1 There are no impacts on carbon, adaptation to climate change and sustainable development arising directly from this report.

9. Consultation and engagement

9.1 The financial statements were made available for public inspection in July for a period of 15 working days in accordance with the provisions of Part VII of the Local Government (Scotland) Act 1973 and the Local Authority Accounts (Scotland) Regulations 2014. The Council received a number of requests for further information under these Regulations during this period.

9.2 In addition, three objections were received in respect of the annual accounts. One of these was received outside the statutory period, with the others not upheld following the respective scheduled hearings.

10. Background reading/external references

Unaudited Annual Accounts 2017/18, City of Edinburgh Council, 28 June 2018

City of Edinburgh Council External Audit Plan 2017/18, Governance, Risk and Best Value Committee, 20 March 2018

Andrew Kerr

Chief Executive

Stephen S. Moir

Executive Director of Resources

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11. Appendices

Appendix 1 – 2017/18 Annual Audit Report to the Council and the Controller of Audit

Appendix 2 – 2017/18 Audited Annual Accounts

City of Edinburgh Council

2017/18 Annual Audit Report to the Council and the Controller of Audit

Contents

Key messages

Annual accounts	The annual accounts for the year ended 31 March 2018 are due to be approved by the Finance and Resources Committee on 27 September 2018. We intend to report within our independent auditor's report an unqualified opinion on the annual accounts and on other prescribed matters.

We have, however, drawn attention in our independent auditor's report to the fact that the council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over the three-year period to 2017/18. While this is a failure to comply with the Local Government in Scotland Act 2003, it does not affect our overall opinion on the financial statements. There are no other matters that we have to report to you by exception.

Two material audit adjustments were made to the unaudited annual accounts in respect of property, plant and equipment and the net pension liability.

The annual accounts and supporting schedules were of a good standard. Our thanks go to staff at the council for their assistance with our work. |
| **Financial Sustainability** | The council has a well-developed and responsive Medium-Term Revenue Funding Framework. Changes to assumptions in relation to grant funding have resulted in the projected savings gap falling to £106million by 2022-23. The achievement of the projected savings requirement still presents a significant financial challenge particularly in the context of delivery of savings in the current year.

The council is developing a Change Strategy to ensure that the approach to delivering savings is well governed and maintains focus on strategic priorities. |
| **Financial Management** | The council has appropriate arrangements in place for managing its financial position. The council has been able to deliver services within budget for the eleventh successive year, despite delivering on 80% of approved savings. Around 91% of the general fund capital programme and 93% of the HRA programme was delivered in 2017/18.

Our initial findings in relation to the proposed tram extension project are included in this report. |
| **Governance & Transparency** | The council has appropriate governance arrangements in place and scrutiny arrangements appear to be effective. Partnership working is key to the council's delivery of its vision and arrangements for locality planning continue to develop. The council must ensure that it continues to monitor progress against outcomes.

Our work to follow up the progress that has been made in relation to CGI's ICT arrangements highlights that some areas have been addressed but, at the time of our audit in April 2018, five high risk rated actions remained to be completed. |
| **Value for Money** | The council has developed a robust Performance Framework to monitor progress against the Business Plan 2017-22. We found evidence that elected members provide robust scrutiny and challenge to reported performance outcomes.

The council demonstrates good self-awareness, particularly around areas that require improvement. However, interventions to secure improvement have not always been effective, particularly in roads and building standards.

Performance and improvement in health and social care has been poor and requires a significant step up in the pace of change. |

Conclusion

This report concludes our audit for 2017/18. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
September 2018

1

Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of the City of Edinburgh Council for 2017/18.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

At the City of Edinburgh Council, we have designated the Governance, Risk and Best Value Committee as "those charged with governance".

Introduction

1. This report summarises the findings from our 2017/18 audit of the City of Edinburgh Council ("the council").

2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Governance, Risk and Best Value Committee at the outset of our audit. The core elements of our work include:

   - an audit of the 2017/18 annual accounts, for both the council and its group and the charitable trusts, and related matters;

   - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;

   - an assessment of the arrangements for the collection and publication of statutory

performance information in accordance with the Accounts Commission direction;

   - provision of opinions on a number of grant claims and returns;

   - providing existing evidence and intelligence for, and participating in, shared risk assessment (SRA) processes leading to the preparation of a local scrutiny plan for the council;

   - audit and report on Best Value and the Strategic Audit Priorities (refer to Appendices 2 and 3) and;

   - Monitoring the council's participation in the National Fraud Initiative (NFI); and

   - any other work requested by Audit Scotland.

Exhibit 1: Audit Dimensions within the Code of Audit Practice

Financial sustainability

Financial management

Best Value

Governance and transparency

Value for money

Source: Audit Scotland Code of Audit Practice, May 2016

3. The council is responsible for preparing an annual report and accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management

from its responsibility to address the issues raised and to maintain an adequate system of control.

4. The report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help the council

assess their significance and prioritise the actions required.

5. We discussed and agreed the content of this report with council management. We would like to thank all management and staff for their co-operation and assistance during our audit.

Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

7. We confirm that we will comply with Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.

8. We set out in Appendix 1 our assessment and confirmation of independence. Our assessment includes consideration of:

- Provision of non-audit services to the council's group components; and

- Relationships between Scott-Moncrieff and the council, its elected members and senior management that may reasonably be thought to bear on our objectivity and independence.

Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

10. As part of our 2017/18 audit we added value to the council and Audit Scotland in a range of ways:

Regular contact with the council

11. We invest senior time to ensure that we keep up to date with significant issues and share that knowledge across our team. Examples include:

- Our Engagement Partner and Director hold quarterly meetings with the Chief Executive and the Executive Director of Resources;

- We hold regular catch ups with the Head of Finance (Section 95 Officer);

- We hold regular catch ups with the council's Strategy and Insight Team; and

- We meet with the Chief Internal Auditor on a regular basis.

- We hold discussions with the council's finance team, in advance of the preparation of the annual accounts, to consider the applicable accounting treatment of balances and transactions. In 2017/18 this included group accounting, treatment of inverse Lender Option Borrower Option Loans (LOBOs) and PPP.

- We held a debrief session with the council's finance team following the completion of the 2016/17 audit to capture areas for improvement to the audit process. We intend to continue with these meetings at the conclusion of each annual audit cycle.

Training and development

- We supported the council Finance Team to deliver training on understanding the financial statements by providing training materials and examples of scrutiny questions for elected members.

Providing assurance to the council and Audit Scotland

- We met the deadlines set out in Audit Scotland's annual planning guidance in respect of the delivery of audit plans, independent auditor reports and annual reports.

- The council has experienced a number of difficulties in the delivery of ICT services by its partner CGI. During our 2016/17 audit we used specialist ICT auditors to conduct reviews of security management. Our findings have provided the council with leverage to hold senior partners from CGI to account for the service provision.

- In 2017/18, we received three letters citing objections to the annual accounts. One

objection was received outwith the prescribed period. In relation to the other two, hearings have been held/scheduled with regard to the points raised.

Feedback

12.   Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: *www.surveymonkey.co.uk/r/S2SPZBX*

13.   While this report is addressed to the council, it will be published on Audit Scotland's website www.audit-scotland.gov.uk

2

Annual accounts

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

In this section we summarise the findings from our audit of the 2017/18 annual accounts.

Annual accounts

An unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2018 are due to be approved for signature by the Finance and Resources Committee on 27 September 2018. We plan to report within our independent auditor's report:

- **An unqualified opinion on the annual accounts; and**
- **An unqualified opinion on other prescribed matters.**

We have drawn attention to the fact that the council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over the three year period to 2017/18. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to staff at City of Edinburgh Council for their assistance with our work.

Overall conclusion

An unqualified audit opinion on the annual accounts

14. The annual accounts for the year ended 31 March 2018 are due to be considered by the Governance, Risk and Best Value Committee on 25 September 2018 and approved by the Finance and Resources Committee on 27 September 2018. We intend to report within our independent auditor's report:

   - An unqualified opinion on the annual accounts; and

   - An unqualified opinion on other prescribed matters.

15. We have drawn attention in our audit report to the fact that the council's Edinburgh Catering Services – Other Catering trading operation has failed to break even, on a cumulative basis, over a three year period (paragraph 29). While this is a failure to comply with the Local Government in Scotland Act 2003, it does not affect the overall opinion on the financial statements.

Good administrative processes were in place

16. We received unaudited annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to staff at the council for their assistance with our work.

Our assessment of risks of material misstatement

17. The assessed risks of material misstatement described in Exhibit 2 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described in Exhibit 2.

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Management override

In any organisation, there exists a risk that management has the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements.*

Excerpt from the 2017/18 External Audit Plan

18. We have not identified any indication of management override in the year. We have reviewed the council's accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

19. During our prior year audit, we noted that there was a lack of segregation of duties in respect of the posting of journals. While we acknowledged that compensating controls were in place, including, for example, control account reconciliations and the preparation and presentation of financial monitoring reports to the council we recommended that arrangements were put in place to review and authorise year-end journals. We noted during our 2017/18 audit that processes are in place to review and authorise year-end journals.

20. The council provides financial ledger services to a number of organisations. We noted during our audit that any member of the council finance team with ledger access could post entries to those organisations' financial ledgers even though they have no interaction with those organisations. While we understand that those organisations will have their own controls in place to monitor for any unusual transactions, we would encourage the council to review the user access controls.

Action plan point 1

2. Revenue recognition

Under ISA (UK) 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the council could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

Excerpt from the 2017/18 External Audit Plan

21. While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions. We have reviewed the controls in place over revenue accounting and found them to be sufficient. We have evaluated key revenue transactions and streams, and carried out testing to confirm that the council's revenue recognition policy is appropriate and has been applied reasonably.

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "The Audit of Public Sector Financial Statements" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

Excerpt from the 2017/18 External Audit Plan

22.   We have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion we carried out testing to confirm that the council's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

4. Property, plant and equipment

The council's approved general fund capital budget for 2017/18 is £172million. As at period 9, the council was reporting a projected outturn of £140million. The housing revenue account capital budget for 2017/18 is £78million. As at period 9, the council was reporting a projected outturn of £69million.

The council carries out a rolling programme of revaluations that ensures all property, plant and equipment required to be measured at fair value is revalued at least every five years.

In January 2018, a paper was presented to the council's Finance and Resources Committee on the condition of its building estate. The report noted that, based on a snapshot of the condition of the operational estate (September 2017), there is a requirement to spend £153million over the next five years to address the backlog maintenance. The results of this survey could be used as part of management's assessment of impairment of the operational estate.

Excerpt from the 2017/18 External Audit Plan

Additions

23.   During 2017/18, the council reported total capital additions of £223million; of which £150million were general fund additions and £73million were housing revenue account (HRA) additions. We carried out testing on material additions and concluded that those additions had been accounted for in the annual accounts in accordance with the council's accounting policy and the applicable accounting standards.

Valuations

24.   We reviewed the council's valuation process and noted the following:

- Valuations are generally carried out by internal valuers. For the valuation process in 2017/18 however, the council's internal valuers commissioned Rydens to carry out some of the valuations. We considered the instructions and information provided to the valuer, along with the instructions provided to the external valuer, and performed procedures to confirm the accuracy and completeness of the information. From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on this work.

- We did however note that while the council's operational estates manager (the

appointed internal valuer responsible for the overall direction of the valuation process), receives instructions from the council, these are not disseminated to individual valuers who carry out the valuations.

- All property, plant and equipment required to be carried at fair value were included in the five year rolling programme and had been revalued within this time period.

- Valuations are usually carried out as at 31 March. There is however no requirement for valuations to be carried out at this date and authorities may use 1 April subject to the standard condition that the carrying amount at the end of the year does not differ materially from the current value at that date. For 2017/18, the council valuations were prepared as at 1 April 2017. The valuer has provided us with assurance that the carrying amount of these assets as at 31 March 2018 does not materially differ from the date of valuation.

- We confirmed that the basis of valuation for assets valued in year is appropriate based on their usage. We reviewed valuation movements against indices of price movements for similar classes of assets and investigated any valuation movements that appeared unusual against this. Overall the valuation movements were in line with our expectation.

- We reviewed the reasonableness of the valuation assumptions applied, as they relate to land and buildings, council dwellings and investment properties. Based on the audit work performed we concluded that the valuations are reasonable.

- A £27million adjustment has however been made to the valuation of property, plant and equipment in the audited annual accounts. From our audit testing we identified differences between the valuations provided by the valuer and as recorded on the estates register and those which were recorded in the council's asset register (used in the preparation of the annual accounts). We recommend that reconciliations are performed between the estates register and the council's asset register.

- The results of the valuation exercise are not formally communicated to the council. The valuer should provide two documents; a valuation report for each asset valued and an overarching valuation report. The scope and contents of the report should be agreed between the valuer and the council, but the form is governed by the RICS (Royal Institute of Chartered Surveyors) Red Book. The valuation report gives the valuer's opinion of value of the specific properties, stating what has been done and what has not been done, the basis of valuation, any assumptions which have been made, including those as to accuracy of data, and other matters referred to in the instructions.

Action plan point 2

Impairment

25. As noted above and in our external audit plan, in January 2018, a paper was presented to the council's Finance and Resources Committee on the condition of its building estate. The report noted that, based on detailed condition surveys of the council's operational estate(September 2017), there is a requirement to spend £153million over the next five years both to address the backlog maintenance and move the council onto a planned preventative regime for the estate in the future.

26. As part of our audit we considered whether the council had considered these findings in the context of a potential impairment to the value of those assets as reported in the annual accounts.

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

27. We noted that no assessment of impairment has been carried out in 2017/18; other than for those assets forming part of the 2017/18 valuation programme. The Code of Practice on Local Authority Accounting (the Code) requires local authorities to assess at the end of each reporting period whether there is an indication that any asset may be impaired. The condition survey of the council's operational estate is one source of evidence to indicate whether an impairment may have occurred. While no indication of material impairment was identified, we would encourage the council to formalise its procedures for assessing whether there has been an impairment of its estates portfolio.

Action plan point 2

Other risk factors

28. Further to the identification of significant audit risks (Exhibit 2), we also identified in our External Audit Plan a number of risk factors which could potentially result in a material misstatement to the annual accounts. An update on these risk factors is set out below:

Significant trading operations

29. Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to operate their significant trading operations so that income is not less than expenditure over each three year period. The council has failed to comply with this statutory requirement for the three year period ending 31 March 2018 in respect of its one significant trading operation; Edinburgh Catering Services – Other Catering. We have reported this matter in our independent auditor's report.

30. Despite improvements in recent years' financial performance, the council's Edinburgh Catering Services – Other Catering trading operation reported a deficit of £42,000 in 2017/18 and a cumulative three year deficit of £0.465million.

31. During 2017/18 two reports were presented to the Governance Risk and Best Value committee outlining the reasons for the underlying deficit position and actions being taken to address the profitability of the service from 2018/19 onwards. The actions focus on four key areas; financial control, workforce/HR, supplier contracts and branding/customer engagement.

32. The most recent report, presented in March 2018, also noted that in tandem with the actions being progressed, there are also opportunities to consider alternative delivery models or service re-provision in the future, including a partnering model or franchise approach.

Group audit

33. The council has a complex group which requires consolidation of a range of subsidiaries, associates and joint ventures. The group structure is detailed within the council's annual accounts.

34. As part of our audit we reviewed the consolidation entries made within the group accounts and confirmed entries back to the financial statements of the group bodies. Overall we concluded that the results of the group bodies had been appropriately consolidated into the council's group accounts.

35. As part of our audit planning process we assessed the group, for the purposes of approach to the audit of the group, and deemed the following subsidiaries to be significant in the context of the group audit:

- CEC Holdings; and
- Transport for Edinburgh

36. We revisited our assessment, following receipt of the unaudited accounts. Our assessment remained unchanged. We did not identify any further significant components in the context of our group audit.

37. Scott-Moncrieff is the appointed auditor to CEC Holdings and Transport for Edinburgh. During our audit we liaised with the audit engagement teams to confirm that their programmes of work were adequate for our purposes.

38. We have nothing to report in respect of the following matters:

- No significant deficiencies in the system of internal control or instances of fraud were identified by the component auditor; and

- There were no limitations on the group audit.

39. As reported within our external audit plan we identified a risk factor in respect of the EDI Group which falls within CEC Holdings:

40. **Winding up of the EDI Group** - In early 2017, the council confirmed that operational activities undertaken by EDI Group would in the future be delivered through an in-house council model. The council has instructed directors of the EDI Group to begin a process of closure, with the majority of land transferring to the council and most of the staff leaving the company in June 2018. The company will continue to trade into 2019 and beyond until such time as all projects currently being undertaken by the EDI Group have either concluded or have been transferred to the council.

41. As such, the financial statements for the EDI Group were not prepared on a going concern basis. An emphasis of matter disclosure was included within the independent auditor's report. The impact within CEC Holdings was an impairment charge recognised on the investment in the EDI Group of £3.1million. There were, however, no material uncertainties regarding the going concern status of CEC Holdings, and therefore the independent auditor's report was unqualified.

42. We have confirmed that the impairment charge on the investment has also been appropriately reflected in the council's single entity annual accounts.

Registers of interests

43. The council discloses within its annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council.

44. The councillors' register of interests is one way that the council can identify some of its related parties. In the prior year we recommended that councillors were reminded of the importance of

ensuring the register of interests is updated on a regular basis. We have reviewed the actions taken by the council in reminding councillors of their responsibilities in respect of maintaining register of interests. Our findings are included within the governance and transparency section of this report (paragraph 172).

45. With regard to the audit of the annual accounts and the disclosure of related party transactions we identified two undisclosed related parties. These have been reflected in the audited annual accounts.

Common good

46. Local Authorities are required to administer common good funds under section 15 of the Local Government (Scotland) Act 1994. The purpose of common good funds is to provide benefit to the population of the area either through the disbursement of funds, securing assets for on-going use for the population or contributing to specific local projects/initiatives.

Common good asset registers

47. Part 8 of the Community Empowerment Act (Scotland) 2015 came into force on 27 June 2018. This places a statutory duty on local authorities to establish, maintain and publish a register of all property held by them for the common good. Local people must be consulted on the register, to make sure nothing has been left out. Local authorities are also required to publish their proposals and consult community bodies before disposing of or changing the use of common good assets.

48. In July 2018, the Scottish Government, following consultation in 2017, issued statutory guidance for local authorities on how they should carry out these new legal duties.

49. The guidance identifies that local authorities should '*aim to publish the first version of its common good register as soon as practicable after the initial twelve week consultation period has closed, and in any case, within six months of the end of the consultation*.'

50. The council has established a team, with staff from estates, finance and legal. The team is responsible for developing a common good asset register which will be presented for public consultation.

51. This team has prepared the first version of the common good register which is due to be

considered by the Finance and Resources Committee on 27 September 2018. The register will be presented for public consultation thereafter.

Common good fund annual accounts

52. The Common Good Fund stands separate from the council's annual accounts and has been described as "the ancient patrimony of the community".

53. During 2017/18, a deficit of £15,000 was reported on the common good fund. Overall useable common good funds stood at £2.387million as at 31 March 2018.

54. In 2016, the council's Finance and Resources Committee approved the use of the common good fund for planned maintenance of the common good assets. £2million was earmarked in 2015/16 (following a receipt from the sale of East Market Street Garage), to fund a maintenance programme for common good assets. Since this earmarked fund was created in 2016, £110,000 has been used on the Scott Monument and £3,000 on surveys at the City Observatory. As at 31 March 2018; £1.887million remained in this fund.

55. During our 2017/18 audit of the common good fund annual accounts we noted the following:

Common good fund income and expenditure

56. The unaudited common good fund comprehensive income and expenditure statement reported £24,000 in expenditure and nil income. On review of the council's working papers to support the annual accounts we noted that the council had included within its records £5.8million spend on common good (covering both revenue and capital), £2.8million in income with the difference being met by a recharge to the council in respect of use of these assets to achieve a breakeven position.

57. To ensure transparency in the operation of the common good funds, the annual accounts have been updated to reflect the transactions which had previously been included in the council's accounting records. We would encourage the council to review its relationship and use of the common good funds and put in place documented arrangements for the use and maintenance of those assets.

Action plan point 3

58. An objection was received in 2017/18 in respect of the common good annual accounts. This objection however was outwith the prescribed period. The objection was in relation to the recognition of income from table and chairs licences. The amounts were deemed to be below materiality and no further work has been performed in respect of the 2017/18 common good fund annual accounts.

Property, plant and equipment

59. Property, plant and equipment and heritage assets, as reported in the common good fund annual accounts, are recorded on an asset register ("the accounting asset register"). The accounting asset register is separate to the register being prepared to comply with the requirements of the Community Empowerment Act (Scotland) 2015 but has been used to inform the compilation of that register.

60. As part of our audit we compared the two registers and noted that there are approximately 55 assets which are not currently included in the accounting asset register and therefore the annual accounts of the common good fund. There is a further six which are potentially no longer considered to be common good assets.

61. The value of those assets thought to be common good and not included in the accounting asset register total £1.68million and represents 42 of the 55 assets identified. The value of remaining 13 assets has yet to be determined. The value of assets deemed no longer to be common good is £4,000.

62. No adjustment has been made to the 2017/18 common good fund annual accounts for these assets and the estimated value is not considered to be material. It is however anticipated that there will be an increase in the value of common good assets in 2018/19. We would recommend that the council in preparing the 2018/19 common good fund accounts reviews the accounting policies for property, plant and equipment and heritage assets to ensure that:

● The assets are classified correctly;

● The appropriate valuation basis has been applied; and

- Depreciation is applied dependent on the accounting policy and classification of the asset.

Action plan point 4

Update to our initial risk assessment

63. Following receipt of the unaudited annual accounts we revisit our assessed initial risk assessment. We identified one further risk which is detailed below. Our opinion on the annual accounts was not modified with respect to this risk.

Pension liability assumptions

An actuarial estimate of the pension fund liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership date held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.

64. We obtained the information provided to the actuary and agreed it to source documentation to confirm accuracy. We reviewed the assumptions used by the actuary and compared these to benchmarks across the sector.

65. We reviewed the validity of the information provided to the actuary and compared this with the actual information reported by City of Edinburgh Council and the Lothian Pension Fund. We considered the results of the actuary alongside our work across the sector and concluded there was a risk of material misstatement arising from difference between the figures relating to asset values. We therefore requested that management instruct the actuary to update its calculations based on year end results. The annual accounts have been updated to reflect these figures. As a result, the pension liability changed from a deficit of £528.359million to a deficit of £482.493million, with the movement recognised as an actuarial gain.

66. As at 31 March 2018, the pension liability showed a deficit of £482.493million, compared

to a deficit of £705.786million as at 31 March 2017.

67. Lothian Pension Fund's triennial valuation was conducted as at 31 March 2017. The triennial valuation also informs the annual actuarial valuation as at 31 March 2018. This can result in larger movements caused by other experience which is driven by the use of updated membership data.

68. The discount rate applied increased to 2.7% from 2.6% in the previous year. This has a positive effect on the scheme liabilities – resulting in a decrease in the liabilities.

Our application of materiality

69. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.

70. Our initial assessment of materiality for the group annual accounts was £19.2million and for the council single entity annual accounts £17.6million. We revised our assessment, following receipt of the unaudited annual accounts, to £20.4million for the group[1] and £18.7million for the council and it remained at these levels throughout our audit.

71. Our assessment of materiality is set with reference to gross expenditure. We consider this to be the principal consideration for the users of the annual accounts when assessing the performance of the council and its group.

Performance materiality

72. Performance materiality is the amount set by the auditor at less than overall materiality for the annual accounts as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the annual accounts as a whole.

73. We set a performance (testing) materiality for each area of work which was based on a risk

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[1] For the significant components, within the council group, we have allocated a materiality that is less than the overall group materiality. For CEC Holdings this was reassessed to £726,000 and for Transport for Edinburgh it remained at £3.5million.

assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Performance materiality £million	
	Group	Council
High	9.180	8.415
Medium	11.220	10.285
Low	14.280	13.090

74. We agreed with the Governance, Risk and Best Value Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of £250,000, as well as other misstatements below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Governance, Risk and Best Value Committee on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

Audit differences

75. Two material adjustments were made to the unaudited annual accounts in respect of property, plant and equipment (paragraph 24) and the net pension liability (paragraph 65).

76. We did identify further adjustments to the unaudited annual accounts which have been reflected in the final set of annual accounts. While these are reflected in the audited annual accounts they were not considered material.

77. We also identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.

78. We also identified a number of potential adjustments which are not considered material to the annual accounts, either individually or in aggregate. Both the actual adjustments and potential adjustments have been reported to the Head of Finance and are included as an appendix to the letter of representation. The letter covers a number of issues and we have requested that it be presented to us at the date of signing the annual accounts.

An overview of the scope of our audit

79. The scope of our audit was detailed in our External Audit Plan, which was presented to the Governance, Risk and Best Value Committee in March 2018. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the council. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

80. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

81. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Legality

82. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. Our audit procedures included the following:

- Reviewing minutes of relevant meetings;
- Enquiring of senior management and the council's solicitors the position in relation to litigation, claims and assessments; and
- Performing detailed testing of transactions and balances.

83. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Other matters identified during our audit

84. During the course of our audit we noted the following:

The Local Authority Accounts (Scotland) Regulations 2014

85. As part of our audit we reviewed the council's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10[2] as they relate to the annual accounts. Overall we concluded that appropriate arrangements are in place to comply with these Regulations.

86. In 2017/18, three letters were received citing objections to the annual accounts. For one the objection was received outwith the prescribed period. In relation to the other two, hearings have been held/scheduled with regard to the points raised. At this time of the audit, neither objection has been upheld although certain matters will be considered in future years

Management commentary

87. The Local Authority Accounts (Scotland) Regulations 2014 require local authorities to include a management commentary within the annual accounts. The management commentary is intended to assist readers in understanding the annual accounts and the organisation that has prepared them.

88. As auditors we are required to read the management commentary and express an opinion as to whether it is consistent with the annual accounts. We have concluded that the management commentary is consistent with the annual accounts and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003.

Annual governance statement

89. The Chief Executive and the council Leader have confirmed that in their opinion, reasonable

assurance can be placed upon the adequacy and effectiveness of City of Edinburgh Council and its group systems of governance. The Annual Governance Statement identifies a range of actions that have been, or will be, taken by the council to continue to progress improvements in the council's governance arrangements.

90. Following minor amendments processed during the audit, the governance statement discloses the rationale for internal audit's opinion and other areas of weakness during the year, such as the significant challenges the Health and Social Care Partnership faces from the level of delayed discharges. Subject to the concerns disclosed, the council considered that reasonable assurance could be placed on the effectiveness and adequacy of the systems of governance.

91. We are satisfied that the governance statement within the annual accounts is consistent with the financial statements and that report has been prepared in accordance with the *Delivering Good Governance in Local Government: Framework 2016.*

Remuneration report

92. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Charitable trust funds

93. The council administers six charitable trust funds. Over the last few years the council has rationalised the number of charitable trusts down from over 100 to six, with the Usher Hall Conservation Trust wound up in 2017/18 and further plans in place to wind up the Boyd Anderson Trust in 2018/19.

94. The total charitable trust fund balance as at 31 March 2018 amounts to £14.669million, a reduction of £2,000 in comparison with the prior year.

95. The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. The Regulations require an auditor to prepare a report to the charity trustees where an audit is required by any other enactment. The council's charitable trust funds are covered by the

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[2] Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.

requirements of section 106 of the Local Government (Scotland) Act 1973 and consequently require a full audit.

96. We have audited the council's 2017/18 charitable trust funds. Our findings from our audit have been separately reported to the Trustees. In summary we reported the following:

- We have provided an unqualified audit opinion on the charitable trust funds annual accounts;
- The council has complied with the Local Authority Accounts (Scotland) Regulations 2014 as they relate to its charitable trust funds;
- We did not identify any significant weaknesses over the accounting systems and internal controls associated with the charitable trust funds. We have however identified some areas with scope for improvement which have been included in a separate management report to the Trustees of the charitable trust funds.

Lender Option Borrower Option (LOBO) loan debts

97. A number of objections have been received nationally regarding Inverse LOBOs[3]. The specific objections raised in regard to the accounting treatment of these loans were;

- Many were on balance sheet at their nominal value (rather than amortised cost); and
- The embedded derivative had not been separated out.

98. The council has a total of four inverse LOBO contracts totalling £40million taken out between February 2010 and February 2011.

99. In order to confirm that these objections were not also applicable to the council we consulted the Code of Practice on Local Authority Accounting (the Code), relevant accounting

standards, re-examined the inverse LOBO contracts and made relevant enquires of management.

100. Following appropriate audit work and consideration of all relevant sources of guidance referenced within this paper, we reached the following conclusions:

- There are no embedded derivatives within the loan contracts which require separation;
- An EIR calculation should be performed to enable accurate disclosure at amortised cost. We confirmed during our audit that this has been reflected in the 2017/18 annual accounts.

Looking forward – IFRS 16 Leases

101. The Local Authority Accounting Code Board (CIPFA/LASAAC) has issued a consultation on the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 in respect of IFRS 16 Leases.

102. IFRS 16 Leases will lead to a substantial change in accounting practice for lessees where the current distinction between operating and finance leases will be removed. Instead, it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee's obligation to pay for that right.

103. There are new requirements for measurement of the lease liability where it will initially be measured at the present value of the lease payments payable over the lease term but may rise to reflect any reassessment or lease modifications, or revised in-substance fixed lease payments.

104. Council finance staff have attended a number of recent events at which the anticipated changes impacts resulting from adoption of the standard have been discussed. Consideration of the readiness assessment questionnaire accompanying the CIPFA/LASAAC consultation has also highlighted a number of areas where further action is required. With this in mind, upon conclusion of the audit, a working group comprising staff from Finance, Procurement,

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[3] Lender option borrower option (LOBO) is a long-term borrowing instrument. They involve periodic interest re-fixings, which incorporate two linked options lender's option:

- option for the lender to set revised interest rates at predetermined interest reset dates such as annually.
- borrower's option: linked option for the borrower (exercisable only if the lender's option is exercised) to pay the revised interest rate or to redeem the bond although that may involve exit fees.

Estates, Fleet Management and representatives from other relevant areas will be established with a view to capturing all in-scope lease arrangements and the associated detail required to reflect the requirements of IFRS16 implementation.

Qualitative aspects of accounting practices and financial reporting

105. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are considered appropriate to the council.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Significant estimates have been made in relation to property, plant and equipment and pension liabilities. Subject to commentary above, we consider the estimates made, and the related disclosures, to be appropriate to the council. We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the expert is appropriate.
The appropriateness of the going concern assumption	We have reviewed the financial forecasts for 2018/19. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the council will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the management commentary or material inconsistencies with the accounts.	The management commentary contains no material misstatements or inconsistencies with the accounts.

Qualitative aspect considered	Audit conclusion
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

3

Financial management

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

Financial management

The council has appropriate arrangements in place for managing its financial position. The council has been able to deliver services within budget for the eleventh successive year, despite delivering on 80% of approved savings.

Around 91% of the general fund capital programme and 93% of the HRA programme was delivered in 2017/18.

Financial performance

106. The 2017/18 Comprehensive Income and Expenditure Statement shows that the council spent a total of £1.861billion on the provision of public services resulting in an accounting deficit of £60.589million. The accounting deficit, however, includes certain elements of income and expenditure that need to be accounted for to comply with the Code of Practice on Local Authority Accounting (the Code), and which are subsequently adjusted to show their impact on statutory council reserves.

107. The key measure of performance in the year is the movement in the council's general fund balance. Following the required adjustments the net impact on the general fund is an increase of £8.674million to £151.285million. In total the cash backed (useable) reserves held by the council increased by £9.058million in the year to £277.762million.

Exhibit 3: Movement in the council's useable reserves per the Annual Accounts 2017/18

	2017/18 £million	2016/17 £million	Movement £million
General Fund	151.285	142.611	8.674
Housing Revenue Account (paragraph 113)	0	0	0
Renewal and Repairs Fund	58.123	64.149	(6.026)
Capital Fund	63.558	61.178	2.380
Capital Grants Unapplied Account	4.796	0.766	4.030
Total useable reserves	**277.762**	**268.704**	**9.058**

108. In 2017/18 £138.260million of the general fund balance was earmarked with the remainder representing an unallocated general fund of £13.025million (Exhibit 4). This balance is in line with the medium-term strategy of the council. The unallocated general fund equates to 1.36% of the annual budgeted net expenditure. There were no planned or actual contributions to the unallocated general fund for 2017/18. This is lower than normal practice for Scottish local authorities, but is mitigated by the earmarked balances for specific risks, and for areas of investment, including the Council Priorities Fund.

Exhibit 4: The council's General Fund balance increased in 2017/18

- Other earmarked reserves
- Balances set aside for investments
- Balances set aside for specific risks
- Unallocated
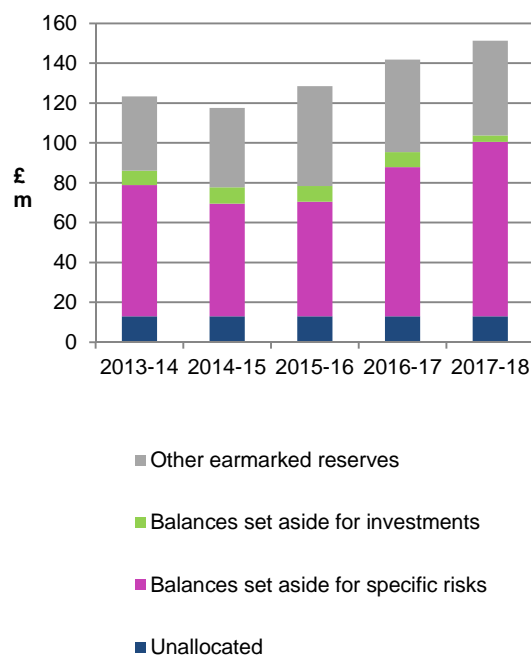
Source: Annual Accounts 2014/15 to 2017/18

109. Amounts are earmarked for a number of reasons:

- Balances set aside for specific financial risks (£87.435million) – includes, for example, staff release costs, dilapidations and the insurance fund.

- Balances set aside from income received in advance (£41.718million) – includes grant income where there are timing differences between the receipt of grant income and associated planned expenditure.

- Balances set aside for investment in specific projects (£3.349million) – these will deliver savings in future years, such as Spend to Save.

- Balances held under the School Board Delegation Scheme (DSM) and Pupil Equity Fund (PEF) (£5.758million).
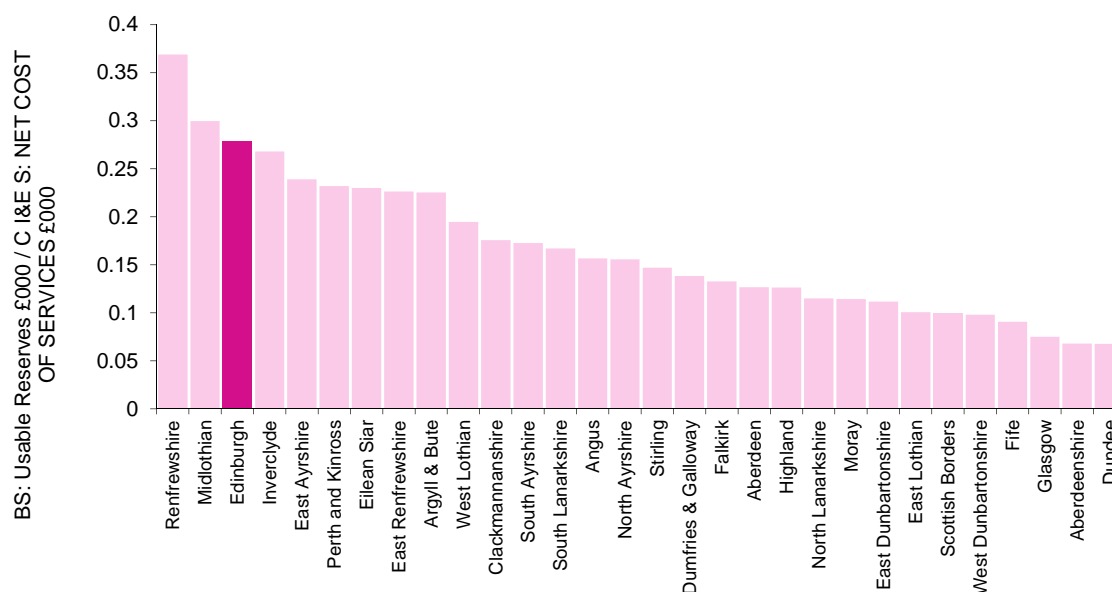
Usable reserves

110. The level of usable reserves available is one of the measures used to assess the financial strength and sustainability of councils. Councils hold reserves to manage risks and make provisions for future spending.

111. We note that the council's level of usable reserves is above the mean of other local authorities in Scotland and supports our view that the council has adequate financial management arrangements in place. This is, however, offset by the relatively low level of uncommitted reserves which creates a higher risk that the council may not be able to respond effectively if faced with a significant adverse event.(Exhibit 5).

112. Other usable reserves include the Renewal and Repairs Fund and Housing Revenue Account (HRA). The HRA is the statutory fund used to record all income and expenditure for the management of, and investment in, council homes. Under statute, all expenditure on homes let by the council is funded through the rent and related service charges paid by its tenants.

113. The balance on the HRA is nil. In 2017/18 a net contribution of £9.042million was made from the Renewal and Repairs Fund to the HRA to support the investment in new affordable homes through the 21st Century Homes programme.

BS: Usable Reserves £000 / C I&E S: NET COST OF SERVICES £000

Renfrewshire, Midlothian, Edinburgh, Inverclyde, East Ayrshire, Perth and Kinross, Eilean Siar, East Renfrewshire, Argyll & Bute, West Lothian, Clackmannanshire, South Ayrshire, South Lanarkshire, Angus, North Ayrshire, Stirling, Dumfries & Galloway, Falkirk, Aberdeen, Highland, North Lanarkshire, Moray, East Dunbartonshire, East Lothian, Scottish Borders, West Dunbartonshire, Fife, Glasgow, Aberdeenshire, Dundee

Source: Audit Scotland database compiled from draft Annual Accounts 2017/18. Note that Shetland and Orkney Islands councils have been omitted from the comparison as their level of reserves may distort the assessment.

Revenue performance against budget

114. On 9 February 2017, the council set a 2017/18 balanced revenue budget of £957.910million. A revised Local Government Finance Settlement was issued on 2 February 2017. This announcement reflected the provision of £130million of one-off revenue, and £30million of capital resources across Scotland, with the City of Edinburgh Council's allocations being £9.998million and £2.278million respectively. Given the timing on the revised settlement announcement, these sums were allocated to broad themes within the budget motion.

115. Throughout the year updates are made to the revenue budget to reflect, for example, additional funding received, increases in council tax income, one-off contributions from earmarked funds and savings in loan charges. As at 31 March 2018; the revised, balanced budget, was £973.876million.

116. The council reported a net underspend against it revised balanced revenue budget of £2.416million, equating to 0.24% of the council's net expenditure. The council has been able to deliver services within budget for

the eleventh successive year. There was a net overspend reported within general fund services of £26,000 (Exhibit 6).

117. As reported to the Finance and Resources Committee on 7 November 2017, in view of significant demand-led pressures apparent within both Health and Social Care and Safer and Stronger Communities during the year, £10.6million of additional funding was made available to these areas. In order to maintain overall expenditure within approved levels, however, offsetting savings, comprising a combination of assumed underspends in other service areas (£2.828million), reductions in loans charge expenditure (£1million), additional Council Tax income (£2.714million) and a number of one-off contributions from reserves (£4.058million) were identified.

118. As highlighted in Exhibit 6, two general fund services exceeded budgets during the year:

119. **Communities and Families:** during the year, those services projecting a balanced or underspend position were requested to identify additional savings opportunities to offset pressures in Health and Social Care and Safer and Stronger Communities, with Communities and Families' share of these additional savings being £1m. Increasing underlying pressures across a number of areas of activity during the remainder of the financial year meant that a small underspend was achieved against the core service budget but with the additional savings requirement not met. As such, the overall year-end position showed a £0.987million overspend against the revised budget.

120. **Health and Social Care** - in light of significant demand-led pressures and non-delivery of £6.03million of planned transformational-related purchased savings, £7.1million of additional funding was made available to support the service during the year.

Savings Programme

121. The balanced budget was predicated on the delivery of £39.5million of service specific and corporate savings.

122. The final outturn position for 2017/18 indicates that 80% of approved savings by value were delivered, with those not achieved primarily attributable to slippage in transformation- and demand management-linked savings within Health and Social Care. A number of savings within the Place Management Division of the Place Directorate were, as anticipated, not delivered during the year pending implementation of medium-terms plans geared towards securing financial sustainability in these areas.

Exhibit 6: Extract from the 2017/18 Outturn Statement

Service	Budget £million	Actual £million	Variance £million
Services reporting to the Chief Executive	11.020	11.019	(0.001)
Communities and Families	341.953	342.940	0.987
Health and Social Care	192.910	193.273	0.363
Place	70.449	70.447	(0.002)
Resources	171.202	170.304	(0.898)
Safer and Stronger Communities	31.306	30.470	(0.836)
Lothian Valuation JB	3.741	3.629	(0.112)
GF Services	**822.581**	**822.082**	**(0.499)**
Other non-service specific costs	18.516	19.604	1.088
Net cost of benefits	(0.062)	(0.625)	(0.563)
Total	**841.035**	**841.061**	**0.026**

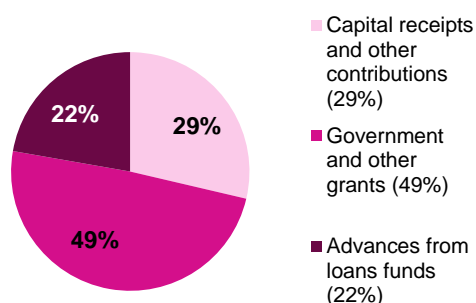## Exhibit 7: The council achieved 80% of its approved savings in 2017/18
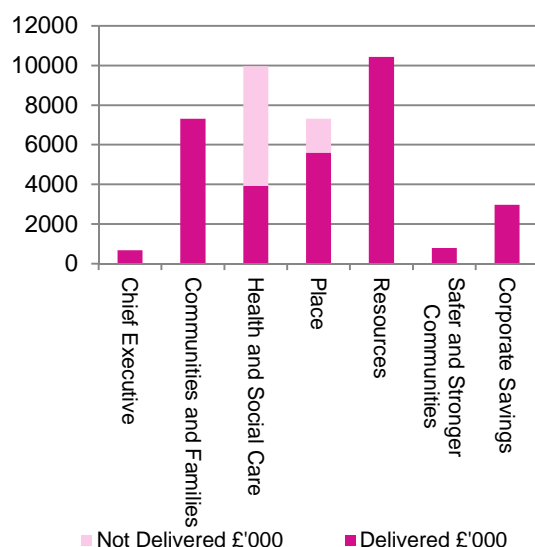
Source: 2017/18 Outturn Report

Capital Expenditure

123. During 2017/18, the council reported total capital additions of £223million; of which £150million were general fund additions and £73million were housing revenue account (HRA) additions. In so doing the council delivered on 91% of the revised general fund capital programme and 93% of the HRA revised capital programme. This was funded as shown in Exhibit 8.

Exhibit 8: Sources of Capital Funding

Capital receipts and other contributions (29%)

Government and other grants (49%)

Advances from loans funds (22%)

Source: Capital outturn report 2017/18

Edinburgh Trams extension

124. In November 2015, the council approved in principle Stage 1 plans to extend the Edinburgh tram line from York Place to Newhaven. An Outline Business Case (OBC) was presented to the council in December 2015 and a high level governance structure was agreed in order to progress Stage 1 activities. This included mobilisation of internal resource, commencement of the procurement process for internal support, site investigation and waiving the Contract Standing Orders to retain the existing tram senior advisor.

125. As set out in our 2017/18 External Audit Plan, we are undertaking work in conjunction with the council's internal auditors to review the tram extension project. The scope of our review was considered by the Tram Extension and Leith Programme Board in August 2018. The key areas included within the scope are:

- Options appraisal process;
- Financial model;
- Project business case;
- Project governance;
- Procurement process and supplier management; and
- Lessons learned.

126. Our work has focused on the options appraisal process and the financial model, while internal audit are considering the project business case, governance arrangements, procurement processes and lessons learned.

Options appraisal process

127. We have considered whether the council has completed a detailed options appraisal. It is best practice to consider a wide range of options at the planning stage, assessing them against a range of financial and non-financial criteria, including value for money.

128. In June 2015, a draft Outline Business Case was presented to council for approval. This considered four potential route options, with further information on these options presented to the council in November 2015. The benefit to cost ratio was calculated for each of the four options, and the council considered the wider benefits derived and strategic objectives met through extending the tram line. This work was

subsequently updated in the Outline Business Case, approved by Council.

129. In November 2015 the council approved in principle the selection of option 1 (extension to Newhaven) as its preferred route.

130. Action has been taken to economically appraise the four potential route options. This appraisal has not looked at alternative transport modes to the tram extension. The council has confirmed that the pre-appraisal and appraisal was carried out between 2001 and 2006 resulting in the Edinburgh Tram (Line One) and Edinburgh Tram (Line Two) Acts 2006. This legislation provides the council with the necessary powers to construct the network assessed in the various studies, including planning permission. The option appraisal and the Environmental Impact Assessments were used to support the application for the legislation. Whilst we acknowledge this position we consider that to comply with best practice, the council should reconsider the option appraisal undertaken in support of the Bill in light of the current circumstances. We recommend that this appraisal should be undertaken as part of the final business case being presented to Council.

Action plan point 5

131. In September 2017, following a referral from the Transport and Environment Committee, the council approved the commencement of Stage 2 activities for the project and an updated (OBC) was presented. Stage 2 is the procurement phase and takes approximately twelve months. This will incorporate public consultation and outline initial designs. The council aims to complete tender evaluations by September 2018. Subject to Council approval, the main construction contract is intended to be awarded to the preferred bidder and approval granted to start Stage 3 by December 2018.

Financial model

132. The outline business case for the York Place to Newhaven extension which was presented to council in November 2017 outlined the financial case for the project to go ahead. This focused on the evaluation of the affordability of the project.

133. The capital cost of the project, including risk and inflation, is estimated to be £165.2million. In the short to medium term, an estimated

funding gap of £1million exists after utilising £20million of assured extraordinary dividend from Lothian Buses. In the longer term, the council expects the extension to be funded through tram revenues, providing the council with an additional source of income. The council's finance team has developed a financial model to enable the project costs and revenues to be calculated and closely monitored.

134. Since the outline business case was presented work has continued to refine the financial model. We have carried out preliminary work on the model and have concluded that the model has been appropriately designed and functions in line with expectation. Further work is however required to consider the appropriateness and validity of the key assumptions which underpin the model. We understand that further refinements are due to take place in advance of the full business case being presented to the council in December 2018. We will review the key assumptions and the functionality of the model soon after it is updated.

135. As part of our initial review of the model we noted that the potential impact of delays to the start or completion date of the capital works had not been considered to date. It is our understanding that in advance of the full business case this analysis will be carried out along with a sensitivity analysis on the impact of movements in the key assumptions. We will ensure this is considered as part of our continuing audit work on the trams project.

Other areas identified

136. As reported to the Tram Extension and Leith Programme Board meeting in August 2018, the Head of Finance has requested that the project team investigate how other similar projects dealt with risk and contingency at the final business case stage, and where possible, gain an understanding of how this compared with the outturn cost. The project team has reached out to Dublin, Manchester and Birmingham, all of which have completed schemes recently. This exercise will need to be completed prior to the approval of the final business case.

137. The council has identified a number of project risks that, if realised, may cause delay in the approval of the final business case. These

include for example the findings from the Lord Hardie independent tram inquiry not being published in sufficient time. Any delays will result in budget challenges given the project team will have to continue to operate beyond the original project dates.

138. Our work on the review of the trams project is ongoing. Our findings will be reported in conjunction with the work being carried out by internal audit.

Systems of internal control

139. We have evaluated the council's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included audit testing on the key internal financial controls to confirm that they are operating as intended.

140. As reported more fully in our Review of Internal Financial Controls report, we did not identify any significant deficiencies in the design, implementation or operation of internal financial controls over the council's key financial systems. We considered the systems to be well designed. We did identify a number of areas with scope for improvement which, if addressed, would further strengthen the system of internal financial control. These findings are included within our Review of Internal Financial Controls report.

Internal audit

141. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the council's total audit resource. Each year we consider whether it is the most effective use of the council's total audit resource to place reliance on the work of internal audit.   When reliance is to be placed over the work of internal audit we carry out an assessment of the internal audit function to ensure this is sufficient in terms of quality and volume, and is performed in accordance with the Public Sector Internal Audit Standards (PSIAS).

142. We have reviewed the council's internal audit arrangements in accordance with International Standard on Auditing 610 (Using the Work of Internal Auditors), to determine if we could rely on the work of internal audit and if so, to what extent.

143. In its 2017/18 annual report, internal audit noted

that it had not fully conformed with Public Sector Internal Audit Standards (PSIAS) for the following reasons:

144. There had been insufficient follow-up of Internal Audit findings between April 2015 and October 2017 to monitor and ensure that management actions have been effectively implemented; and

145. Long term sickness absence and recruitment challenges within the Internal Audit team had impacted completion of the two internal quality assurance reviews included in the 2017/18 Internal Audit annual plan to ensure consistency of audit quality.

146. Action has been taken to address instances of non PSIAS conformance. We have considered these areas on non PSIAS conformance when assessing whether reliance can be placed on the work of internal audit. We concluded that this has not had a direct impact on our assessment.

147. Overall we concluded that we will place reliance on the work of internal audit where appropriate.

Fraud and irregularity

148. In accordance with the Code of Audit Practice, we have reviewed the arrangements for the prevention and detection of fraud and irregularity. Overall, we found the council's arrangements to be sufficient and appropriate.

National Fraud Initiative (NFI)

149. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error.

150. The NFI exercise produces data matches by comparing a range of information held on various public bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.

151. The most recent NFI exercise commenced in October 2016 and as part of our 2016/17 audit we monitored the council's participation in NFI. We submitted an assessment of the council's participation in the exercise to Audit Scotland in February 2018. Overall we concluded that the council has actively participated in the NFI exercise.

4

Financial sustainability

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

Financial sustainability

The council has a well-developed and responsive Medium Term Revenue Budget Framework. Changes to assumptions in relation to grant funding have resulted in the projected savings gap falling to £106million by 2022-23. The achievement of the projected savings requirement still presents a significant financial challenge particularly in the context of delivery of savings in the current year (80% of savings were delivered in 2017/18).

The council is developing a Change Strategy to ensure that the approach to delivering savings is well governed and maintains focus on strategic priorities.

Significant audit risk

152. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

Financial sustainability

During our 2016-17 audit, we highlighted that the council has a well-developed Financial Strategy and has a clear understanding of future pressures and the impact on the medium term financial position. However, at the most recent Revenue Budget Framework update, presented to the Finance & Resources Committee in February 2018, the projected cumulative savings gap to 2022-23 was estimated at £151.2million.

The council continues to implement a third phase of the transformation programme, along with the programme management necessary to deliver on this challenging target. There is a risk that the change and transformation programme may not deliver the level of savings intended, or at the pace of change required.

Excerpt from the 2017/18 External Audit Plan

153. We use this section of the report to describe the council's approach to medium term financial planning. Changes to the underlying assumptions have meant that the projected savings gap has reduced in the most recent update presented to the Finance and Resources Committee. During 2017/18 the council has implemented a Change Board to ensure that key improvement and savings projects are managed in a consistent way, with a focus on strategic priorities and the preventative agenda. However, demographic change and underlying performance issues continue to present a significant financial sustainability risk to the council's management of social care.

Action Plan Point 6

## Medium Term Financial planning

154. The council developed its Revenue Budget Framework in 2015-16 and updates the assumptions and forecasts underpinning the framework on a regular basis. The Framework is subject to review and scrutiny by the Finance and Resources Committee every six months and is used to inform the development of budget proposals.

155. In February 2018, the Finance and Resources Committee considered a report which updated the Revenue Budget Framework to reflect significant changes to the assumptions relating to grant funding. The Framework had assumed decreases in grant levels of around 4.3%. As a result of additional monies within the Local Government financial settlement for 2018-19, the actual grant reduction is around 0.4%,

resulting in a favourable movement in financial projections of £27.1million.

156. Officer proposals for the additional income were targeted to council priorities including £4million additional funding for Health and Social Care to provide additional capacity, and £0.9million to support private sector leases for homelessness. The priorities and spending proposals have also been informed by public engagement on budget proposals.

157. As Exhibit 9 demonstrates, the change in assumption has had a significant impact on the projected savings gap to 2022-23. The projected savings requirement has reduced from £130million reported in September 2017, to £106.4million. Scenario modelling continues to be used to consider the implications of a further 1% and 2% reduction in grant funding. The achievement of the projected savings requirement still presents a significant financial challenge particularly in the context of delivery of savings in the current year (80% of savings were delivered in 2017/18).

Exhibit 9: Changes to the assumptions within the Revenue Budget Framework have resulted In a reduction to the projected savings gap, although savings over £100m are required in a 4 year period.
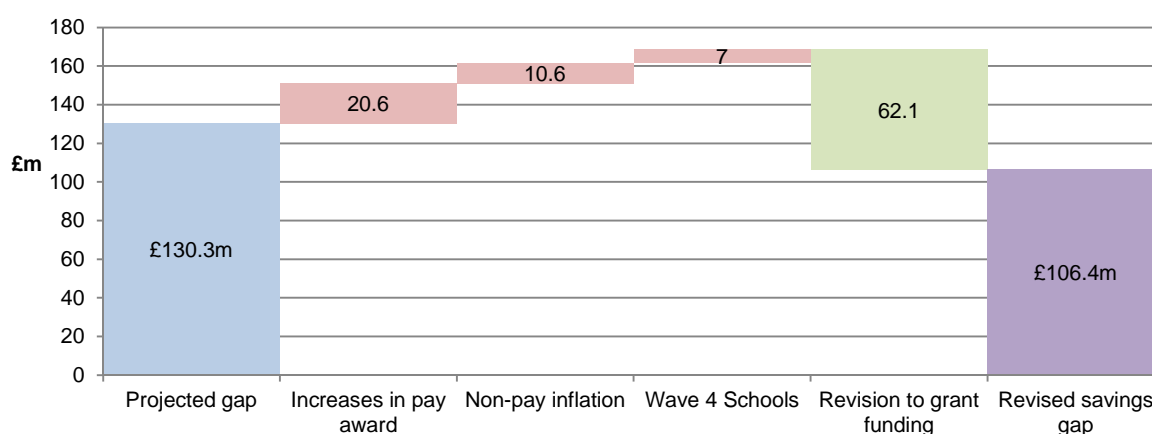
Source: Revenue Budget Framework update reports to the Finance and Resources Committee

158. During 2017/18 we reviewed the analysis used to produce the Revenue Budget Framework 2018-23 and we are satisfied that it was based on a strong understanding of the impact of demand, current levels of service expenditure, emerging pressures and up to date expectations of future government funding.

159. The council continues to report on the financial impact associated with a growing population. Demand for social care services continued to create financial pressure. Failure to deliver planned savings meant that the council was required to increase its financial allocation to the Edinburgh Integration Joint Board by £7.463million.

160. In June 2018, the Finance and Resources Committee received a report on the financial impact of rising school rolls. The report outlined the council's approach to deliver additional capacity for 810 primary school places at a cost of £7.1million plus revenue and capital on costs.

Transformation Programme

161. The Transformation Programme has been the council's key approach to delivering a sustainable financial position. In 2017/18, improvements were made to the monitoring and governance of the programme. All significant projects will now be managed through a single Change Board.

162. The Change Board is composed of the council's Corporate Leadership Team. The Change Board meets each month to review new Business Cases, act as the Escalation Point and review the monthly dashboard that sets out progress of the council's portfolio of project which currently contains 54 projects.

163. The council estimates that it has delivered £240million of recurring savings since 2012-13. An overarching strategy is in development to ensure that future change projects address the savings gap while delivering on strategic priorities to:

- Provide high quality services at the right level

- Move Edinburgh to a radical preventative agenda

- Achieve sustainable, inclusive growth.

164. The Change Strategy is expected to be presented to the Finance and Resources Committee in September 2018. Reporting on progress to the council and Governance, Risk and Best Value Committee has been limited to date and we therefore consider it too early to conclude on the effectiveness of the arrangements.

5

Governance and transparency

Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Through the chief executive, monitoring officer and section 95 officer, the council is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements. Organisations usually involve those charged with governance in monitoring these arrangements.

Governance and transparency

The council has appropriate governance arrangements in place and has identified areas for refinement.

Partnership working is central to the council's delivery of its vision for the city. Locality working has the potential to deliver significant improvements, but the council must ensure that it continues to demonstrate improvements in outcomes.

Following concerns regarding the CGI contract for ICT arrangements, we reviewed whether CGI had made progress against the weaknesses identified. Whilst a number of areas had been addressed, a number of actions still remained to be completed.

Governance arrangements

165. The local government elections in May 2017 resulted in significant changes to the membership and profile of the council. The new council reviewed its political management arrangements in June 2017 and agreed to a more streamlined committee structure, moving from 8 executive committees to 6, over an 8 week cycle. It was hoped that the revised arrangements would address historic areas of imbalance in relation to workload and time commitment associated with the previous committee structure.

166. In June 2018, the council considered the 2018 Review of Political Management Arrangements. The review found that overall, the committee structure has delivered a more balanced set of committees, and that remits, decision-making and accountability are clear. The review did, however, note that the number of reports considered by the council has increased substantially since the last election, and the numbers are significantly higher than other Scottish City councils. The review also found that the average length of committees has increased.

167. The Chief Executive has launched a review of committee reporting to ensure that technology can be used to streamline reporting while continuing to deliver scrutiny requirements. Our observations are that current scrutiny at the council is good. There is evidence of well engaged members who hold officers to account for performance.

168. The Executive Committee structure is supported by the Governance, Risk and Best Value Committee (GRBV), which performs the role of an Audit Committee but with an extended remit. In March 2018, CIPFA released updated guidance on Audit Committees for Local Authorities. Exhibit 10, presents our assessment of the role of the GRBV against the core functions of an audit committee identified by CIPFA. We found only one area of weakness, relating to the consideration of the authority's assurance statements.

169. We highlighted within our action plan for 2016/17 that the council's Annual Governance Statement had not been subject to separate scrutiny by any committee as part of the preparations for the annual accounts process. We note that no changes have been made to the process, which means that the GRBV has not had the opportunity to consider whether the assurance statements reflect their understanding of risk or consider the adequacy of planned governance improvements.

*Follow up of prior year recommendations –
Action plan point 6*

Openness and transparency

170. One of the sector risks identified by Audit Scotland for 2017/18 relates to public sector organisations keeping pace with public expectations on openness and transparency.

171. We found that the council has clear arrangements in place to ensure that members of the public can attend council and committee meetings as observers, and that agendas were available in advance of each meeting. All committee meetings are broadcast on the council's website and a large archive is available for review. In our experience the level

of private papers is appropriate and the reason for privacy is legitimate.

Register of interests

172. On review of the councillors' register of interests in 2016/17, we identified four councillors for which not all interests had been disclosed. We recommended that the council remind councillors of the importance of ensuring their registers of interest are complete and updated on a regular basis.

173. There is ongoing engagement with political group staff to ensure they are aware of members' responsibilities regarding the register of interests. Governance and Democratic Services provide ongoing support to members and offer/deliver one-off briefings for councillors to assist in compliance with the Code. The register of interest process has recently been recorded and a log created to ensure updates are tracked through the approval process.

174. Periodic targeted reminders are also issued following committee and external body appointments approved by the council. The council also hosted a regional roadshow for elected members on the Councillors' Code of Conduct, delivered by the Standards Commission, in November 2017, with all elected members invited to attend.

175. Despite the actions noted above, from our review of the councillors' register of interests in 2017/18, we identified eight councillors for whom not all interests had been disclosed and a further six for which the registers had not been updated to reflect the fact that the interests had ceased.

176. While the responsibility for complying with the Code of Conduct rests with individual elected members, the Ethical Standards in Public Life, etc. (Scotland) Act 2000 impose a duty on councils to support their members to comply with the relevant code.

*Follow up of prior year recommendations –
Action plan point 2*

Exhibit 10: Our assessment of the extent to which the GRBV fulfils the core functions of an audit committee		
Core Function	**Achieved**	**Our observations**
To be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to change it, and demonstrate how governance supports the achievement of the authority's objectives	Partly	The GRBV considered the Corporate Governance Framework 2016-17 in November 2017. The Annual Governance Statement was not subject to separate review prior to the Unaudited Accounts being presented to full Council in June 2018.
In relation to the authority's internal audit function: • To oversee its independence, objectivity, performance and professionalism • To support the effectiveness of internal audit process • To promote the effective use of internal audit within the assurance framework	Yes	The GRBV has played a strong role in highlighting and addressing weaknesses identified in the follow up and actioning of historic internal audit recommendations.
To consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations.	Yes	The GRBV considers a quarterly report from the Chief Risk Officer on the Corporate Leadership Team's assessment and mitigation of corporate risks.

Exhibit 10: Our assessment of the extent to which the GRBV fulfils the core functions of an audit committee

Core Function	Achieved	Our observations
To monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption.	Yes	The GRBV has played a decisive role in addressing performance issues identified in relation to the council's ICT arrangements.
To consider the reports of external audit and inspection agencies and their implications for governance, risk management or control.	Yes	Includes consideration of national reports from Audit Scotland.
To support effective relationships between external and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.	Yes	Audit plans considered during March meeting. The National and Local Scrutiny Plan was considered in June 2018.
To review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.	Yes	Reporting on follow up of actions has been presented to the GRBV in January and May 2018.

Source: CIPFA Audit Committees: Practical Guidance for Local Authorities and the Police, March 2018

Leadership and Vision

177. In August 2017, the new Administration published its Business Plan 2017-22. The plan sets out the five Strategic Aims and 20 outcomes for the current term, and links the aims and outcomes to 52 coalition commitments. As the capital city, and lead for the Regional City Deal, the council's role in delivering leadership and clarity of vision for the future will be critical.

178. Since 2016, the council has engaged with partners and communities to develop the Edinburgh City Vision 2050. An ambitious public engagement exercise has recently been launched to work with residents to refine the vision and planning to deliver improvements in the long term. The vision work led by a steering group has identified areas of consensus that have been reflected within the Business Plan, and will be used to inform the revised Community Plan.

Best value focus: Partnership Working

179. The public service landscape in Scotland requires councils to work in partnership with a wide range of national, regional and local agencies and interests across the public, third and private sectors. As part of our Best Value programme of work for 2017/18, we reviewed the council's approach to partnership working to ensure that there are effective arrangements in place with clear lines of responsibility and accountability, and agreement around targets and milestones to allow the council to demonstrate improvements in outcomes.

Community Planning

180. The council performs the lead role for the Edinburgh Partnership, the Community Planning Partnership (CPP). The CPP includes statutory partners such as NHS Lothian, Scottish Enterprise, Police Scotland and the Scottish Fire and Rescue Service. It also involves a range of other partners such as representatives from the third sector.

181. The Community Empowerment (Scotland) Act 2015 requires each CPP to produce the following plans:

- A Community Plan for the whole council area.

- A Locality or Neighbourhood Plan for each locality it has identified as experiencing significantly poorer outcomes.

182. The current Community -Plan was developed by the previous Administration and covered the period from 2015-18. CPP is undergoing a significant exercise to develop the next Community Plan, which will reflect the council's Business Plan and key strategies to deliver the longer term 2050 City Vision.

183. A significant governance review is also underway to ensure that the CPP is fit for purpose and structured to deliver improved outcomes. However, we note that as a result of the significant development work, the Edinburgh Partnership has not considered progress against outcomes since June 2017.

184. A final performance report will be prepared on outcomes against the 2015-18 Community Plan to coincide with the launch of the new Plan In winter 2018. Our own analysis of performance against some of the key targets within the Community Plan (Exhibit 11) suggests that the pace of change against some priorities has been slower than anticipated.

Locality Planning

185. Good progress has been made in 2017/18 to develop locality planning. Locality Improvement Plans are in place for the 4 localities created by the council and its partners. In addition, in February 2018, the first round of Locality Committee meetings were held.

186. Locality Committees represent a significant change in the way that the council engages with communities, and we noted that the new way of working was welcomed with enthusiasm by elected members. Officers of the council and its partners attend the meetings to ensure a local focus and understanding is used to drive improvements. The council has committed to reviewing the effectiveness of the Locality Committee arrangements in January 2019.

187. We understand that one of the aims of the committees is to devolve budgets and decision-making to locality level. Each Committee receives a performance dashboard highlighting key activity trends. We note that the dashboards are not tailored to the individual locality priorities, and focus on activity data rather than performance outcomes.

188. Elected members have expressed interest in further financial information to support improved scrutiny at locality level. Progress in this area has been limited as a result of the complexities of allocating city wide resources across localities. We recognise that Locality Committees are in their infancy but we will continue to monitor the adequacy and usefulness of performance reporting to ensure that Locality Committees have sufficient information to fulfil their potential.

Selected indicators against the CPP's four priority areas

Priority	Indicator	Baseline (Sept 2014)	Community Plan Target	Latest Performance	Status
Economy	Unemployment rate	2.1%	2.5%	2.4% (2017 data)	🟢
Health and Wellbeing	Balance of care: % of older people who are cared for at home	34.6%	Increase	57.3% (2018)	🟢
	Delayed discharges	68	Reduce to zero	267 (March 2018)	🔴
Children and Young People	%age achieving development milestones	79%	85%	79.2% (2015-16)	🟠
	Looked after children per 1000 popn	16.9	16.7	15.5 (2017/18)	🟢
Safer communities	Violent crime (Group 1) per 10,000 population	18	Reduce	16.3	🟢
	Dwelling fires	525	Reduce	453	🟢
	Affordable housing completions	1285 completed	800	1475	🟢

Source: Community Plan 2015-18 / Performance reports

Significant audit risk

189. Our annual audit plan identified a significant audit risk relating to the council's ICT transformation programme:

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CGI contract management

At its meeting on 16 January 2018, the Governance, Risk and Best Value Committee considered an update report on the CGI-led transformation programme. The report highlighted a number of failings in relation to original and revised timescales not having been met. The GRBV Committee requested a progress update to be taken to the May 2018 meeting. Audit Scotland has also expressed interest in CGI's delivery given that they have a number of high profile contracts in Scotland (e.g. Glasgow City Council and Rural Payments IT system which was heavily criticised in an Audit Scotland report in June 2017).

Excerpt from the 2017/18 External Audit Plan

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190. At the GRBV meeting on 16 January 2018, the committee requested that we prepare a follow up report for the May 2018 meeting to provide an update on the audit recommendations and general security management arrangements.

191. During early April 2018, our specialist ICT auditors conducted additional follow-up work to establish the extent of progress that had been made by CGI in addressing the recommendations contained within our original report from October 2017.

192. We held a number of meetings with senior personnel within CGI, including the Chief Information Security Officer (CISO) dedicated to the CEC account, to discuss the actions that had been taken by CGI to address the recommendations. The meetings were also attended by the council's Enterprise Architect, ICT Security and Governance Manager.

193. We were also provided with evidence by CGI, wherever possible, to demonstrate the progress made.

194. From our discussions with CGI and CEC ICT management as well as review of documentation, we were able to conclude that, whilst progress had been made and mitigating actions put in place in some areas, a number of actions still remained to be completed, all of which had passed their target completion date. In summary:

- Three (25%) actions were regarded as completed

- One action (8%) was regarded as complete as the risk has been accepted by the council.

- Three actions (25%) have been assessed as being substantially complete. In this case, the core actions had been implemented by CGI but our requirement was to confirm that they were in place over a sustained period. At the time of our review that time requirement had not yet been achieved.

- Five actions (42%) have been assessed as partially complete.

Following the Public Pound

195. In May 2018, Audit Scotland published its national performance report on Arm's Length External Organisations (ALEOs) across Scottish Local Government. The report found that ALEOs can bring both financial and operational benefits and that councils have generally improved and strengthened their oversight of ALEOs. The report made a number of recommendations for councils, including the need to set clear criteria for how councillors and officers are involved with ALEOs, and take steps to demonstrate more clearly how ALEOs secure Best Value.

196. The GRBV considered the national report at its meeting in August 2018. The covering report included a self-assessment of the City of Edinburgh Council's arrangements against the nine recommendations. A further report will be prepared for the Corporate Policy & Strategy

Committee to consider the advantages and disadvantages associated with appointing elected members on the boards of the council's ALEOs.

197. The council has continued to actively manage its ALEOs during 2017/18, using the Governance Hub. The council has also progressed plans to bring the EDI Group back in-house. The council consider this decision will bring significant financial advantages.

Risk Management

198. Well-developed risk management arrangements help councils to make effective decisions and secure better use of resources. The Corporate Policy and Strategy Committee approved a revised Risk Policy and Risk Appetite Statement in August 2018.

199. Ownership of the council's risk management framework rests with the Corporate Leadership Team's (CLT) Risk and Assurance Committee for oversight, scrutiny and confirmation of scoring. The Chief Risk Officer chairs Directorate level Risk Committees and ensures that any emerging risks are escalated to the CLT as appropriate. During our review, we were satisfied that risks are actively managed and subject to escalation or scaling down as appropriate.

200. As we note In Exhibit 12, the council's Risk Management Team won an ALARM award for Excellence in 2018.

Exhibit 12: The council were awarded the 2018 ALARM award for Operational Risk

City of Edinburgh Council won the 2018 Operational Award for the Self-Assurance Framework in place to manage operational risk

The framework is used to manage operational risk and improve the effectiveness of their control environment.

The framework Is fully embedded within communities and families and the framework is used as a first line of defence tool within all schools, libraries, residential establishments and care homes.

The multi-disciplinary framework is now being rolled out across other areas of the council, with the enthusiastic support from directors, heads of service and managers at all levels.

Source: ALARM Excellence Awards 2018

201. The CLT risk register is reported to the Governance, Risk and Best Value Committee on a quarterly basis. The reporting includes the top prioritised risks, current mitigating controls and further actions to be delivered. Six risks remain within the council's "high" risk category after mitigating actions had been applied:

- Health and Social Care
- Capital asset management
- ICT capabilities
- Change
- Major incident
- Information Governance.

202. Overall, we were satisfied that risk management arrangements appear to be embedded across the organisation and are well-integrated with the council's internal audit arrangements.

Impact of EU Withdrawal

203. Audit Scotland has identified EU withdrawal as an emerging significant risk facing public bodies across Scotland. Three streams of potential impact were identified:

- Workforce
- Funding
- Regulation

204. The council has recognised workforce and economy as being the most significant risk areas.

205. The council's Human Resources team has undertaken a significant programme of work to develop sufficient data and understanding of the service areas that are most likely to be impacted by EU withdrawal. As Exhibit 13 highlights, the employees most likely to be affected predominantly work in the council's Education and Social Care services.

Exhibit 13: The Council's analysis of current EU nationals employed by service
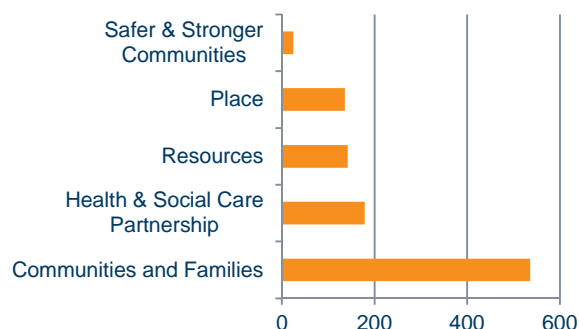
Source: Analysis undertaken by the Council's Human Resources Team

Policy and Strategy Committee agreed at its August 2018 meeting that a Brexit Working Group should be reinstated to review actions currently in place and report on future options to provide support for Non-UK EU nationals within the council workforce and the wider city population.

Standards of conduct

211. In our opinion, the council's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.

206. The council has issued guidance and offered support to all employees believed to be directly impacted. Further guidance will be made available as the EU withdrawal process becomes clearer.

207. While the council now understands the impact for its directly employed workforce, a significant amount of uncertainty remains around those employed through third party contracted service providers.

208. The council has also recognised EU withdrawal as a key area of challenge in achieving their vision of Edinburgh as a welcoming international city. As a result, the Edinburgh Economy Strategy, approved in June 2018 recognises the transition as an area requiring action.

209. The strategy highlights three key actions to help minimise the city respond to the challenges and opportunities that EU withdrawal brings:

- Focus on innovation
- Focus on skills
- Focus on places.

210. The council has recognised the potential risk to levels of funding within the Economic Development risk register. The council continues to work with other local authorities and COSLA to assess the potential impact on funding after the guarantees around funding until 2020 have ended. The council's Corporate

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Value for money

Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the council's own reporting of its performance.

Value for money

The council has developed a robust Performance Framework to monitor progress against the Business Plan 2017-22. We found evidence that elected members provide appropriate scrutiny and challenge to reported performance outcomes

The council demonstrates good self awareness, particularly around areas that require improvement. However, interventions to secure improvement have not always been effective, particularly in roads and building standards.

Performance and improvement in health and social care has been poor and requires a significant step up in the pace of change.

Performance Framework

212. The council published *The Programme for the Capital: The City of Edinburgh Council Business Plan 2017-22* in August 2018. The Business plan sets out the council's vision, and Strategic Aims for the term of the Administration:

- A Vibrant City
- A City of Opportunity
- A Resilient City
- A Forward Looking Council
- An Empowering Council.

213. The plan links the Aims to 52 coalition commitments and the council wide approaches, values and behaviours needed to deliver the commitments and improvements to services.

214. In November 2017, the Council developed the Performance Framework necessary to measure and monitor progress against the Business Plan. By February 2018, SMART measures and targets were in place for each of the coalition commitments and were subject to robust scrutiny at the Corporate Policy and Strategy Committee. We are satisfied that the measures adopted will provide sufficient information to elected members to allow them to scrutinise the pace and depth of improvement.

Public Performance Reporting

215. The council considered the corporate performance report for 2017/18 in August 2018. The report was comprehensive, and included monthly analysis of key corporate indicators, along with traffic light reporting on achievement against targets. The report contains analysis of key challenges and context impacting performance, such as the demographic pressures associated with a rising and ageing population. It also outlines a number of opportunities, such as the investment associated with the City Region Deal, continuing job growth and low levels of unemployment.

Local Government Benchmarking Framework

216. The Accounts Commission has a statutory power to define the performance information that local authorities have to publish. The 2015 Direction, which applies until 31st March 2019, reinforced the Accounts Commission's focus on public performance reporting (PPR) prescribed two Statutory Performance Indicators (SPIs):

SPI 1: Each council will report a range of information setting out:

- Its performance in improving local public services (including with partners)
- Its performance in improving local outcomes (including with partners)
- Its performance in engaging with communities and service users, and responding to their views and concerns

- Its performance in achieving Best Value, including its use of performance benchmarking; options appraisal and use of resources.

SPI 2: Each council will report its performance in accordance with the requirements of the Local Government Benchmarking Framework.

217. We are satisfied that the council Performance Report 2017/18 fulfils the requirements of most of SPI 1. As we note in paragraph 182, the council has not yet reported on its performance on improving local outcomes with partners. We were therefore unable to conclude in full on the achievement of SP1 1.

Action Plan Point 7

218. The council fulfilled its obligations to report performance in line with the Local Government Benchmarking Framework. A summary of the performance, including areas for improvement and trends was presented to the council within the Performance Report in August 2018.

219. Exhibit 14 highlights that Edinburgh's performance compared to other Scottish councils continued to fall in 2016-17. Persistent areas of poor performance include

- The quality and standard of council-provided housing (as measured by the dwellings meeting the Scottish Housing Quality Standard) is the lowest of any council. It is rated at 75.7% compared to an average of 92.5%. Edinburgh has been the lowest performing council for this indicator since 2014-15.

- The percentage of adults satisfied with refuse collection services was 66.3% in 2016-17. Edinburgh has been the lowest performing council since 2014.

- For asset management, the percentage of Council accommodation that is suitable for its current use is 59.3%. This indicator has been the lowest performing in Scotland since 2011-12.

- Adult satisfaction with local schools is the lowest in the country at 62.7%. This has been the lowest In Scotland since 2015-16.

Exhibit 14: Overall performance declined relative to other councils in Scotland during 2016-17
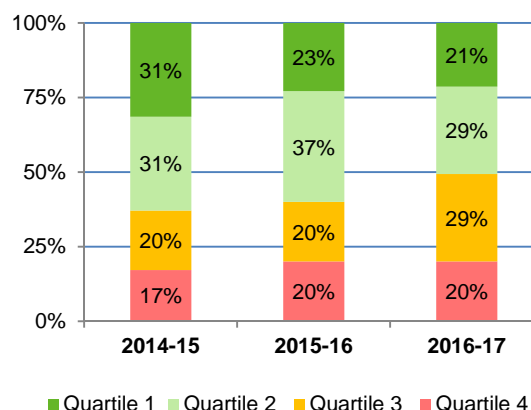
Source: Local Government Benchmarking Framework, Improvement Service 2018

220. Sixteen indicators were in the top performance quartile: Areas of good performance include the level of Looked After Children being looked after in the community (91.9% against a national average of 89.9%), resident satisfaction with parks and museums/galleries, and a number of cost indicators such as the cost per primary and secondary school pupil educated.

Best Value: Improvement

221. The Best Value assessment considers whether the council has achieved continuous improvement not in all services areas, but in the outcomes within the council's strategic priority areas. We therefore drew upon the council's Annual Performance Report 2017/18 to consider the pace of improvement against areas that the council has identified as a priority.

222. The report highlights good progress in the priority area to narrow the educational gap between children from deprived areas and the rest of the population. There is also evidence of significant improvements as a result of a transformational review into Looked After Children. The council's improvements resulted in the looked after children rate per 1000 population falling from 16.9 in 2013 to 15.5 in 2018, which means that more children are remaining in their own home. The transformation activity has also resulted in a significant increase in in-house foster care

capacity. In five years, the council has improved the in-house proportion from 55% to 63%.

223. The report identifies concerns relating to homelessness case length as, at 327 days, it is significantly higher than the target of 200 days. While homelessness presentation continues to fall, the council has recognised it as such a significant priority that a member led Homelessness Task Force has been created. The council continues to focus on prevention and long term solutions for homelessness, including the acceleration of the affordable housing programme.

Health and Social Care

224. The council's performance report does, however, identify that progress on shifting the balance of care for older people has remained static over 2017/18. The council is one of the key partners in the Edinburgh Health and Social Care Partnership. The partnership's performance analysis of performance against the rest of Scotland for national outcome indicators continues to place it in the lowest quartile for a number of key indicators including:

- The number of days people spend in hospital when they are ready to be discharged (refer to Exhibit 15 on "delayed discharges")

- The percentage of carers who feel supported to continue in their role

- The proportion of the last 6 months of life spent at home or in a community setting.

225. The IJB planned to reduce non-complex delayed discharges to 50 by December 2017. As Exhibit 15 highlights, the planned targets have not been achieved at any point in the year.

226. Over the last 2 years, a number of intervention actions have been taken to reduce delayed discharges, including the creation of a Delayed Discharge Oversight Group which has representation of the whole system.

227. The main reasons for the high level of delayed discharges are lack of available care packages (54% of the total reported) and care home places (27%) due to lack of funding and suspensions in admissions.

Exhibit 15: The Edinburgh Health and Social Care Partnership has not reached delayed discharge targets for 2017/18.
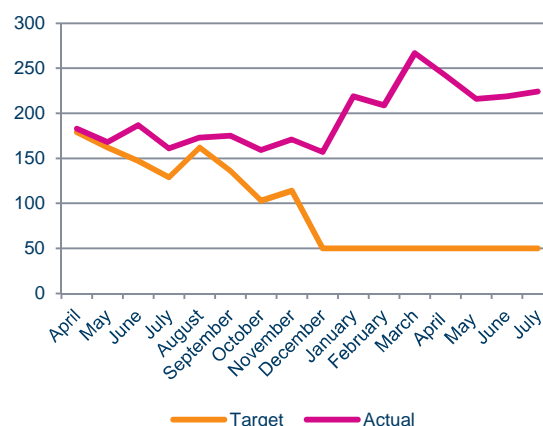
Source: Whole System Delays report to Edinburgh IJB

228. Assessments on the current performance and improvement plans have been considered by the GRBV and a special meeting of the Corporate Policy and Strategy Committee in January 2018. *The Plan for Immediate Pressures and Long Term Sustainability* identified the backlog in people awaiting assessment in the community as an immediate priority for the Partnership.

229. A specific investment was made to recruit a short-term team of assessors with the aim to clear all of the backlog assessments by the end of July 2018. Over 700 individuals were transferred to the team to conduct assessments. The team were able to clear the backlog waiting list within the planned timescale. As Exhibit 16 demonstrates, this reduced the waiting list, but improvements have not been sustained.

Exhibit 16: The Waiting List for Assessments fell during intense intervention but has begun to rise again
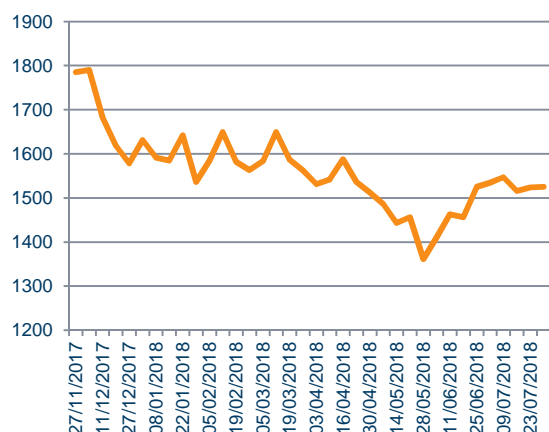
Source: Whole System Delay Reports to Edinburgh IJB

230. The Partnership has also had an improvement plan in place to respond to a very critical Joint Inspection of Older People's Services, which was published in May 2017. The actions and format of the improvement plan changed during 2017/18, partly as a result of significant changes in senior management. However, our review of progress against the improvement plan concluded that reporting and therefore governance of the plan lacked clarity and focus. As a result, the pace of change and level of improvement has not been good enough.

Action Plan Point 8

Service Improvement Plans

231. The council demonstrates good self-awareness around areas of poor performance, and we found that the performance reporting in 2017/18 was honest and robust. We noted during 2016/17 that the council created service improvement plans to address specific, persistent performance concerns in waste and road services.

232. Exhibit 17 outlines our analysis of performance against these areas. We found that while the waste improvement plan was substantially complete and leading to improved outcomes,

progress against the roads improvement plan was disappointing.

233. In August 2018, the GRBV received a report on an Improvement Plan for Building Standards, which had been referred from the Planning Committee. As a result of Ministerial concern about the performance of the service, the Scottish Government's Building Standards Division (BSD) visited the council in February 2017. The Scottish Government made recommendations which resulted in a one year appointment as local authority verifier of building warrants, and the threat that without improvement, the appointment would be withdrawn thereafter. The council was required to develop an improvement plan, which was reported to the Planning Committee.

234. In November 2017, the BSD carried out an audit of the service which examined progress made on the improvement plan since the last visit. The audit concluded that insufficient progress had been made. A refreshed improvement plan is now in place and the Council, in conjunction with Scottish Government has appointed an improvement team to assist with the delivery of this improvement plan.

235. The council has recently established a Change Management process to improve the quality, consistency and governance of all significant change projects. Service Improvement projects are one of five change types that will be tracked by the council's officer-led Change Board. Progress against the portfolio of projects will be reported to the Governance, Risk and Best Value Committee on a six-monthly basis. The first of the dashboard reports was presented to the GRBV in June 2018.

236. The GRBV must be confident that the dashboard reporting gives the committee sufficient understanding of progress, barriers and accountability for improvement. We will review the impact of the Change Strategy as part of our work in 2018-19.

Exhibit 17: Service Improvement Plans

Waste Improvement Plan - evidence of success

The Waste and Cleansing Improvement Plan was developed in response to concerns from Elected Members and members of the public over the poor quality of waste collection and street cleansing services. An improvement plan was approved by the Transport and Environment Committee in November 2016.

Good progress was made in implementing the plan, and a final update was provided to the Committee in March 2018, allowing the improvement plan to be closed. Of the 65 actions identified, 63 had been completed In full.

The service has identified significant improvements, including:

- Satisfaction rates with street cleaning, the refuse service and recycling have increased from 2014-16
- Individual missed bin complaints in November and December 2017 were the lowest they had been in any month since August 2014
- The cost of waste collection is lower than the Scottish average.

Roads Improvement Plan - further work needed

The roads improvement plan was put in place in April 2016 following significant resident dissatisfaction with services. The original improvement plan identified 32 actions. In March 2017 a further four actions were added.

As at March 2018, the majority of the actions remain open. Only 8 of the 36 actions (22%) have been achieved.

The Roads Service Identify 2 key measures of success; customer satisfaction (as measured using the Edinburgh People Survey) and the condition of Edinburgh's roads. Our analysis of performance information highlights that:

- Resident satisfaction with road maintenance fell slightly between the survey in 2012-14 and 2015-17, from 52% to 51%. Satisfaction with Pavement maintenance fell from 60% to 53%.
- The roads condition index improved and the percentage of roads considered for maintenance was better than the Scottish average
- The cost of road maintenance is significantly higher than the Scottish average (£19,905 per kilometre against the Scottish average of £10,456).

Source: Reporting to the Transport and Environment Committee, Edinburgh People Survey and LGBF data 2018

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Appendices

Appendix 1: Respective responsibilities of the council and the Auditor

Responsibility for the preparation of the annual accounts

The council is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. The Head of Finance has been designated as that officer within City of Edinburgh Council.

The Head of Finance is responsible for the preparation of the council's annual accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the annual accounts, the Head of Finance is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- complying with legislation; and
- complying with the Code.

The Head of Finance is also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual accounts and give an opinion on whether:

- they give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of the affairs of the body and its group as at 31 March 2018 and of its surplus for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

We are also required to report, if in our opinion:

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

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

Group non-audit services

Scott-Moncrieff provides taxation services to CEC Holdings Group and Transport for Edinburgh Group. All tax services are provided by independent partners and staff who have no involvement in the audit of those financial statements. The total value of taxation services provided is approximately £28,000.

Confirmation of independence

We confirm that we will comply with FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the council, its elected members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Best Value Programme

In October 2016, Audit Scotland introduced a new approach to auditing Best Value in Scottish councils. The new approach continues to audit against the statutory duties but has an increased focus on the pace and depth of improvement at each council. Each council will be subject to a full Best Value Assurance report over a 5 year period.

Under the Code of Audit Practice (May 2016), and supplementary guidance issued by Audit Scotland, we are required to consider and make judgements on 8 Best Value themes over the course of our appointment. This work will build our assessment of the council's approach to demonstrate Best Value, which will help to risk assess and inform the coverage of the full Best Value Assurance Report. Audit Scotland has recently announced the councils that will be subject to full Best Value in Year 3 of the programme. We therefore anticipate that City of Edinburgh Council will fall within Year 4 or 5 of the programme. The table below outlines our coverage to date and plans for the remaining 3 years of our appointment.

Wider Scope Dimension	Year 1 2016-17	Year 2 2017/18	Year 3 2018-19	Year 4 2019-20	Year 5 2020-21
				Anticipated BVAR at CEC	
Financial Management/ Sustainability	**Effective use of resources** Financial governance Financial and service planning	Financial governance Resource management			**Sustainability**
Governance and transparency	**Governance & accountability** Governance, decision making and scrutiny Member training and development	Governance, decision making and scrutiny	Managing risk effectively	Public performance reporting Member training and development	Governance, decision making and scrutiny
		Partnership and collaborative working	**Community responsive-ness** **Fairness and equality**	**Vision and leadership**	
Value for money		**Performance outcomes and improvement** Improvement		**Performance outcomes and improvement** Performance and outcomes	

Appendix 3: Accounts Commission Strategic Priorities

Each year, the Accounts Commission sets out its plans and priorities to fulfil its oversight and scrutiny role, with the overriding aim to hold councils to account for the pace, depth and continuity of improvement facilitated by effective governance. We aim to support the Accounts Commission's work by using our annual audit work and Best Value assessments to assess how the City of Edinburgh Council is progressing against the Commission's priorities. The Strategic Plan for 2017-22 (http://www.audit-scotland.gov.uk/report/accounts-commission-strategy-and-annual-action-plan-2017-22) contains five Strategic Priorities.

Our assessment against the priorities is outlined below

2017/18 Strategic Priority	Our assessment
Having clear priorities and better long term planning	Following the local government elections, the council quickly set out its Business Plan 2017-22, which refined the strategic priorities and linked them to the coalition commitments. A wider Strategic Planning Framework is in place, which includes the Health and Social Care Partnership Strategic Plan and the Economic Strategy. We found consistency and clarity of priorities across the strategies.

The council also works well with partners, both in developing the City Vision 2050, and on the Edinburgh Partnership (the Community Planning Partnership/CPP). Work on the Community Plan for 2019 and beyond is underway, and expected to considered by the CPP in Winter 2018. |
| Evaluating and implementing options for more significant changes in how they deliver services | During 2016/17 and 2017/18, we have found limited examples of the use of option appraisal, although options appraisal has been conducted to assist decision making in relation to ALEOs, particularly the decision to bring the EDI Group in house, and early decisions on Edinburgh Trams.

We understand that under the revised Change Programme, each new Project requires a completed Business Case at the initiation stage which is informed by the Green Book 5 Case Model. The council's Corporate Leadership Team acts as the Change Board to scrutinise all change projects. |
| Ensuring members and officers have the right knowledge, skills and support to deliver effective services in the future | During May-August 2017, the council provided a comprehensive programme of induction and training sessions for the new and returning elected members. The programme included 31 sessions that were repeated to help attendance. Additional, tailored training sessions have been held for members of the GRBV.

Throughout our appointment we have noted that the council's elected members are well-engaged and perform their scrutiny role well. |
| Involving citizens more in making decisions about local services and empowering local | In February 2018, the council held its first round of Locality Committee meetings. The Locality Committees are elected member led but involve representatives from a range of services including health and social care, and bridge the gap between Neighbourhood Partnerships and the Executive |

2017/18 Strategic Priority	Our assessment
communities to identify and help deliver services they need	Committees. The Committees have a Locality Improvement Plan in place which identifies local priorities, based on local engagement. As part of the budget development process, the council uses Budget Engagement to identify and understand the potential impacts of proposals that have been considered by the Finance and Resources Committee. Areas of concern, solutions and opportunities emerging from the consultation are considered by the Committee before savings plans are finalised.
Reporting their performance in a way that enhances accountability to citizens and communities	We reviewed the Performance Management Framework and Corporate Performance Report for 2017/18 as part of our work on the council's arrangements to secure Value for Money. We found that the report was comprehensive and provided useful commentary on context, performance concerns and improvement actions. The report included an appendix on how the council compares to others within the Local Government Benchmarking Framework. We do, however, note that the council has not yet reported on delivery of outcomes against the 2015-18 Community Plan.

The Accounts Commission Strategic Plan for 2018-23 was published in June 2018 (http://www.audit-scotland.gov.uk/uploads/docs/report/2018/ac_strategy_plan_18-23.pdf) and refines the five strategic priorities:

1. Having clear priorities with a focus on outcomes, supported by effective long term planning.

2. Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities.

3. Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.

4. Empowering local communities and involving them in the design and delivery of local services and planning for their local area.

5. Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.

We will continue to monitor and report on the council's approach as part of our approach to the audit in 2018/19.

Appendix 4: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication of the matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Action plan grading structure

To assist the council in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. Our rating structure has been revised to ensure consistency with the structure/terminology used by internal audit.

The rating structure is summarised as follows:

Finding rating	Assessment rationale
Critical	A finding that could have a: • *Critical* impact on operational performance; or • *Critical* monetary or financial statement impact; or • *Critical* breach in laws and regulations that could result in material fines or consequences; or • *Critical* impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: • *Significant* impact on operational performance; or • *Significant* monetary or financial statement impact; or • *Significant* breach in laws and regulations resulting in significant fines and consequences; or • *Significant* impact on the reputation or brand of the organisation.
Medium	A finding that could have a: • *Moderate* impact on operational performance; or • *Moderate* monetary or financial statement impact; or • *Moderate* breach in laws and regulations resulting in fines and consequences; or • *Moderate* impact on the reputation or brand of the organisation.
Low	A finding that could have a: • *Minor* impact on the organisation's operational performance ; or • *Minor* monetary or financial statement impact; or • *Minor* breach in laws and regulations with limited consequences; or • *Minor* impact on the reputation of the organisation.
Advisory	• A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Current year action plan

Action plan point	Issue, Risk & Recommendation	Management Comments
1. User access controls **Rating** **Low** **Paragraph ref** **20**	**Issue** We noted during our audit that any member of the council finance team with ledger access can post entries to organisations that the council provides financial ledger services to even though they may have no interaction with those organisations. **Risk** There is a risk that incorrect or fraudulent postings could be made to those organisations' financial ledgers. **Recommendation** We recommend that the council reviews user access controls to the financial ledger.	There is no existing system-based means of preventing staff from posting journal entries affecting other organisations. Initial indications are that the cost of introducing such controls would likely be prohibitive relative to the resulting benefits. As part of the detailed monitoring of these organisations' financial affairs, however, transaction lists for the Lothian Valuation Joint Board and SEStran are reviewed on a monthly basis and this identifies any of an unexpected nature. This check will be formally evidenced going forward. **Responsible officer:** Business Partnering Senior Manager, Finance **Implementation date:** October 2018

Action plan point	Issue, Risk & Recommendation	Management Comments
2. Property, plant and equipment **Rating** **High** **Paragraph ref** **24 & 27**	**Issue** **Valuation** We noted the following through our review of the valuation process: • The instructions from the council to the internal valuer are not disseminated to individual valuers who carry out the valuations; • A material adjustment was made to the annual accounts as differences were identified between the valuations provided by the valuer and those recorded in the council's asset register; and • The results of the valuation exercise are not formally communicated to the council. **Impairment** We noted that no assessment of impairment of the estates portfolio has been carried out in 2017/18; other than for those assets forming part of the 2017/18 valuation programme. **Risk** There is a risk that the valuations carried out are not consistently prepared, in line with the instructions issued by the council. There is also a risk that the results of the valuations or impairment reviews are not correctly disclosed and accounted for in the annual accounts. **Recommendation** We recommend: • The instructions are circulated to all those responsible for carrying out the valuations; • Reconciliations are performed between the records held by the valuers and the council's asset register; • An overarching valuation report is prepared; the content of which is in accordance with the RICS Red Book; and • The council to formalise its procedures for assessing whether there has been an impairment of its estates portfolio.	For the 2018/19 process, both a handbook for valuers and a manager's checklist of all the steps involved in the asset valuations have been produced. The year-end instructions have been incorporated within the handbook and are being issued to all staff involved in the valuation process. A reconciliation between Logotech and AIS will be carried out to ensure the respective systems are in balance, with any differences investigated. An overarching valuation report, consistent with the requirements of the RICS Red Book, will be produced for 2018/19. A formal procedure will be put in place with regard to assessing whether an impairment has occurred and included within the handbook. **Responsible officer:** Operational Estate Manager, Resources **Implementation date:** April 2019

Action plan point	Issue, Risk & Recommendation	Management Comments
3. Common good – income and expenditure transactions **Rating** **Medium** **Paragraph ref** **57**	**Issue** The council's unaudited common good fund accounts did not disclose all transactions pertaining to the common good fund (value approximately £5.8million). These transactions were included within the council's accounting records. The accounts were subsequently updated. **Risk** There is a risk that the accounts of the common good funds are not transparent and show the true position of the operation of those funds. **Recommendation** We would encourage the council to review its relationship and use of the common good funds/assets and put in place documented arrangement for the use and maintenance of those assets.	To ensure the effective management of relevant assets and associated costs as part of the Council's wider property portfolio, income and expenditure of the Common Good will continue to be coded within the Council's accounts during the year. At the year end, an adjustment will be made between the respective funds to ensure that the income and expenditure are appropriately reflected in both accounts. Property and Facilities Management will review the relationship between the Council and the Common Good Fund and consider proportionate improvements to arrangements for the use and maintenance of the latter's assets. **Responsible officer:** Principal Accountant (Corporate Accounts), Finance (working with relevant colleagues as appropriate) **Implementation date:** February 2019

Action plan point	Issue, Risk & Recommendation	Management Comments
4. Common good – asset register **Rating** **High** **Paragraph ref** **62**	**Issue** The council is currently compiling a common good register to comply with the requirements of the Community Empowerment (Scotland) Act 2015. We noted during our audit that there are assets included on this register which are not currently accounted for as common good in the annual accounts. No adjustment was made to the 2017/18 annual accounts however it is anticipated that there will be an increase in value of common good assets in 2018/19. **Risk** There is a risk that the common good accounts are misstated. **Recommendation** The council, in preparing the 2018/19 common good fund annual accounts should review the accounting policies for property, plant and equipment and heritage assets to ensure that: • The assets are classified correctly; • The appropriate valuation basis has been applied; and • Depreciation is applied dependent on the accounting policy and classification of the asset.	The consultation on the revised common good register is anticipated to begin on 27 September 2018. During this consultation and in advance of the 2018/19 year end, the respective assets of the Common Good Fund and the Council will continue to be assessed and any required reclassification undertaken. As part of this reclassification of assets, the Council will consider the appropriate valuation basis, paying due consideration to statutory mitigation, and ensure that the depreciation applied is consistent with the accounting policy and classification. **Responsible officer:** Principal Accountant (Corporate Accounts), Finance **Implementation date:** May 2019

Action plan point	Issue, Risk & Recommendation	Management Comments
5. Options appraisal – tram extension project **Rating** **High** **Paragraph ref** **130**	**Issue** Reliance has been placed on the original options appraisal for transport modes which took place in support of the Parliamentary bill. The council has not validated this original appraisal. **Risk** There is a risk that findings of the original option appraisal are diluted given the passage of time. **Recommendation** A high-level options assessment should be carried out to validate the conclusions reached in the 2006 STAG 2 appraisal which formed the basis for the Edinburgh Tram (Line One) Act 2006. This work should include the assessment of viable modal options against assessment criteria and objectives derived from the original STAG appraisal in light of current policy. This work should conclude prior to any decision.	A high-level options assessment will be carried out and presented as part of the Final Business Case. **Responsible officer:** Project Senior Responsible Officer **Implementation date:** December 2018

Action plan point	Issue, Risk & Recommendation	Management Comments
6. Financial sustainability – Health and Social Care **Rating** **High** **Paragraph ref** **153**	**Issue** During 2017/18 it became clear that the services that the council deliver for Edinburgh Integration Joint Board would incur an overspend of over £7million. Planned savings of £6million were not delivered in 2017/18. As a result, and as in 2016-17, additional contributions were made to the IJB. The council has allocated an additional non-recurring contribution of £4million in 2018-19 to help support capacity challenges. **Risk** There is a risk that the budget for adult social care is insufficient to deliver the level of improvement required. **Recommendation** The council should work with the Edinburgh IJB and other partners to ensure that funding is sufficient to support transformation change.	The Health and Social Care Partnership has identified a broad programme of activity/ transformational changes to optimise delivery within the funding available from the two partner organisations, CEC and NHS Lothian. **Responsible officer:** Chief Officer, Edinburgh Health and Social Care Partnership **Implementation date:** March 2019

Action plan point	Issue, Risk & Recommendation	Management Comments
7. Performance reporting **Rating** **Medium** **Paragraph ref** **217**	**Issue** As a result of ongoing development work on the new Community Plan, the Edinburgh Partnership has not yet reported on the outcomes achieved against the Community Plan 2015-18. **Risk** The council has not fully complied with the Accounts Commission's Statutory Performance Indicator Direction. Without regular reporting on the achievement of outcomes, it may be difficult to assess effectiveness of steps taken by the Partnership. **Recommendation** The council should ensure that arrangements are in place to regularly report to the Edinburgh Partnership on the delivery of outcomes.	The Council team supporting the Edinburgh Partnership (EP) is aware of the delay in the production of the annual performance report and is currently working on drafting this report. It should be noted that the Edinburgh Partnership will be focusing its attention on a review of governance arrangements and the new community plan currently in development, so discussion of the performance report will likely not happen until the end of 2018. As part of the development of the new community plan, high-level performance indicators are being identified to support monitoring of progress going forward. Creating a performance framework around these indicators will be a key stage in the early days of the new plan. Finally, the EP has also started to shift the focus of its discussions onto thematic outcomes. This allows it to have more in-depth discussions on progress to date, covering joint working, existing barriers and impact for communities. At its last meeting in June, the discussion focused on partnership working to address causes of motorbike crime. **Responsible officer:** Policy and Insight Senior Manager **Implementation date:** December 2018

Action plan point	Issue, Risk & Recommendation	Management Comments
8. Health and Social Care performance **Rating** **High** **Paragraph ref** **230**	**Issue** Despite investment in interventions, some of the key performance measures for health and social care remain poor. Our review of progress against the improvement plan concluded that reporting and therefore governance of the plan lacked clarity and focus. As a result, the pace of change and level of improvement has not been good enough. **Risk** There is a risk that key indicators continue to decline. Delayed discharges mean that partnership resources are directed towards unnecessary acute care, rather than the preventative strategic priorities. **Recommendation** The council must ensure that effective scrutiny arrangements are in place to monitor and assess improvement.	The transformational programme, which is still in the final stages of development, is intended to optimise the systems, processes and delivery within existing statutory expectations, as well as shift the strategic focus to prevention and early intervention in order to deliver best possible outcomes and constrain the growth of demand. **Responsible officer:** Chief Officer, Edinburgh Health and Social Care Partnership **Implementation date:** March 2019

Follow up of prior year recommendations

Of the eight recommendations raised within our 2017/18 annual audit report, we note that five have now been implemented, two have been partially implemented and one has yet to be implemented. Details are given below.

1. Authorisation of journals		
Initial rating	**Issue & recommendation**	**Management comments**
Medium	During our review of the financial controls processes we noted a lack of segregation of duties in respect of the posting of journals. Journals are prepared and posted without any evidence of secondary review or authorisation. While our audit work did not identify any indications of management override, we recommend that arrangements are put in place to review or authorise year-end journals.	While, as noted in the main report, a range of compensating controls mitigating any risk of monetary gain is already in place, arrangements to introduce proportionate additional independent review will be examined with a view to implementation as part of the 2017/18 accounts closure process. **Responsible Officer:** Corporate Finance Senior Manager Completion Date: **March 2018**
Current status	**Audit update**	**Management response**
Complete	Year-end procedures have been modified to introduce proportionate evidenced review of all journals posted as part of the 2017/18 accounts closure process.	N/A

2. Register of interests

Initial rating	Issue & recommendation	Management comments
Medium	The council discloses within its annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. The councillors' register of interests is one way that the Council can identify its related parties. On review of the councillors' register of interests we identified four additional interests which had not been declared. There is a risk, should the registers not be updated, that the Council does not identify and report all related party transactions in its annual accounts. It is the responsibility of a councillor to make sure that he/she is familiar with, and their actions comply with, the provisions of the Code of Conduct. The Ethical Standards in Public Life, etc. (Scotland) Act 2000 does impose on Councils a duty to help their members to comply with the relevant code. Councillors should be reminded of the importance of ensuring the register of interests is updated regularly and completely	The council has robust arrangements to remind councillors of their duties under the Act. • We regularly review Elected Member Register of Interests; • Remind Elected Members of their responsibilities in registering any changes/updates within a month of the change occurring; • Check individual registers for anomalies that we can identify and highlight these to relevant elected members to prompt updates; • Regularly review our process; • Provide appropriate guidance and prompts to Elected Members to support compliance. For the new Council in May 2017: • We explained the requirement for Elected Members to make their first Register of Interest within one month of election in their introduction letter/pack issued at the count, with a copy of the Code of Conduct and the relevant form; • We emphasised the importance of this requirement in the Code of Conduct training sessions that formed part of the Induction and Training Programme for Elected Members (May/June 2017). • We reminded Elected Members ahead of the deadline (31 May 2017) • We engaged with political Group Business Managers to secure their support in reminding their members ahead of the deadline; • We issued additional guidance on declaring property income under remuneration following a couple of queries on this topic and after seeking clarification from the Standards Commission; • We reminded all Elected Members that they would need to update their Register of Interests to reflect

2. Register of interests

Initial rating	Issue & recommendation	Management comments
		appointments made at Council in June 2017; • We reminded Elected Members of their responsibilities for updating their Register of Interests following further appointments at Council in August and to remind about registering gifts and hospitality. We will continue to remind regularly councillors of their duties under the Act. **Responsible Officers:** Governance and Democratic Services Manager Councillors **Completion Date:** Ongoing

Current status	Audit update	Management response
Partially complete	Despite actions been taken during 2017/18 to remind and support councillors in their responsibilities to maintain a register of interests, our review of the councillors' register of interests in 2017/18, identified eight councillors for which not all interests had been disclosed and a further six for which the registers had not been updated to reflect the fact that the interests had ceased. While it is the responsibility of a councillor to make sure that he/she is familiar with, and their actions comply with, the provisions of the Code of Conduct, the Ethical Standards in Public Life, etc. (Scotland) Act 2000 do impose on councils a duty to help their members to comply with the relevant code. We would encourage the council to consider the following: • Request that councillors' review and update their register of interests on a formal basis at least twice a year; one of which should be done as at the 31 March 2018. Confirmation of no changes should also be obtained. • Council staff should review the disclosures against, for example Companies House records, to ensure disclosures are complete and discuss with councillors any omissions identified with a view to updating the registers.	The Council continues to have robust arrangements to support elected members in fulfilling their duties under the Councillors' Code of Conduct. This includes a twice-yearly reminder and additional reminders after appointments at Council meetings. Officers have concerns over reviewing disclosures to Companies House with elected members as the responsibility for complying with the Code is for each individual member and the Council should not put in place arrangements that could dilute that ownership and responsibility. However, as a means of continuing to improve the process, committee management software is being explored that would simplify the process for elected members in updating their register which currently is a paper-based exercise. **Responsible officer:** Democracy, Governance and Resilience Senior Manager **Implementation date:** On-going

3. Budget monitoring reports

Initial rating	Issue & Recommendation	Management Comments
Medium	The council's Finance and Resources Committee receive quarterly revenue and capital monitoring reports throughout the financial year. The reports include a risk rated assessment of the achievement of savings, information on key variances and areas of financial risk. The reports are referred to the Governance, Risk and Best Value Committee for scrutiny. In our view there is scope to improve the transparency within financial monitoring reports by ensuring that revenue monitoring reports include consistent outturn projections throughout the year.	Based on a best-practice review reporting elsewhere, opportunities to improve further the clarity and transparency of existing financial reporting will be actively considered with a view to a phased implementation of any resulting changes. Opportunities to improve reporting and scrutiny of some areas of transformational activity, particularly within Health and Social Care, will also be examined. **Responsible Officers**: Head of Finance **Completion Date**: February 2018
Current status	Audit update	Management response
Complete	In a report to GRBV in May 2018, management reported that "due to other pressures, a revised report format, drawing on an analysis of best practice adopted elsewhere, will be presented to the Finance and Resources Committee's meeting on 16 August 2018 as part of the first quarter's revenue monitoring report". We confirmed that the report presented to Finance and Resources Committee in August 2018 has been updated.	N/A

4. People Plan

Initial rating	Issue & recommendation	Management comments
Medium	The most recent People Strategy 2017-20 update (February 2017) sets a high level vision for the workforce. The more detailed People Plan requires to be finalised to support the Strategy. The Plan should set out how the council will manage the impact of any skills gaps.	People plans are an internal tool for senior business partners. These plans are currently being shared with Senior Management Teams for each of the main service areas. The plans will be finalised by end of September. **Responsible Officer:** Head of Human Resources **Completion Date:** September 2017

Current status	Audit update	Management response
Complete	People Plans are in place that chart a twelve-month outlook for each service area, detailing planned HR delivery and service initiatives which have a 'people' impact. Workforce dashboards are presented to the Finance and Resources Committee for scrutiny.	N/A

5. Edinburgh IJB Annual Performance Report

Initial rating	Issue & recommendation	Management comments
Medium	We note that the Edinburgh IJB Annual Performance Report (July 2017) has not yet been considered by a council committee. The Corporate Policy and Strategy Committee provides scrutiny of the services delegated to the Integration Joint Board. The council should continue to monitor the effectiveness of scrutiny arrangements for services delegated by the IJB to ensure that they remain fit for purpose.	The Edinburgh IJB Annual Performance Report will be presented to the Corporate Policy and Strategy Committee on 3 October 2017. **Responsible Officer:** Interim Chief Officer, Edinburgh Health and Social Care Partnership **Completion Date**: October 2017

Current status	Audit update	Management response
Complete	The report was considered by the Corporate Policy and Strategy Committee on 3 October 2017.	N/A

6. Publication of the council's Corporate Governance framework self-assessment

Initial rating	Issue & Recommendation	Management Comments
Medium	In April 2016, CIPFA published a revised Delivering Good Governance in Local Government: Framework (2016 Edition). The council has a Local Code of Corporate Governance in place, but the annual self-assessment against the Code had not been undertaken at the time of our report. We also noted that the Annual Governance Statement was not subject to separate scrutiny by a committee as part of the preparations for the annual accounts process.	The council revised its Corporate Governance Framework self-assessment template to reflect the revised CIPFA/SOLACE framework. The 2016/17 self-assessment exercise commenced on 4 September 2017 and is scheduled for scrutiny by the Governance, Risk and Best Value Committee on 28 November 2017. As in previous years, the Annual Governance Statement was considered by Council on 29 June 2017. Given the local government election in May 2017 and the introduction of revised political management arrangements it would have been difficult to provide for separate scrutiny ahead of Council consideration. **Responsible Officer:** Governance and Democratic Services Manager **Completion Date**: November 2017

Current status	Audit update	Management response
Partially complete	It is good practice for the Audit Committee (GRBV at the council) to review the Annual Governance Statement and Assurance Statements as part of preparations for the annual accounts. We noted during our review in 2017/18 (refer to paragraph 169) that the Annual Governance Statement had not been subject to separate scrutiny.	The process for completion of the annual assurance statements and the Corporate Governance Framework is being reviewed and the new timescales will allow for early scrutiny of the assurance statements and annual governance statement for 2018/19. **Responsible officer:** Democracy, Governance and Resilience Senior Manager **Implementation date:** December 2018

7. Development of performance management framework

Initial rating	Issue & Recommendation	Management Comments
Medium	Each council will report a range of information setting out: • Its performance in improving local public services (including with partners) • Its performance in improving local outcomes (including with partners) • Its performance in engaging with communities and service uses, and responding to their views and concerns • Its performance in achieving Best Value, including its use of performance benchmarking; options appraisal and use of resources. The Annual Performance Overview 2017, which would complete the suite of public performance reports for 2016-17 has yet to be submitted to the council.	A new performance management framework for the Council is being developed. Monitoring of performance will follow this new framework and will include all relevant benchmarking as well as service performance. The Council's overview of performance is also published in an enhanced format with trend information as well as service improvements and benchmarking. **Responsible Officers:** Interim Strategy and Insight Senior Manager **Completion Date**: March 2018

Current status	Audit update	Management response
Complete	The Performance Management Framework was approved by Council on 23 November 2017. The Annual Performance Overview for 2017/18 was presented to the council and Corporate Policy and Strategy Committee in August 2018.	N/A

8. Delayed discharges

Initial rating	Issue & recommendation	Management comments
High	The council's performance in relation to delayed discharges has continued to worsen in the period to June 2017 despite a focus being given to the issue. Edinburgh has regularly had the highest number of delayed discharges of any Integration Authority in Scotland. We recommend that improving performance in this area remains a priority.	Performance is closely monitored at: • A weekly Star Chamber meeting of key managers from the four localities and hospital sites – progress, challenges being faced (e.g. reductions in provider capacity) and improvement actions are identified and discussed. • The IJB, which receives a "Whole System Delays" report at each of its meetings. The report includes progress with key improvement workstreams, including reviewing the contract with care at home providers. **Responsible Officers:** Interim Chief Officer, Edinburgh Health and Social Care Partnership NHS Director **Completion Date**: December 2017

Current status	Audit update	Management response
Incomplete	We note that while a range of interventions have been taken to improve performance, the level of delayed discharges continues to significantly exceed target levels.	There is a large-scale remedy programme being undertaken across the entire Discharge Pathway, including: • Whole-systems Delayed Discharge Oversight Group established and chaired by CO • New dedicated Delayed Discharge Lead appointed • Whole-system analysis and impact undertaken and Action Plan formulated with stretch timescales • Realignment of delivery platform – including interface with acute services via the Hub – is in the process of being implemented **Responsible Officer:** Chief Officer, Edinburgh Health and Social Care Partnership **Completion Date:** August 2019

Governance, Risk and Best Value Committee

10:00am, Tuesday 25 September 2018

Looked After Children – Transformation Programme Progress Report – referral from the Education, Children and Families Committee

Item number	7.5
Report number	
Wards	All

Executive summary

The Education, Children and Families Committee on 14 August 2018 considered the attached report by the Executive Director for Communities and Families providing an update on the progress of the Looked After Children transformation programme.

The report has been referred to the Governance, Risk and Best Value Committee for consideration.

Looked After Children – Transformation Programme Progress Report – referral from the Education, Children and Families Committee

Terms of referral

1.1   On 14 August 2018, the Education, Children and Families Committee considered a report by the Executive Director for Communities and Families providing an update on the progress of the Looked After Children transformation programme.

1.2   Through use of the Early Years Change Fund and initiatives agreed through the Priority Based Planning process the service developed a transformation programme to shift the balance of care towards more preventative services that reduced the need for children to come into care.

1.3   A number of targets had been set covering the period April 2013 to March 2018. Some revisions were made to these targets in April 2017 to reflect the changes in actual performance against national trends.

1.4   The Education, Children and Families Committee agreed:

    1.4.1   To note the progress made to date against the starting position at March 2013 as set out in appendix 1 of the report.

    1.4.2   To note the actions in progress to deliver further improvements during 2018/19.

    1.4.3   To refer the report to the Governance, Risk and Best Value Committee.

For Decision/Action

2.1   The Governance, Risk and Best Value Committee is asked to consider the attached report

Notes

3.1   In Appendix 1 of the original report – Looked After Children – Populations 2013 v 2018 – there was a missing figure in the notes field under "Residential Care". This should now read: "There are 42 unaccompanied asylum-seeking children (UASCs) in the 2018 population."

3.2 The City of Edinburgh has also made significant progress in the implementation of continuing care; 210 of the 335 young people who were eligible have been supported to remain in foster, kinship or residential placements.

Background reading / external references

Webcast of Education, Children and Families Committee – 14 August 2018

Laurence Rockey
Head of Strategy and Insight

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Links

Appendix 1	Looked After Children – Transformation Programme Progress Report - report by the Executive Director for Communities and Families

Education, Children and Families Committee

10.00am, Tuesday, 14 August 2018

Looked After Children: Transformation Programme Progress Report

Item number

Report number
Executive/routine
Wards
Council Commitments

Executive Summary

Expenditure on Looked After Children (LAC) increased by an average of £1.8m a year from 2007 to 2013 as a result of increases in the number of LAC and increased use of purchased foster carers. Through use of the Early Years Change Fund and initiatives agreed through the Priority Based Planning process the service developed a transformation programme to shift the balance of care towards more preventative services that reduce the need for children to come into care.

A number of targets were set covering the period April 2013 – March 2018. Some revisions were made to these targets in April 2017 to reflect the changes in actual performance against national trends. This report provides an update on progress to the end of March 2018. The original targets were reported to Corporate Management Team dated 31 July 2013 and subsequently reported to Governance, Risk and Best Value Committee on 25 September 2013.

The LAC transformation programme was a 5-year programme which commenced in April 2013 and had targets for performance up to March 2018.

Progress was last reported to the Education, Children and Families Committee in December 2017. At March 2018 many of the targets have been achieved or exceeded. These included an overall reduction in the LAC population; a reduction in the number of children in foster care; an increase in overall kinship care placements; and a reduction in the use of secure care.

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The service was behind target to reduce the percentage of independent foster placements and reduce use of residential care placements although significant progress had been made since 2013. Analysis of national benchmarking information indicates that Edinburgh has closed the gap in relation to use of independent foster placements and although has fallen short of its own target for the use of residential care has a significantly lower use than the national position.

As a result, the service is in the process of developing a new strategy and targets to continue to reduce the need for children to become Looked After taking into account factors such as the rising child population, the implications of implementing Self Directed Support and the Children & Young People (Scotland) Act 2014 and the increases in Unaccompanied Asylum Seeking Children.

Report

Looked After Children: Transformation Programme Progress Report

1. Recommendations

1.1 The Education, Children and Families Committee is asked to:

    1.1.1 Note the progress made to date against the starting position at March 2013 as set out in appendix 1.

    1.1.2 Note the actions in progress to deliver further improvements during 2018/19.

    1.1.3 Refer this report to Governance, Risk and Best Value Committee

2. Background

2.1 The number of LAC increased from 1,228 in 2007 to 1,410 in 2013, an increase of 15% or an average of 30 children a year. The cost of this increase is £1.8m each year, a total increase of £10.8m since 2007. The Council had been budgeting for continued annual increases of £1.8m a year from 2013/14 to 2017/18.

2.2 The growth in LAC was primarily accommodated within fostering with an increase in placements from 386 in 2007 to 601 in 2013, an increase of 56%.

2.3 The majority of this growth was with independent fostering providers with the average cost per placement being £46,000 pa.

2.4 This trend of increasing numbers of LAC and corresponding increase in purchased fostering was reflected at a national level.

2.5 The Scottish Government, in seeing this trend across Scotland, set up the Early Years Change Fund encouraging Local Authorities to implement preventative initiatives designed to reduce the continued growth in LAC and shift investment from expensive intervention measures to early support for families that reduce the need for accommodation and improve outcomes for children and young people.

2.6 In February 2012 the Council approved funding of £8.642m from 2012/13 to 2014/15 for the Early Years Change Fund. The Council's Long-Term Financial Plan built in the continuation of £4.038m per year from 2015/16.

2.7 Through the Priority Based Planning process the service developed a transformation programme to change the balance of care for LAC to take effect from April 2013 and targets were set to March 2018. This includes strengthening universal early years services and providing more support to families to support

their children at home. Targets for independent foster care and residential care were revised in April 2017, following updated comparisons with national trends, and this was reflected in the 2017/18 budget.

2.8 LAC can be placed in the following placement types. The direct cost of each placement type is also shown which gives a context to the variance in rates. The transformation programme aims to shift the balance of care towards the lower cost placement types:

Placement type / Client populations	Direct unit cost pa
Looked After at Home	Minimal. Mainly supported through staffing and some preventative services
Kinship care	£7K
Prospective adoption	£7K
In-house foster care	£26K
Purchased foster care	£46K
Young people's centres and close support	£120K - £170K
Residential schools	£100K - £330K
Secure care	£290K

3. Main report

Balance of Care performance to date

3.1 Appendix 1 sets out the client populations, the number at March 2013 and the target and actual number at March 2018. Further information about each target will provide an understanding of the actions to date, any issues that have arisen and any actions being taken to address ongoing pressures.

Looked After Children (all placements)

3.2 The target is to reduce the rate of annual growth by a third from an average of 30 placements to 20 a year. The performance is significantly ahead of target as not only has the increase been addressed but overall numbers have reduced by 76

since March 2013. The reduction in overall LAC numbers is broadly consistent with the national performance over the same period.

3.3   Services designed to stop children needing to become LAC and enabling children to cease being LAC, such as universal Early Years services, parenting support programmes, Prepare, Family Group Decision Making and the Integrated Family and Household Support service, will continue to focus on supporting children and families to enable them to not require statutory measures.

Foster Care

Overall placement numbers

3.4   Foster placements had increased at an average of 40 a year from March 2007 to March 2013. The initial target was for there to be no further growth in this population and this was revised in April 2017 to be a reduction of 28 placements compared to the March 2013 position. The service has achieved the revised target and is confident this can be maintained.

3.5   It should be noted that foster care was at times provided to former LAC i.e. children who were in a foster placement but are no longer legally classed as Looked After when they reach age 18, on a discretionary basis. Through Continuing Care legislation, which came into force in April 2015, the Council has a duty to support these placements where the young person requests it and it is deemed to be in their best interests. The Scottish Government has provided some additional funding to meet the expected increase in costs as a result of the new legislation.

The City of Edinburgh Council (CEC) Foster Care

3.6   The target is to increase the proportion of foster placements provided by the Council's own carers from 55% at March 2013 to 67% by March 2018 and the current position is 63%. However, since March 2013 the number placed with CEC carers has increased by 7% or 24 placements.

3.7   Significant progress has been made to increase in-house capacity through carers transferring from independent agencies and providing housing adaptations for existing carers to increase the number of placements they can support. The service constantly pursues these actions to improve in-house capacity.

3.8   Over the 5 years of the LAC Transformation Programme the national position has changed which has seen a reduction in the percentage of local authority provided foster placements from 75% to 67%. Over the same period Edinburgh's position has improved from 55% to 63%, the gap to the national position reducing from 20% to 4%. Should this trend continue Edinburgh's performance will be in line with the national position in the coming year.

Independent Foster Care

3.9 The target is to reduce the percentage of independent foster placements from 44% at March 2013 to 33% by March 2018. At March 2018, 37% are with independent agencies.

3.10 Progress has been made in this area with the overall number placed with independent agencies reducing by 20% or 51 placements since March 2013.

3.11 The service continues to meet with all independent agencies to review pricing, particularly in relation to permanent placements and placements for young people aged 18 and over. The service will continue to challenge pricing where appropriate in order to ensure all charges are justified for each placement.

Residential Care and Secure Care

3.12 The target was to reduce the use of residential placements and the service made good progress from 2013 to early 2017.

3.13 The service has been successful in reducing internal capacity through the closure of Wellington School in 2014, Pentland View in February 2015 and Greendykes Young People's Centre (YPC) in August 2016. The opening of the new Heathervale unit in 2016 and the replacement of Oxgangs YPC in 2018, with a design similar to Heathervale, will provide more flexible accommodation for young people and enable the service to manage some of the young people with exceptional needs.

3.14 Use of independent residential schools remained broadly the same from 2013 to early 2017. However, the position changed significantly following the influx of Unaccompanied Asylum Seeking Children. The Council usually had 2-3 prior to 2016 but the number rapidly increased and there are now approximately 40 aged under 18 with an ever increasing 18+ population eligible for throughcare and aftercare support. At March 2018 there were 17 UASC's in the council's own residential provision. The impact of this has been that some children from Edinburgh have had to be placed in independent residential schools as there was no internal capacity. This position has eased in recent months as UASC's aged 16+ are entering supported living arrangements and internal capacity is being released.

3.15 In addition, the service has made the decision to place some children in independent residential schools as an alternative to secure care. The result of this has been a reduction in the use of secure care with average usage in 2017/18 being 8 beds compared to the average in 2012/13 of 12 beds. Current usage is 4 beds and we are generating income from the sale of beds to other local authorities.

3.16 The service has carried out an analysis of the use of residential care (including secure care) across Scotland. In 2015/16 the proportion of LAC in residential care was 9.9% nationally compared to 6.3% in Edinburgh. This indicates that the Council's aim of supporting more children in family based settings and reducing the

use of residential and secure care has been successful when compared to the national position.

3.17 The service continues to review all internal and purchased residential placements to minimise their use. Independent reviewing officers chair reviews of LAC placements. In the highest spend cases we have put in place a number of practice evaluation sessions which involve senior management scrutiny of ongoing placements and a new exploration of the alternatives. This is leading to some proposed alternative plans for children but in most cases these will need the agreement of a Children's Hearing as the child's place of residence is named in the conditions attached to a statutory supervision order.

3.18 In addition, all placements are undergoing a re-assessment involving relevant social work and education staff to identify opportunities for returning the children to Council provision. This will include utilising the principles of the [Social Care (Self-directed Support) (Scotland) Act 2013](#) where possible, which seeks to engage parents, carers and extended family in developing a support plan that meets their needs and enables the child to be cared for by them, where it is safe and appropriate to do so.

Kinship Care

3.19 Increasing the use of kinship care was seen as a way of reducing the increasing use of foster care and adoptions. This practice has been supported by new legislation introducing the Kinship Care Order that encourages family members to care for children without the need for social work involvement. The kinship population is now split between formal kinship carers of LAC and kinship carers of former LAC and those that have never been LAC. In March 2013 the combined number being financially supported by the Council was 467 and this has increased by 20% to 559 at March 2018.

3.20 Over the past few years kinship support services have been put in place, directly supporting approximately 100 placements a year. The Family Group Decision Making Service has also been expanded to provide a service for vulnerable babies across the city and reviewing existing residential placements. Taken together, the expansion of this support to families is seen to be the main reasons for the increases in kinship placements.

3.21 The vulnerable babies project roll out to other areas of the city has had a positive effect on the number of babies needing to become LAC and subsequently being placed for adoption.

Prospective adoptions

3.22 The original target was to increase the number of prospective adoptions over the 5-year period of the transformation programme. However, the success of services such as Family Group Decision Making and Prepare are enabling more babies to

remain with their parents or with kinship carers. There are now approximately 25 prospective adoptions in place at any one time.

Looked After Children at Home

3.23 The Looked After Children supported at home with their parents has reduced over the period of the transformation programme, from 27% to 25% of the LAC population, and is due to a significant increase in the number ceasing to be Looked After at all. This is seen as a positive movement when seen against the continuing success of kinship care increases and reductions in foster care.

Unaccompanied Asylum Seeking Children

The increase in unaccompanied asylum seeking children who are looked after and accommodated in Edinburgh was reported to the Education, Children and Families committee in December 2017. At that point we were supporting 42 UASCs, 32 of whom had arrived in 2016 and 2017 and 19 of whom were residing in young people's centres. The current total is still 42, of which 12 are resident in young people's centres. 15 UASCs have moved into shared supported living arrangements in 2018. These arrangements to date have been successful and more cost effective.

Future strategy

3.24 The service will continue to promote early intervention and prevention practices and seek to re-align resources from high-cost residential, secure and foster placements where possible. Plans include putting in place a council wide workforce development programme on restorative practice; increased provision of Family Group Decision Making, recruitment of host families for unaccompanied asylum seeking children, accelerating the implementation of Self Directed Support for children in need, working with the NHS and schools to improve the identification of and support for children with mental health concerns and enhancing support for foster carers who are caring for children with disabilities.

3.25 The child population of Edinburgh is predicted to rise by approximately 5% between 2016 and 2020, compared to the Scottish figure of 1%, and 11% by 2024.

3.26 While the implications of this on the LAC population are unknown it is anticipated that the measures being taken, as set out in 3.25 above, will ensure only those at most risk require statutory measures.

4. Measures of success

4.1 Appendix 1 shows the LAC population at March 2013 and March 2018. It can be seen that the overall LAC population has reduced along with all client populations with the exception of residential care. This is primarily due to the significant

increase in the number of Unaccompanied Asylum Seeking Children which account for 17 of the March 2018 population.

5. Financial impact

5.1 There are no financial implications related to this report. The financial implications of changes in the LAC population and investment in early intervention and prevention are factored into the annual budget setting process.

6. Risk, policy, compliance and governance impact

6.1 Due to the nature of the client group being supported and the high cost per placement for residential, secure and foster care there will always be a risk that additional pressures may arise. The service is confident, however, that the services and processes in place can minimise the risks of significant additional pressures arising

7. Equalities impact

7.1 It is anticipated that the overall programme will have a positive impact on outcomes for vulnerable children due to the focus on preventative, neighbourhood and family focused initiatives. A record of Equality and Rights Impact Assessment will be published in accordance with agreed Council processes.

8. Sustainability impact

8.1 There are no direct sustainability implications arising from this report. A Sustainability and Environmental Impact Assessment will be published in accordance with agreed Council processes.

9. Consultation and engagement

9.1 Where the transformation initiatives require consultation with the trade unions, public or Scottish Government it will be carried out as necessary.

10. Background reading/external references

10.1 Looked After Children: Transformational Programme Progress Report – Governance, Risk and Best Value Committee 23 September 2015

10.2 Early Years Change Fund Progress Update on Year Three – Education, Children and Families Committee 6 October 2015

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11. Appendices

11.1 Looked After Children – Populations 2013 v 2018

Appendix 1

Looked After Children – Populations 2013 v 2018

Client populations	Actual at March 2013	Actual at March 2018	Variance to March 2013	Movement %	Notes
Looked After Children (covering all sub-sets below)	**1,410**	**1,334**	**-76**	**-5**	
Foster Care (CEC and independent)	608	581	-27	-4	
CEC foster Care	343	367	24	7	
Independent foster care	265	214	-51	-19	
Residential care	84	111	27	32	Overall use has increased by 32%. There are X UASC's in the 2018 population.
Kinship care	288	271	-17	-6	This only reflects the formal kinship placements. Taken together with kinship placements for former LAC and those that have never been LAC the total has increased by 20% since March 2013.

Prospective adoptions	39	26	-13	-33	This has reduced consistently at the same time as kinship placements have increased.
Secure care	12	7	-5	-42	
Looked After Children at Home	379	338	-41	-11	