

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.

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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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

Appendix 1

The City of Edinburgh Council **Internal Audit**

Transfer of the Management Development Funding Grant

Place

Final Report

2 August 2018

PL1805

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This internal audit review is conducted for the City of Edinburgh Council under the auspices of the 2018/19 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2018. 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

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
<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>The system does not prompt users to update passwords regularly.</p>	
Risk	
<ul style="list-style-type: none">• 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	
<p>1.1 Review of User Lists</p> <ol style="list-style-type: none">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; and4. A quarterly review of user access rights should be performed. <p>Agreed Management Action</p> <ol style="list-style-type: none">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; and4. Review user access rights on an annual basis	
<p>Owner</p> <p>Paul Lawrence, Executive Director of Place</p>	
<p>Contributors</p> <p>Michael Thain; Elaine Scott; Lisa Mallon; Alastair Ranyard</p>	

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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

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