

Governance, Risk and Best Value Committee

10.00am, Tuesday, 15 January 2019

Internal Audit Update Report: 1 August to 23 November 2018

Item number	7.6
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

A total of 6 audits have been completed in the current plan year. This includes 3 audits from the 2018/19 Internal Audit (“IA”) plan and 3 of the 6 audits carried forward from the 2017/18 plan. Additionally, 22 of the remaining 44 reviews included in the 2018/19 plan are now in progress.

A refreshed IA journey map, including key performance indicators (KPIs), has also been designed and implemented to support timely and effective delivery of the annual plan, and manage both stakeholder expectations and involvement in the audit process.

Key IA priorities for the next quarter include ongoing focus on delivery of the 2018/19 plan and follow-up of open findings; making appointments to vacant roles within the team; finalising the 2019/20 annual audit plan; planning to re-procuring the existing co-source contract; and performing a TeamCentral post-implementation review following launch of the system to support follow-up in July 2018.

Internal Audit Update Report: 1 August to 23 November 2018

1. Recommendations

- 1.1 Committee is recommended to note:
 - 1.1.1 the outcomes of the completed audits;
 - 1.1.2 progress with the delivery of the 2018/19 IA plan and the carried forward 2017/18 audits
 - 1.1.3 implementation of IA key performance indicators to support timely and effective delivery of the annual plan; and
 - 1.1.4 key IA priorities and ongoing areas of focus.

2. Background

- 2.1 Internal Audit is required to deliver an annual plan of work, which is scoped using a risk-based assessment of the Council's 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 Governance, Risk and Best Value Committee ("GRBV").
- 2.2 The 2018/19 IA plan approved by GRBV in March 2018 included 50 audits. This was subsequently reduced to 47 audits in November 2018, when the Committee approved the rebased plan.
- 2.3 IA progress and copies of completed reports are presented to the Governance, Risk, and Best Value Committee quarterly for their review and scrutiny.
- 2.4 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.
- 2.5 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.
- 2.6 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 A total of 6 audits have been completed in the current plan year, comprising 3 from the 2018/19 plan and 3 of the 6 audits carried forward from 2017/18. Five audits have been completed since the update provided to the Committee on 28 August 2018.
- 3.2 The outcomes of 3 completed reviews (Carbon Reduction Commitment Scheme; The Edinburgh Mela; and Structures and Flood Prevention) have confirmed that the controls supporting these processes and services are 'adequate'; whilst the Garden Waste and Fleet Project reviews have been assessed as 'generally adequate' and 'significant enhancements required' respectively.
- Further detail on the completed reviews and their report ratings are included at Appendix 1.
- 3.3 The Garden Waste Lessons Learned report was presented to the Transport and Economy Committee on 6 December 2018 in line with the motion approved by the GRBV Committee at their August meeting.

Progress with delivery of the 2018/19 IA Plan and 2017/18 audits carried forward

- 3.4 Delivery of the remainder of the 2018/19 IA plan is now underway, with a total of 22 of the remaining 44 reviews (47 audits less 3 from 2018/19 completed) included in the plan now completed or in progress.
- 3.5 In addition to the 3 reports that have been finalised for the current plan year, 2 draft reports have been issued and 4 reports draft reports are currently being prepared. A further 5 audits are in fieldwork, with 8 at the initial planning stage of the IA process.
- Further detail is included at Appendix 1.
- 3.6 It is also expected that the remaining 3 audits carried forward from 2017/18 will be completed by December 2018.
- Further detail is included at Appendix 2.

Internal Audit Key Performance Indicators

- 3.7 IA has developed and implemented a refreshed IA journey map which includes a set of key performance indicators (KPIs) that specify expected delivery timeframes for both the IA team and management at all stages of the audit process. These have been designed to support timely and effective delivery of the annual plan, and manage both stakeholder expectations and their involvement in the audit process.

- 3.8 Performance against KPIs will be monitored throughout the plan year, with key themes provided monthly to the Corporate Leadership Team (CLT) and included in the quarterly updates provided to the Committee. Delivery against the KPIs will also support the assessment of IA performance included in the annual opinion.

Internal Audit Key Priorities

- 3.9 Key priorities and ongoing areas of focus for Internal Audit include:
- 3.9.1 delivery of the 2018/19 IA plan and ongoing focus on follow-up of open and overdue findings;
 - 3.9.2 making appointments to the vacant principal audit manager and auditor roles;
 - 3.9.3 finalising the 2019/20 IA annual plan;
 - 3.9.4 re-procuring the existing IA co source contract; and
 - 3.9.5 performing a TeamCentral post-implementation review following launch of the system to support the follow-up process in July 2018.

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 Summary of 2018/19 IA Plan Progress

Appendix 2 Summary of 2017/18 Audits Carried Forward

Appendix 3 IA Journey Map and Key Performance Indicators

Appendix 4 Final Report - Garden Waste – Lessons Learned

Appendix 5 Final Report - Carbon Reduction Commitment Scheme

Appendix 6 Final Report - The Edinburgh Mela

Appendix 7 Final Report - Structures and Flood Prevention

Appendix 8 Final Report - Fleet Project

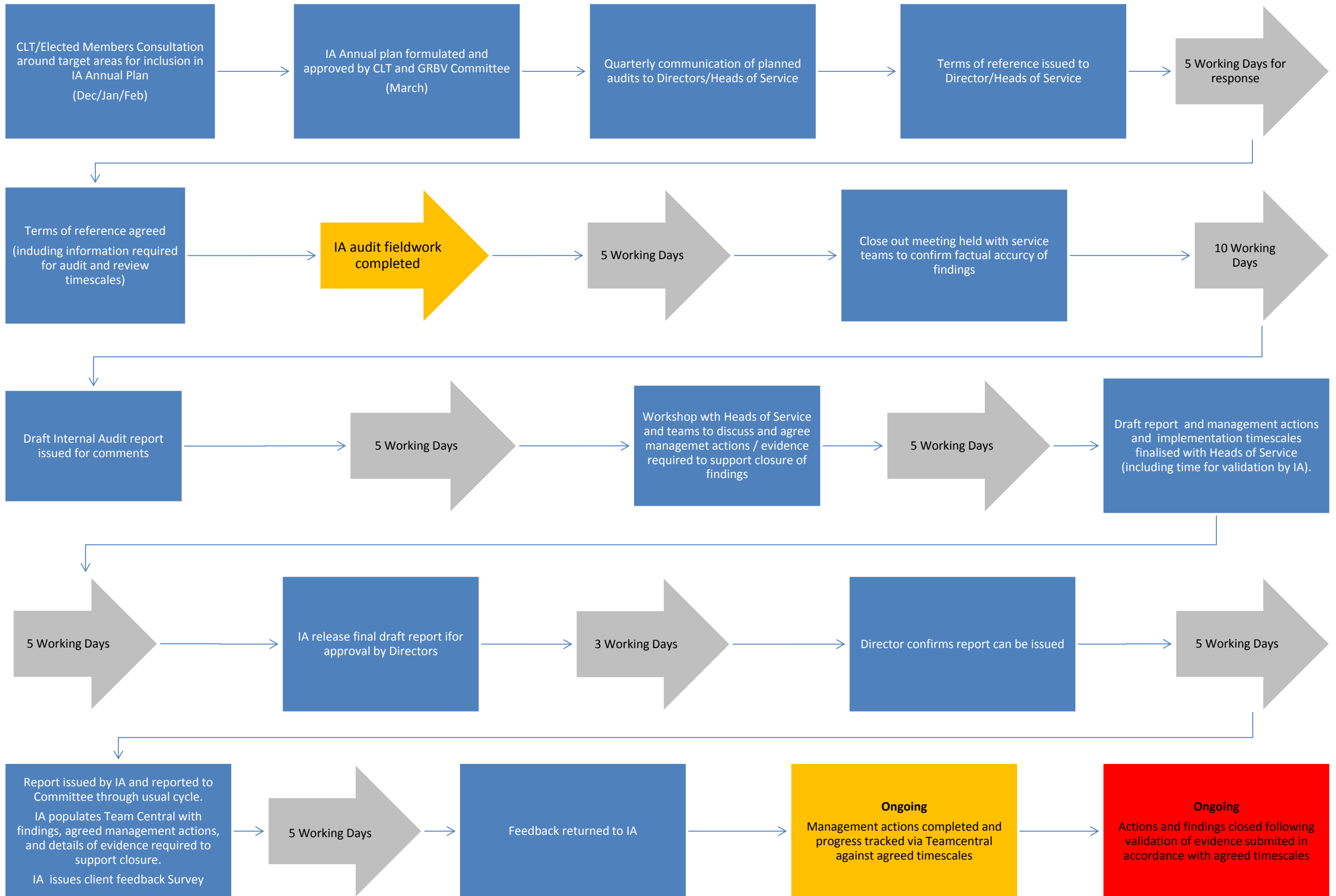
Appendix 1 – Summary of 2018/19 IA Plan Progress

Audit Review		
Completed		Report Rating
1.	Transfer of the Management of Development Funding Grant (presented to the Committee for scrutiny in August 2018)	Adequate
2.	Garden Waste – Lessons Learned	Generally Adequate
3.	Carbon Reduction Commitment Scheme	Adequate
Draft Reports Issued to Management		Expected Completion
4.	Compliance with IR35 and Right to Work Requirements	December 2018
5.	Public Sector Cyber Security Action Plan	December 2018
Draft Report Preparation		
6.	Planning and Section 75 Developer Contributions	December 2018
7.	Street Lighting and Traffic Signals	December 2018
8.	Schools Assurance Framework Review	December 2018
9.	Validation	December 2018
Fieldwork		
10.	System Access Rights	Mid November
11.	Edinburgh Tram Extension	Ongoing
12.	Looked After and Accommodated Children / St Katherines	December 2018
13.	Quality, Governance, and Regulation	March 2019
14.	Enterprise Resource Planning System Implementation	Ongoing
Planning		
15.	Emergency Prioritisation and Complaints	to be determined
16.	EIJB Partnership Infrastructure and Support – Integration Scheme	to be determined
17.	EIJB Governance Structures	to be determined
18.	Edinburgh Royal Military Tattoo – Health and Safety	to be determined
19.	Localities Operating Model	to be determined
20.	Licencing – HMO Licencing	to be determined
21.	Lothian Pension Fund - Unitisation	to be determined
22.	Lothian Pension Fund – Unlisted Investment Valuations (PwC)	to be determined

Appendix 2 – Summary of 2017/18 Audits Carried Forward

Audit Review		
Completed		
	Report Rating	
1.	The Edinburgh Mela	Adequate
2.	Structures and Flood Prevention	Adequate
3.	Fleet Project	Significant Enhancements
Draft Reporting		
	Expected Completion	
4.	Customer Transformation	December 2018
5.	St James Project	December 2018
6.	Zero Waste Project	December 2018

Appendix 3 - Internal Audit Journey Map and Key Performance Indicators



Appendix 4

The City of Edinburgh Council

Garden Waste Bin Collection Project: What Worked Well and Lessons Learned

Final Report

15 November 2018

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1. Background

1.1 Governance, Risk, and Best Value Committee Motion

At the Governance, Risk, and Best Value (GRBV) committee in August, a motion was submitted requesting 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.

As the Internal Audit Garden Waste review had concluded, it was agreed with management that the Garden Waste project team would provide an update on what aspects of the project worked well (section 2.1 below), with Internal Audit focusing on the lessons learned based on the audit scope (section 2.2).

1.2 Background

In February 2018, as part of the annual budget setting process, the Council agreed to implement a £25 annual charge for collection of garden waste bins to be effective from 8 October 2018. An estimated 120,000 households across the City currently receive free garden waste collection, with approximately 46% of households expected to register for the new service. An initial registration period was available from 18 June to 22 July 2018 enabling customer to register for the service and pay the associated charge. Further registration periods are planned to be available throughout the year.

In April 2018, a garden waste project was established to manage the design and implementation of the new garden waste process. The project team included representation from management across Council services including Waste and Cleansing, Customer, Communications and Finance with project support provided by the Council's Portfolio and Governance (P&G) team. Online transactions elements of the project were incorporated into the existing Customer Digital Enablement (CDE) 'channel shift' programme.

The project decided that online registration for the service via "mygovscot - my account" was the preferred method for customer registration and payment. Customers with no online access could also register and pay through the Customer Contact Centre; using self-serve kiosks at locality officers; and libraries using a debit or credit card. Registration by telephone was also an option, with additional call handlers recruited, however, this was not widely publicised in to encourage higher volumes of online registration.

On 21 June 2018, the Council wrote to all customers eligible for the garden waste collection service to provide written notification of the service changes; and details of the online registration and payment process.

The original process involved customers registering online and providing confirmation that they had read and understood the service terms and conditions (T&Cs) prior to making payment online using their mygovscot account. Where customers registered by phone, T&Cs were physically mailed out with a request for customer to read, sign and return them. This was based on advice received from Legal advising that terms and conditions should be signed and returned prior to accepting payment. Customers were advised that following receipt of signed T&Cs, the Customer Contact Centre would telephone customer to request and process the relevant payment.

Shortly after the registration process commenced, concerns were raised by both Elected Members and members of the public regarding the potential risk of third party fraud associated with the outbound call process. Specifically, the potential risk of 'bogus callers' telephoning customers, claiming to Council employees and fraudulently obtaining customers' payment card details. In response to this, outbound calls for payment for garden waste were ceased.

During the registration period, management also became aware of customers who were unable to self-serve either online or at local office self-serve kiosks, and introduced a process to accept payment by cheque, cash or card payment in local offices. Of the total 56,028 registrations, a total of 7,800 (14%) were processed via inbound calls or payments at local offices.

2. Executive summary

2.1 What Worked Well

The project team consider that positive aspects of the project include:

- The scoping of the project and the potential benefits that could be realised was undertaken effectively. Officers benchmarked against other UK Councils and established that an estimated 46% of residents that previously qualified for the garden waste service would be likely to continue to use the service and pay for it. This has been slightly exceeded in the number of registrations.
- The introduction of an exemption from the charge in line with an eligibility criteria of qualification for the Council Tax Reduction Scheme, and its impact on the potential income that would be achieved, was also modelled effectively and the total percentage of exempt household registrations is in line with predicted levels.
- It is noted that that delay in the introduction of the new garden waste service to align with the new waste collection routes has meant that the full year additional income cannot be achieved in 2018/19. Notwithstanding this, the total (full-year) income that the new service was targeted to recover was estimated at £1.3m. At the time of writing this report, the actual total full-year income achieved was £1.6m. This is a positive contribution towards the Council's overall budget.

2.2 Internal Audit Scope and Opinion

2.2.1 Scope of the review

In response to the concerns raised by elected members, Internal Audit (IA) agreed to perform an urgent review based on the findings only methodology detailed in the Internal Audit Charter, with the objective of reviewing the initial garden waste registration process and confirming that the new process applied with effect from 27 June was appropriately designed and operating effectively. We also considered the adequacy and effectiveness Garden Waste project governance to ensure that any potential control gaps were identified and resolved in advance of any future registration periods. Our audit work was completed in July 2018, and this document reflects the status of the garden waste project as at 22 August 2018.

2.2.2 Opinion

Summary of findings raised	
Medium	1. Project management and governance
Medium	2. Garden Waste Registration Process

Our review of the controls established to mitigate the key risks associated with the garden waste project governance and initial registration and payment process confirmed that they are generally adequate, with some enhancements required. We identified moderate areas of weakness in the project governance framework and controls supporting registration that (if not addressed) could impact the success of subsequent registrations.

The weaknesses identified are mainly attributable to tight project timeframes between the decision to apply the garden waste charge (22 February 2018); establishing the project team (5 April 2018); and the start of the registration process (18 June 2018).

Whilst there was effective cross-team collaboration between the services involved in delivering the revised garden waste service, project management and delivery roles, responsibilities, and accountabilities between Place (Waste and Cleansing) and Resources (Customer) were not clearly documented. Additionally, the risks and limitations associated with decisions made regarding the online only registration process and outbound payment calls were not fully recorded and reported to established project governance forums.

We also established that security questions supporting all outbound calls to customers (which often include calls to request payment) are not aligned with recommended best practice as they are based on publicly available information, and do not include questions on unique references to verify the identity of both parties.

Consequently, two Medium rated lessons learned findings and supporting recommendations on project governance and the registration and payment process are included at section 3 below. The medium ratings reflect that there have been no reported instances of fraud in relation to the security aspects of the outbound calls; and the opportunity for the Project team to address project governance prior to future registration periods and delivery of the remaining aspects of the project.

In addition to the IA review, the project team has also performed their own lessons learned review which includes recommendations to address the improvement opportunities identified. There would be benefit in aligning the actions identified with the lessons learned recommendations included in this report to ensure that they are all effectively implemented.

Our detailed lessons learned recommendations are included at Section 3 below.

3. Detailed Findings

1. Project governance

Medium

Review of the project governance framework established to support implementation of the new garden waste registration and payment process highlighted the following areas for improvement that should be addressed prior to the next registration window in October 2018:

- Whilst an initial project business case was prepared, it was not developed into a full project implementation document, detailing project structure; governance; and roles and responsibilities (e.g. for decision making);
- Consequently, whilst the online transactions aspects of the project were governed through the existing Customer Digital Enablement (CDE) programme, roles and responsibilities for design; approval and implementation; were not clearly documented between Resources (Customer) and Place (Waste and Cleansing);
- The project plan was essentially a project timeline and did not specify roles and responsibilities or consider dependencies that could impact on project deliverables;
- Project status reporting did not report on overall project progress and status, and instead focused solely on development of the online transactions process through the CDE programme;
- Whilst a project action and decision log was developed and used, it did not include all significant project decisions. Review of the decision log confirmed that decisions in relation to the online only registration and payment process; stopping outbound payment calls and changing the process to include registration and acceptance of cash and card payments at local offices were not documented;
- The decision to limit the initial registration process to predominately online with payment by debit and credit card only, did not consider how citizens with no current accounts (circa 7%) and those who do not manage utilities online (circa 20%) would register for the service. Management has confirmed that the decision to adopt a predominately online registration process was due to time constraints, and that the approach was agreed with both Senior Management and Elected Members, although no evidence is available to support this approval. Consequently, alternatives for those customers who could not pay by debit/credit card had to be developed and implemented (although this was done quickly and effectively based on existing processes) once the registration window had opened;
- The risk of third party fraud associated with outbound payment calls was not recorded on the project risk log on the basis that this is an established process already applied within the Council;
- The Data Privacy Impact Assessment (DPIA) provided to the Information Governance Unit (IGU) for the original registration and payment process did not include details of the outbound payment calls process; and
- The IGU recommended that call scripts should be prepared to ensure a consistent approach for any customer telephone conversations (red rated action). In response, the DPIA Risk Mitigation Assessment completed by the project stated that training would be provided for staff alongside scripts which would provide a consistent approach to all questions and ensure privacy legislation is followed. Management has advised that the new agents received training on the system and process. Review of adviser scripts confirmed however, that whilst they included details of the registration process flow / system steps to be followed, they did not detail the customer conversations that would be performed by the new agents.

Risk

Risk that future registrations and the remainder of the project are not successfully implemented with an adverse impact on customers and the Council's reputation.

Internal Audit Recommendation(s)

1. A project plan should be developed in line with the Council's standard project management methodology with roles and responsibilities for decision making and delivery of the remaining aspects of the garden waste project documented;
2. The project plan should be updated on an ongoing basis and used as the basis of governance reporting to confirm the overall project status and progress with all project deliverables;
3. The Garden Waste project risks, issues, and dependencies (RAID) log should be updated to include all risks, issues and dependencies identified. Actions, owners, and timeframes to address the risks, issues and dependencies should be recorded and tracked, and the rationale for accepted risks clearly documented;
4. Ongoing analysis of customer demographics should be performed following closure of each registration period to ensure an appropriate range of registration and payment options are available to meet customer needs, and adequate resources are allocated to meet demand;
5. A revised DPIA should be performed (based on the revised process for future registration) and provided to the IGU. All IGU recommendations following review of the DPIA should be implemented prior to implementation of the process for subsequent registration windows; and
6. Call scripts should be prepared to support all customer calls and provided to all call centre teams involved in garden waste registration prior to the next registration window, with training provided where required.

Agreed Management Action(s)

1. Rather than retrospectively adding to the current project documentation the Service is developing a project plan for a portfolio of related on-going projects (garden waste, four-day week and infrastructure improvements) rather than develop individual plans. A structure chart will be created to highlight roles and responsibilities.

Owner: Paul Lawrence, Executive Director of Place
Contributors: Gareth Barwell; Andy Williams; Karen Reeves; Louise Wood

Implementation Date: 30 November 2018

2. The project plan described above will be reviewed weekly at the 'Waste Changes' meeting attended by Senior Management to allow overall monitoring of project status and progress, and will then be updated as required.

Owner: Paul Lawrence, Executive Director of Place
Contributors: Gareth Barwell; Andy Williams; Karen Reeves

Implementation Date: 14 December 2018

3. The project RAIDS log will be reviewed weekly at the 'Waste changes' meeting in conjunction with the project plan, to ensure that all risks, issues and dependencies are identified and recorded; with owners and timeframes allocated, and progress updates provided. The rationale for all risk based decisions made at the 'Waste Changes' meeting will also be recorded.

Owner: Paul Lawrence, Executive Director of Place
Contributors: Gareth Barwell; Andy Williams; Karen Reeves

Implementation Date: 14 December 2018

4. The data from the first registration period and subsequent registration windows in October 2018 and February 2019 will be analysed to build a cumulative picture of how residents are registering for the service (on-line, over the phone, in person) to ensure the correct resources are allocated to support future registration periods.

This analysis will be provided to the Customer Digital Enablement project board for consideration of future garden waste registration design changes and to ensure appropriate allocation of resources.

Owner: Paul Lawrence, Executive Director of Place

Implementation Date: 29 March 2018

Contributors: Gareth Barwell Andy Williams; Karen Reeves; Lisa Hastie

5. It has been agreed with IGU that any changes to the registration transaction process and additional garden waste forms will be detailed in addendums to the current DPIA.

Any process changes required following IGU review of the DPIA will agreed at the weekly Waste Changes meeting and either recorded as risks, issues, and dependencies on the project's RAIDS log (where appropriate), or incorporated in the project plan.

The process changes agreed (for example changes to call scripts) will then be communicated to the service teams supporting the registration process.

Owner: Paul Lawrence, Executive Director of Place

Implementation Date: Registration process update addendum by 31 October 2018. Future processes on-going

Contributors: Gareth Barwell; Andy Williams; Karen Reeves; Karin Hill

6. New scripts have been prepared ahead of next registration to ensure a consistent approach from all customer contact centre staff involved.

This is supported by both face to face coaching and system based training.

Owner: Stephen Moir, Executive Director of Resources

Implementation Date:

Contributors: Nicola Harvey Neil Jamieson; Lisa Hastie

Implemented 27 August 2018

Date for completion of IA validation: 30 November 2018

2. Garden Waste Registration Process

Medium

Management has estimated that circa 50 garden waste registration outbound payment calls had been made prior to 27 June when all outbound payment calls ceased.

During a walkthrough to confirm the design of the new registration process on 4 July, we established that some outbound payment calls were scheduled (after 5pm) in relation to the backlog of terms and conditions received. This was highlighted to management and contact centre staff were advised to cease all outbound calls for payment for garden waste with immediate effect.

Management estimated that a further 4 outbound payment calls were made following the process change on 27 June, but could not confirm this number as the supporting MI could not be extracted from Call Centre systems, as system limitations do not enable identification of outbound calls specifically made to request payment.

The Customer Contact Centre subsequently listened to recordings of all calls made between 28 June and 4 July and confirmed that a total of 13 outbound payment calls were made to process payment from customers who had returned T&Cs prior to the revised process being implemented.

Whilst security questions were used to verify customer identity on the outbound payment calls, these comprised three questions based on publicly available information, and did not include a unique reference to verify the identity of both parties.

Management has confirmed that the same security questions are used to verify customer identity where outbound payment calls are performed as part of other established Council processes.

This caller verification approach is not aligned with good practice which recommends that security questions should comprehensively confirm a caller's identity by confirming (for example) an account or reference number that is uniquely associated with the transaction being discussed; and that security questions should avoid public information that can easily be obtained by a fraudster, whilst finding a balance between questions based on references that genuine customers can answer that do not appear on customer correspondence. Examples of further guidance are available at: [Best Security Questions for Call Centres](#) and [Caller Verification - How Far Should You Go?](#)

Risk

Increase in the existing potential risk of third party fraud where fraudsters contact customers impersonating Council employees and obtain bank details, as no (non publicly available) unique identifier was used to support outbound calls requesting payment from customers.

Internal Audit Recommendation(s)

1. Senior management should consider whether outbound payment calls for services remains appropriate given the potential risk of third party fraud, and present a proposal for approval by the Corporate Leadership Team and the Corporate Policy and Strategy Committee;
2. If it is decided that outbound payment calls for all Council services should stop, the decision should be clearly communicated (and regularly reinforced) across all Directorates and Services to ensure all employees are aware of the decision. The Council's position should also be made public to ensure that citizens are clear that any future calls requesting payment where the caller claims to be a Council employee could be potentially fraudulent;
3. If it is decided that outbound payment calls will continue, then customer security questions should be revised to ensure alignment with industry best practice, by inclusion of a question that relates to a unique reference, enabling effective caller and customer verification, with this process consistently applied;
4. Training and call scripts should be provided to all employees involved in making outbound payment calls; and
5. The revised process should be effectively implemented and sustained.

Agreed Management Action(s)

1. Contact Centre now make no outbound calls to take payment. Outbound calls are made for Housing Rents and Council Tax, however, for any payment the customer is required to make an inbound contact using the Council's publicised payment options.

Owner: Stephen Moir, Executive Director of Resources

Contributors: Nicola Harvey, Neil Jamieson; Lisa Hastie

Implementation Date: Implemented 10 October 2018

Date for completion of IA validation 30 November 2018

2. The Corporate Leadership Team has agreed that the Council will no longer make outbound payment calls for services. This decision will be implemented and communicated as follows as detailed below:

- The decision will be reflected in the Council's 'Corporate Debt Policy' with the decision and policy change communicated via the Council's website.

Owner: Stephen Moir, Executive Director of Resources

Implementation Date: 21 December 2018

Contributors: Nicola Harvey; Neil Jamieson

3. The change will also be:

- Communicated via the Orb; Managers News; and the Chief Executive's blog;
- Reinforced at the Wider Leadership Team Meeting; and
- Communicated via other social media channels used by the Council.

Additionally, all CLT members will be requested to reinforce the decision with their direct reports

Owner: Laurence Rockey, Head of Strategy and Communications

Implementation Date: 29 March 2019

Contributors: Chris Wilson; Donna Rodger

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 5

The City of Edinburgh Council **Internal Audit**

Carbon Reduction Commitment Scheme

Final Report

Date 11th December 2018

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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 Carbon Reduction Commitment (CRC) Energy Efficiency Scheme is a UK government scheme aimed at improving energy efficiency and cutting carbon dioxide emissions in large public and private sector organisations that are high energy users. The scheme came into force in April 2010 under the CRC Energy Efficiency Scheme Order 2010, that was subsequently replaced by Order 2013. The Scottish Environment Protection Agency (SEPA) oversees operation of the scheme in Scotland.

Under 'Phase 2' of the Scheme, which runs from April 2014 to March 2019, the Council is required to estimate their annual energy usage based on historic usage and anticipated changes or information provided by energy suppliers; convert this into carbon emissions (using an online data entry system for the calculation); and annually surrender pre-purchased allowances equal to the value of reported emissions. Guidance on scheme requirements is available online for registered users.

There is a statutory requirement for the Council to submit an annual report by the end of July detailing carbon emissions for the year 1st April to 31st March. A CRC Working Group (WG) has been established, which includes the Corporate Finance Senior Manager (chair); the Energy Manager; the Carbon & Utility Officer (administrative support); the Street Lighting & Traffic Signals Infrastructure Manager; and the Data Auditor. The WG ensures that the Council submits accurate returns; that the Annual Report is submitted on time; and that there is adequate resource and support in place to meet scheme requirements. Any issues arising are escalated to the Corporate Leadership Team (CLT) along with the final report for approval prior to submission. Submission delays and / or inaccurate data can result in fines being incurred.

An Evidence Pack is maintained to support the allowances purchased; report submissions; and to evidence ongoing compliance with the scheme. This information must be retained by all scheme participants and could potentially be audited by, or on behalf of, the CRC administrator, so it is essential that it is produced and maintained in accordance with scheme regulations. Data included in the evidence pack data is subject to an internal review by the Carbon & Utility Officer for accuracy and compliance with the available guidance.

The Council's compliance with the scheme was audited by SEPA in November 2014, with a few recommendations made for improvement.

The CRC was initially an incentive scheme to assist organisations in meeting targets to reduce their carbon emissions by 40% by 2020, and the Council has signed up to the SE2020 pledge to achieve this target. The current CRC scheme will continue until 2019, at which point it will be phased out.

Scope

The scope of this review assessed the design and operating effectiveness of the key controls established to confirm ongoing compliance with the UK Government's Carbon Reduction

Commitment Scheme, with focus on governance; process effectiveness; evidence retention; annual reporting; and implementation of SEPA and Internal Audit recommendations.

Sample testing included reporting for the period of 1st April 2017 to 31st March 2018. Our audit work concluded on 7th November 2018, and our findings and opinion are based on the outcomes of our testing at that date.

2. Executive summary

Total number of findings: None raised

Summary of findings raised	
High	N/A
Medium	N/A
Low	N/A

Opinion

Our review confirmed that an adequate and appropriate control environment and governance and risk management framework has been established to support the CRC scheme, and is operating effectively to ensure ongoing compliance with prescribed UK Government scheme requirements.

A summary on the effectiveness of the key controls for each of the areas included in our scope is included below:

- 1. Governance** - ongoing oversight of the CRC scheme is provided by the CRC Working Group (WG) that meets up to 3 times per year to discuss reporting and any emerging issues, with action notes prepared, retained, and circulated to members.

The CRC Handbook is the main guidance for the WG and outlines the relevant roles and responsibilities of WG members, including reporting and timeframes. The Handbook is updated annually to reflect any changes made by the Government to the scheme.

All CRC annual reports are reviewed by the CLT, and there is also an established route for escalation of any emerging significant issues to the CLT if required.

- 2. Process Effectiveness** - process walkthroughs confirmed that effective validation has been established to confirm accuracy of energy consumption; forecasting; and usage calculations for Council sites and street lighting / traffic signals. Progress with carbon emission reduction is also closely monitored, with monthly and annual usage comparisons performed.

This ongoing monitoring prevents excess purchase of allowances, and supports realistic forecasting of future energy consumption. Further controls to prevent excess purchase of allowances includes SystemsLink (the online database used to record consumption data) which highlights instances where data input for sites differs significantly from historic meter readings. These exceptions are then investigated by the Carbon & Utility Officer.

- 3. Evidence Retention** - a key CRC scheme requirement is for maintenance of an evidence pack containing meter readings and all other data recorded supporting the reporting process. Our review confirmed that a comprehensive evidence pack is maintained that provides a full audit trail supporting the CRC reporting process.

4. **Annual Reporting** - the street lighting content of CRC reports is validated independently each month by Power Data Associates to confirm accuracy, with an annual review of all other content performed by Finance.

All reports are then reviewed by the Energy & Sustainability Manager and the Corporate Finance Senior Manager prior to submission to the CLT.

5. **Implementation of SEPA and Internal Audit recommendations** - the evidence pack is also subject to both internal and external audit, and was last audited by SEPA in 2014.

The Data Auditor also performs spot checks on the data for 6 randomly selected sites each year. Additional checks are performed by the Street Lighting & Traffic Signals Infrastructure Manager on reports and bills received for street lighting.

Outcomes from the audits are discussed at the WG meetings and subsequently tracked on the Action Notes, noting the date to be implemented along with the action owner. Recommendations from the audits completed by Finance are tracked by the Data Auditor, and a departmental tracker is also used for all recommendations providing visibility of any that have not yet been addressed.

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>

The City of Edinburgh Council

Internal Audit

Edinburgh Mela Ltd. – Due diligence review in advance of the
City of Edinburgh Council Grant Award

Final Report

13 November 2018

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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 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 are many 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 Edinburgh Mela Ltd. (EML) is a company registered with the Companies House, and is also registered as a Charity with the Office of the Scottish Charity Regulator (OSCR) Both registrations were in May 1995. EML's main objective is delivery of the annual Edinburgh Mela festival.

Mela is a Black, Asian, and Minority Ethnic (BAME) inspired festival that aims to be open to all communities and includes local, national, and international performers and artists in the field of music; dance; storytelling; visual arts; and spoken word. The festival also includes a selection of business stalls selling clothes, food, and drinks. The Mela has been held annually since 1995 with the exception of 2016 when no event took place due to constitutional, compliance, and funding challenges.

The festival has historically been funded via a combination of grants from the City of Edinburgh Council (the Council); Creative Scotland; Scottish Government EXPO funding (until 2015); fundraising; and revenue generated from the event. This funding covers both the festival and EML operational costs.

The Council's Director of Culture is responsible for allocation of grant funding to organisations across the city, and reports directly to the Executive Director of Place and to the Council's Culture and Communities (previously the Culture and Sports) executive committee. The Executive Director of Place, also reports to the Council's Transport and Environment executive committee in relation to the non-cultural services delivered by the Place Directorate.

Grant funding is allocated to organisations on the basis that they can demonstrate an ability to meet the terms of the Council's funding agreement, which is designed to meet Audit Scotland requirements in relation to 'Following the Public Pound' - refer [Audit Scotland - Following the Public Pound](#).

The Council contributed £77K to the Mela in 2015/16. Whilst no event took place in 2016/17, the Council agreed grant funding of £15k towards the end of that financial year, which included £5K allocated to business overheads; £5K towards developing a renewed event plan; and £5K to cover rent arrears. Funding for rent arrears was transferred directly to the service responsible for the Council-owned premises.

The Council provided £35K to EML in 2017/18 for the September 2018 Mela festival, a substantial reduction in the previous revenue funding level of £77K. The funding was agreed by the Culture and Sport Committee in March 2017. This funding was provided on the basis that EML could demonstrate that it met the terms of the Council's funding agreement.

The Council then requested provision of relevant documentation and information from EML to demonstrate their ability to meet the terms of the funding agreement prior to release of funds towards the delivery of the September 2018 event. In response, the EML Chair raised concerns regarding the nature and extent of information requested in comparison to previous years.

The Council's Director of Culture and the EML Chair then agreed that the Council's Internal Audit team (IA) should review the adequacy of EML governance arrangements and adequacy of the documentation provided to meet funding agreement requirements.

The EML Board advised that they have historically had City of Edinburgh Council Elected Member representation on the EML Board, predominantly as Chair, and confirmed that the EML Board structure changed in 2017 with the recruitment of new members and appointment of a new interim Chair who will remain in post until after the 2018 festival, and the subsequent appointment of a new Chair.

The EML Board has also advised that EML is currently engaged in an ongoing employment tribunal that could potentially (dependent on the outcomes) have a significantly adverse future financial impact on the organisation.

Scope

The objective of this review was to assess whether Mela met the requirements of the 2017/18 funding agreement, and confirm that they have established sufficient governance arrangements and had adequate plans in place to deliver the festival and support the 2018 award.

Please refer [Appendix 2](#) for the detailed terms of reference.

2. Executive summary

Total number of findings

Critical	-
High	-
Medium	2
Low	-
Advisory	-
Total	2

Summary of findings

Our review of EML's current governance framework; their ability to meet the Council's 2017 funding agreement conditions; and adequacy of plans to deliver the 2018 Mela festival confirmed that significant enhancements are required to meet EML's objective of securing funding to deliver an annual Mela festival.

A separate report has been prepared and provided to EML to ensure that they are aware of the weaknesses in their governance framework, with recommendations provided to highlight how it could be improved.

Retrospective review of the processes and controls applied by the Council to ensure that EML met the terms of the funding agreement prior to allocation of funds for the 2018 Mela festival were generally adequate but with enhancements required. Consequently, 2 Medium rated findings have been raised.

The first finding reflects a moderate risk of non-compliance with Audit Scotland's 'Following the Public Pound' requirements in instances where grant funding is provided to organisations who fail to meet the Council's funding agreement conditions.

The second finding reinforces the need to obtain independent confirmation from EML solicitors that there were no outstanding fees due for payment prior to the Mela event in September 2018 (this had

not been provided at the conclusion of our review at the end of July) to mitigate the risk that grant funding provided could be inappropriately disbursed by EML.

Further detail is provided at [Section 3](#) below.

3. Detailed findings

1. Compliance with Audit Scotland and Council funding agreement requirements

Findings

No funding application was received from EML for the 2017 Mela event. Instead, an event plan was submitted following the 2016/17 grant award to fund its preparation, and a 2017/18 grant was requested by the Chair of the EML Board (who was also the Convenor of the Council's Transport and Economy Committee) from the Council's Executive Director of Place.

A funding agreement was subsequently established, however EML was unable to fully meet the terms of the agreement in the following areas:

1. Financial stability - EML 2017 financial statements recorded a loss of £4,603 in contrast to a forecast surplus of £31,950; and
2. Inability to provide the following documents required to meet the funding agreement conditions:
 - Monthly fundraising updates;
 - Regular detailed reports on the arts event programme (with focus on the marquee event); and
 - An updated and comprehensive risk assessment and mitigation plan well in advance of event delivery. This was provided by EML 5 days prior to the 2017 event.

Given EML's inability to fully meet the terms of the Council's funding agreement, and considering the associated political, reputational and financial risks, the Executive Director of Place made a decision (within his approved delegated financial authorities) to release a reduced amount of funding (£15K) in 2016/17 in comparison to the £77K funded in 2015/16 when the last Mela event took place. The rationale for this risk-based decision was not documented.

Business Implication

- Inability to demonstrate compliance with Audit Scotland 'Following the Public Pound' requirements as EML did not meet the requirements of the Council's funding agreement; and
- Potential for inconsistent treatment of organisations applying for Council funding.

Finding Rating

Medium

Action plans

Recommendation

1. The current funding processes followed by the Culture Service should be consistently applied to ensure that funding is only awarded to organisations who can demonstrate their ability to meet Council funding agreement requirements. This process should ensure that:

Responsible Officer

1. Director of Culture

<ul style="list-style-type: none"> no funding should be processed or released without receipt of a completed application form and subsequent finalised funding agreement; the final instalment of funding is only released when all funding conditions have been met, with supporting evidence provided; <p>2. Where risk-based decisions are made to award funding despite the inability of organisations to meet the terms of funding agreements, the rationale supporting these decisions should be recorded and retained.</p>	
Agreed Management Action	Estimated Implementation Date
<p>1. The current funding process was last audited in 2016/17 and confirmed that the current grant application and funding processes are well managed. The current funding processes will be applied consistently across all applications and recipients.</p> <p>2. Should risk-based decision-making circumstances arise, then the rationale and processes supporting these decisions will be fully recorded and retained.</p>	<p>Both actions were completed by end July 2018</p> <p>IA validation by: 30 November 2018.</p>

2. Potential EML Contingent Financial Liability

Findings

The EML Board advised that that the organisation is involved in an ongoing employment tribunal that could result in a potentially significant contingent financial liability if the tribunal outcome is not in favour of EML, and that EML does not currently have adequate financial resources to cover this potential contingent cost.

EML management also confirmed that legal fees incurred (£6K) were paid from company reserves for the first tribunal session in 2016, and that subsequent legal fees for the second tribunal session held in 2018 had not been invoiced prior to the Mela event in September 2018. A further tribunal session is also scheduled for October/November 2018.

As their solicitor was on annual leave, EML was unable to provide independent confirmation prior to the conclusion of the audit (3 July 2018) that:

- there were no outstanding legal costs due to be paid prior to the 2018 event; and
- the final stages of the tribunal (and the ultimate decision) will conclude after the 2018 Mela event.

Business Implication

Potential use of Council funds to cover EML tribunal legal costs;

Finding Rating

Medium

Action plans

Recommendation

The Council should obtain formal written confirmation from the EML solicitors that:

- There are no outstanding legal costs due to be paid prior to the Mela event in September 2018; and

Responsible Officer

1. Director of Culture, Place

- The final stages of the tribunal (and the ultimate decision) are scheduled post the Mela event in September 2018.

Agreed Management Action

Estimated Implementation Date

The Council obtained formal written confirmation from the EML solicitors that :

1. There are no outstanding legal costs due to be paid prior to the Mela event in September 2018.
2. The final stages of the tribunal (and the ultimate decision) are scheduled post the Mela event in September 2018.

Both received by 16 July 2018.

IA validation date: 30 November 2018.

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 – Terms of Reference

Terms of Reference – Due Diligence in advance of City of Edinburgh Council Grant Award

To: Paul Lawrence, Executive Director of Place
Geoff Palmer, Interim Chairman of the Board, Mela Ltd
Lynne Halfpenny, Director of Culture, City of Edinburgh Council

From: Lesley Newdall, Chief Internal Auditor

Date: 20 June 2018

Cc: Devika Ponnambalam, Mela Ltd Festival Administrator / Project Manager
Lindsay Robertson, Culture Manager (Arts, Festivals, Events & Public Safety), City of Edinburgh Council
Stephen Moir, Executive Director of Resources

This review is being performed at the request of Edinburgh Mela Ltd and the City of Edinburgh Council Director of Culture.

Background

The Edinburgh Mela is a registered Scottish Charity that is also registered with Companies House.

The main objective of the company is delivery of the Edinburgh Mela festival, which is a community event that seeks to engage with the Black, Asian, and Minority Ethnic (BAME) community by promoting and developing performance through music; dance; storytelling; the visual arts; and spoken word.

If the Mela is not delivered, it could have adverse cultural and reputational impacts for both Edinburgh Mela Ltd and the Council

The most recent festivals delivered by Mela in Edinburgh were in 2015 and 2017. There was no festival in 2016 due to constitutional, compliance, and funding challenges. The next Mela festival is planned for September 2018.

The festival has historically received grant funding via a combination of grants from the City of Edinburgh Council (the Council); Creative Scotland; Scottish Government EXPO funding until 2015; fundraising; and revenue generated from the event. This funding covers the both the festival and company's operational costs.

The Council contributed £76K to the Mela in 2015/16; £15k in 2016/17; and £35K in 2017/18. This funding is provided on the basis that Mela will meet the terms of the Council's funding agreement, which is designed to meet Audit Scotland requirements in relation to 'Following the Public Pound' - refer Audit Scotland - following the public pound.

These requirements specify that public sector organisations must apply effective governance when providing funds and resources to arms-length organisations to ensure that they are disbursed for the purpose intended, and that the funds are used efficiently and effectively to support the economy; equal opportunities; and achievement of sustainable development.

Funding organisations are also expected to implement effective monitoring that is commensurate with the value of, and the risks associated with, the funds provided.

The Mela management team has advised that the structure of the Board changed in 2017, with new board members recruited. As part of this process, a new chairman of the Board was appointed on an interim

basis. The chairman has advised that he will remain in post until after the Mela 2018 festival and appointment of a new chair.

The Mela management team has also advised that it is currently engaged in an ongoing employment tribunal that could potentially (dependent on the outcomes) have a significantly adverse future financial impact on the organisation.

Scope

The objective of this review is to assess whether Mela met the requirements of the 2017/18 funding agreement, and confirm that they have established sufficient governance arrangements and have adequate plans in place to deliver the festival and support the 2018 award.

Limitations of Scope

No

Approach

Our audit approach is as follows:

- Review documentation provided to confirm compliance with the Council's 2017 funding award;
- Review and discuss established governance arrangements and 2018 festival plans with Mela Ltd Board members and employees; and
- Understand the potential impact of future contingent financial costs.

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

Sub-process	Control Objectives
Compliance with 2017 funding award	<p>Obtain and review documentation provided by Mela Ltd to confirm that:</p> <ul style="list-style-type: none"> • The company Articles of Association have been reviewed and refreshed, with a revised version lodged at Companies House and provided to the Office of the Scottish Charities Regulator; • Monthly fundraising updates were provided to the Council; • Regular detailed report was provided on the arts event programme, with focus on the marquee event; • A festival risk assessment and mitigation plan was prepared in advance of the event and provided to the Council; and • Acknowledgement of Council funding was included in specified public information; publicity; and press releases. Clear and effective guidance has been prepared and issued across all Service Areas to support ongoing policy compliance.
Governance Arrangements	<p>Confirm that Mela Ltd has established appropriate governance arrangements that are operating effectively. Specifically, confirm that:</p> <ul style="list-style-type: none"> • There is a clear terms of reference in place for the Board, and Board members are fully aware of their roles and responsibilities; • Board meetings are held regularly and the meeting outcomes minuted; • Clear delegated authorities have been established for authorising expenditure, and these are consistently applied;

	<ul style="list-style-type: none"> • Regular management accounts are produced and presented to the Board enabling them to assess the effectiveness of financial management and the ongoing viability of the organisation; • The company's risks are regularly assessed; recorded; and discussed at the Board, and appropriate controls implemented to mitigate the risks identified; • Annual financial statements are prepared; independently reviewed (if applicable) and lodged with both Companies House and the Office of the Scottish Charities Regulator; and • Obtain formal confirmation that the current chairman of the Board will remain in place until after the festival and appointment of a new chairperson.
2018 Festival Plans	<p>Confirm that the following key plans have been developed to support the 2018 Mela festival:</p> <ul style="list-style-type: none"> • Forecast attendance; • Financial forecast detailing the expected costs to run the festival and the expected income it will generate; • Fundraising plans to support any shortfall between expected funding and festival costs; • A festival programme detailing the planned events; participants and key suppliers; • Marketing and promotion plans; • Recruitment plans; and • Details of risks, issues and dependencies associated with delivering the festival, and plans to ensure that these are addressed.
Future contingent financial costs	<p>Obtain formal confirmation from Mela Ltd solicitors in relation to the ongoing employment tribunal that:</p> <ul style="list-style-type: none"> • All costs legal incurred to date have been paid; • There are no outstanding legal costs due to be paid prior to the festival; and • The final stages of the tribunal (and the ultimate decision) are scheduled post the Mela festival.

Internal Audit Team

Name	Role	Contact Details
Lesley Newdall	Chief Internal Auditor	lesley.newdall@edinburgh.gov.uk 0131 429 3216
Dheeraj Shekhar	Principal Audit Manager	dheeraj.shekhar@edinburgh.gov.uk 0131 469 3221
Karen Sutherland	Senior Auditor	Karen.sutherland@edinburgh.gov.uk 0131 529 7786

Key Contacts

Name	Title	Contact Details
Geoff Palmer	Interim Chair of Mela Ltd. Board	geoff.palmer4@btinternet.com
Devika Ponnambalam	Festival Administrator / Project Manager	info@edinburgh-mela.co.uk
Lynne Halfpenny	Director of Culture, City of Edinburgh Council	0131 529 3657 lynne.halfpenny@edinburgh.gov.uk
Lindsay Robertson	Service Manager, Cultural Strategy (Arts, Events & Festivals)	0131 529 6719 lindsay.robertson@edinburgh.gov.uk

Timetable

Fieldwork Start	11 June 2018
Fieldwork Completed	15 June 2018
Discussion of Draft Findings	18 June 2018
Submission of Draft Report	21 June 2018
Response from Auditee	25 June 2018
Final Report to Auditee	29 June 2018

Appendix 7

The City of Edinburgh Council **Internal Audit**

Structures and Flood Prevention

Final Report

13 November 2018

PL1704

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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

Structures and Flood Prevention are responsible for management of the Council's transport infrastructure such as bridges; flood prevention; coastal defences; reservoirs; and structural schemes including new works; improvements; maintenance work; inspections; and assessments.

In August 2016, Internal Audit (IA) completed a review of Infrastructure Inspections and raised four findings (two High and two Medium) to address control gaps identified in relation to completion of principal bridge inspections (High); inspection and maintenance of retaining walls (High); maintenance of an accurate and up to date bridge inventory (Medium); and completing general Inspections every two years in line with the Council's Design Manual for Roads and Bridges (Medium).

Management advised the agreed actions arising from the recommendations were expected to be implemented by April 2017, and all findings have now been closed. Our follow-up audit was carried out in April 2018, intending to verify the closed actions were being sustained over a period of time

It is also important to ensure that emergency infrastructure repairs are appropriately prioritised, with third party contractors used to complete this work managed in line with the Council's established procurement framework.

The Council's Contract Standing Orders (CSOs) state that a minimum of three written or formal quotes must be obtained for contracts valued between £3,000 - £25,000. Procurement waivers can be applied in certain situations (for example, where there is an impact on service users in emergencies). Waivers should be sought in writing and approved by the relevant Executive Director or Head of Service in consultation with the Chief Procurement Officer and the Head of Legal and Risk (where appropriate). A record of the decision approving a waiver must be retained by the relevant Executive Director and (where appropriate) an entry made in the waiver register.

Additionally, the Council must ensure that it remains compliant with the requirements of the HMRC Construction Industry Scheme (CIS) when making payments to contractors engaged to complete infrastructure work.

Under the CIS the Council is required to register for the scheme; verify whether contractors are registered with the scheme prior to making any payments; make deductions from subcontractor payments at the correct rates; and pass them to HMRC as advance payment towards the subcontractor's tax and national insurance bills.

Further information on the CIS is available at www.gov.uk/what-is-the-construction-industry-scheme.

Scope

The objective of this review was to confirm that:

- The findings raised in the 2016 Infrastructure Inspections had been effectively implemented and sustained;
- Emergency infrastructure repairs are appropriately prioritised, with third party contractors appointed in line with the Council's established procurement framework and effectively managed; and
- Payments made to contractors are in line with CIS requirements.

2. Executive summary

Summary of findings raised	
1. Low	Incomplete and Inaccurate Bridges Inventory (reopened finding)
2. Medium	Procurement of emergency bridge repair contracts
3. Low	Emergency Procedures

Opinion

Our review of the controls established to ensure that infrastructure repairs are effectively prioritised and managed confirmed that they are generally adequate with some enhancements required. Some Areas of weakness and non-compliance were identified that may put the achievement of the Council's objectives in relation to management of infrastructure repairs at risk.

We established that agreed management actions supporting three of the four findings (2 High and 1 Medium) raised in the 2016 Infrastructure Inspections audit have been implemented and sustained, with effective controls now established to support ongoing completion of principal bridge inspections; inspection and maintenance of retaining walls; and completion of general infrastructure inspections every two years.

However, the agreed management actions supporting the Medium rated finding raised to ensure that an accurate and up to date bridge inventory is maintained on the structures asset management system (WDM) were implemented, but have not been effectively sustained.

Fieldwork established, that whilst a new process was implemented to restrict; validate; and approve changes to the WDM bridge inventory, resourcing issues resulted in a backlog of amendments for minor and low risk changes. The original Medium rated finding has therefore been reopened and reduced to Low to reflect the ongoing risk. We have since confirmed the backlog has been addressed, however this finding will be recorded as overdue, based on the original 31 December 2016 implementation date until the agreed management actions have been validated as sustained.

We also confirmed that there are currently no established procurement arrangements with contractors for emergency repairs to bridges, and that the Council procurement standing orders are not consistently applied when awarding contracts for emergency bridge repairs. Consequently, a further Medium rated finding has been raised, reflecting the need to address this moderate control weakness.

Additionally, structural and flooding emergency procedures require to be reviewed; refreshed and communicated to all Structures and Flood Prevention staff involved in dealing with emergency repairs. Consequently, a Low rated finding has been raised, reflecting the need to address this minor control weakness.

We did note that effective supplier performance and quality controls have been established and are operating effectively in relation to emergency structural repair work, with regular onsite meetings to monitor progress with representation from the Council and the contractor; inspection of all work completed; and provision of a certificate of payment by an approved engineer prior to payment.

Review of a sample of contractor payments also confirmed that effective controls have been established and are consistently applied to ensure ongoing compliance with HMRC CIS requirements.

3. Detailed findings

1. Incomplete and Inaccurate Bridges Inventory (reopened finding)

Low

Information about the city's bridges is stored in the WDM Structures Asset Management System.

The bridge inventory was migrated from a previous product to WDM circa 2012. Whilst the list of structures is complete, data updates are required on a regular basis following inspections, maintenance and other, miscellaneous reasons.

There is a validation process to ensure that subsequent amendments to the bridge inventory are accurate and complete: The process includes required fields and a log of amendments to data. Write access to the database is controlled by managers to ensure consistency. However, during our follow-up review, a backlog of some low risk/minor amendments was found. Management advised this was partly due to resources and staff changes.

We have confirmed the backlog has since been addressed. The need for new amendments arise on a regular basis, therefore management will need to ensure the validation process is sustained.

Risk

Inspection and maintenance work relies on accurate and complete information about the bridge stock, including dimensions, materials, and history of maintenance.

Action Plan

1.1 Sustainment of validation process

Management should implement a monthly checking process to ensure the required amendments to the structures database are input on a regular basis.

Agreed Management Action

The bridge inventory will be finalised and kept up to date using the validation process. A senior team member will review the amendments file on a monthly basis to ensure forms are regularly input.

Owner: Paul Lawrence, Executive Director of Place

Contributors: Gareth Barwell; Cliff Hutt; Richard Berry; Graham Milne

Implementation Date: 31 December 2016

Revised Date: 31 January 2019

2. Procurement of emergency bridge repair contracts

Medium

Currently, the Council does not have established procurement arrangements with contractors for emergency bridge repairs. The current approach is ad-hoc with decisions to appoint contractors made by management based on the circumstances at the time, and the engineering work required.

Review of a sample of three contracts for emergency bridge repairs established that one of the contracts (valued at £10,600) had not been procured in line with the CSOs, as three quotes were not obtained.

Management advised that the decision to award the contract to was made by senior management based on protecting pedestrian safety needs, however, no evidence was available to confirm that the procurement waiver approval process was retrospectively applied.

Risk

- Increased financial costs for unprocured emergency repairs; and
- Non-compliance with applicable procurement standing orders.

Action Plan

2.1 Framework for procurement

Management should consider establishing a procurement framework for planned and emergency bridge repair work.

Agreed Management Action

A framework for planned and emergency repair work is currently being procured and is due to complete in March 2019.

Owner: Paul Lawrence, Executive Director of Place

Contributors: Gareth Barwell; Cliff Hutt; Richard Berry; Graham Milne

Implementation Date: 30 April 2019

2.2 Compliance with CSO waiver process

Management should ensure that the procurement process is consistently applied when awarding contracts for emergency repair work, with the procurement waiver framework applied retrospectively (when required).

Agreed Management Action

Compliance with the Council's Contract Standing Orders waiver approval process has been reinforced in a communication circulated to appropriate staff.

Owner: Paul Lawrence, Executive Director of Place

Contributors: Gareth Barwell; Cliff Hutt; David Strachan; Richard Berry; Graham Milne

Implementation Date: Complete 27 September 2018

3. Emergency Procedures

Low

Structural emergency procedures are summarised on one page and included in the Council's Operating Instructions for Bridges and Flood Prevention. The procedures include details of Council employees and external agencies who should be contacted in the event of an emergency.

Management confirmed that the summary procedures are adequate given the limited number of structural emergencies that occur. However, the Structures and Flood Prevention team has been subject to significant employee turnover in recent years.

Additionally, flood emergency procedures are documented in the Council's Flooding Emergency Plan. Flood Alert Action Packs have also been prepared to cover all areas of the City, and include names and contact details for both Council employees and volunteers.

Our sample testing established that the Flood Control Room Action Alert Pack is dated August 2013 and contains a number of incomplete sections and track changes. Management advised this was being updated, but was not completed due to resourcing challenges.

Risk

The Council cannot respond effectively in the event of a significant infrastructure or flood emergency

resulting in:

- failure to contain the incident;
- potential public Health and Safety consequences;
- fines from the Health and Safety Executive; and
- potential reputational damage.

Action Plan

3.1 Review of Structural Emergency Procedures

Management should review; refresh; and communicate the current structural emergency procedures included within the Operating Instructions to ensure that it adequately details the process to be applied in the event of an emergency.

Agreed Management Action

The review of the current structural emergency procedures will be complete and communicated by 31 December 2018.

Owner: Paul Lawrence, Executive Director of Place

Contributors: Gareth Barwell; Cliff Hutt; David Strachan; Richard Berry

Implementation Date: 28 February 2019

3.2 Review of Flood Action Packs

All Flood Action packs should be reviewed; refreshed; and communicated to ensure that they adequately detail the processes to be applied in the event of an emergency.

Agreed Management Action

All Flood Action packs will be reviewed, refreshed and communicated annually to staff. Latest updates will be completed by 31 December 2018.

Owner: Paul Lawrence, Executive Director of Place

Contributors: Gareth Barwell; Cliff Hutt; David Strachan; Gordon McOmish; Sean Fahy

Implementation Date: 28 February 2019

3.3 Annual review of emergency procedures

All emergency procedures should be reviewed and refreshed annually, with changes made communicated to team members.

Agreed Management Action

As above, all emergency procedures will be reviewed, refreshed and communicated annually to staff.

Owner: Paul Lawrence, Executive Director of Place

Contributors: Gareth Barwell; Cliff Hutt; David Strachan; Gordon McOmish; Sean Fahy

Implementation Date: 28 February 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 8

The City of Edinburgh Council **Internal Audit**

Fleet Project Management

Final Report

19 December 2018

Project number PR1702

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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

Approximately 60% of the Council's current vehicle fleet is eight or more years old, and the costs associated with maintaining ageing fleet and using "spot" hires to cover ongoing vehicle breakdowns and vehicles which cannot be economically repaired are significant.

It is estimated that circa £10-15m capital investment would be required to purchase new and repair existing fleet assets required to support ongoing service delivery.

Management has recognised for some time that an alternative fleet operating model was required to ensure availability of fleet assets to support ongoing service delivery; reduce capital investment requirements; reduce ongoing revenue costs; and support delivery of Council wide revenue savings targets.

Consequently, a working group was established in September 2017 with the objective of scoping a fleet project that would focus on the four key areas noted below:

1. Assessing the benefits of implementing an alternative fleet financing model for the majority of fleet vehicles;
2. Introducing use of telematics (electronic vehicle tracking systems) and engaging with service areas to standardise fleet; reduce vehicle numbers; and improve utilisation;
3. To review fleet maintenance operations to ensure that they effectively support delivery of front line services; and
4. Potential introduction of paperless documents and compliance records.

Assessing the benefits of changing to an alternative fleet financing model is the most advanced of the four work streams noted above, however, it is essential that any new arrangements are aligned with the Council's strategy and will support the remaining three workstreams included within scope.

Scope

The scope of this review assessed the design and operating effectiveness of the key project management and governance controls established to support delivery of the fleet project and mitigate the following Corporate Leadership Team (CLT) risks:

- Transformation and change agenda; and
- Maintaining service with less resource.

Review of project documentation was performed during the period May 2018 to June 2018. Our review concluded on 28th September 2018, and our opinion and findings are based on the outcomes of our testing at that date.

2. Executive summary

Total number of findings: 1

Summary of findings raised

1. High	Fleet project management and governance
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Opinion

Our review of the key project management and governance controls established to support delivery of the fleet project confirmed that significant enhancements are required, as no project management and governance frameworks have yet been established to support timely and effective project delivery.

Management has recognised the need to implement a new fleet operating model for some time, and has made significant progress towards its design (most notably in relation to a potential fleet contract hire model).

Whilst the current project manager (the Fleet and Workshops Manager, appointed in October 2016) has made progress, the project is being managed in addition his ongoing service delivery responsibilities. Consequently, project progress and establishment of project management and governance frameworks have been significantly impacted by lack of a suitably skilled and dedicated project management resource.

As project documentation has not yet been established detailing the scope; timeframes and associated costs and benefits of the fleet project, it has not been possible to confirm that project deliverables are aligned with the wider Council strategy; will deliver the expected capital and revenue cost savings and operational benefits; or establish project completion timeframes.

Whilst the Head of Place Management and the project management team have a clear vision of project deliverables and benefits based on their knowledge of Council fleet services; the external fleet industry; and extensive skills and experience, lack of a formal project management and governance framework prohibits the CLT Change Board and relevant executive committees from reviewing and scrutinising planned project deliverables and progress.

Consequently, 1 High rated finding has been raised.

3. Detailed findings

1. Project management and governance framework

High

Discussions with the Head of Place Management; the fleet project manager; and review of fleet project documentation established that:

- 1. Project Management Resources** – no dedicated project management resource has been obtained to support delivery of the fleet project. Currently the Fleet and Workshops manager is managing the project in addition to his ongoing service delivery responsibilities;
- 2. Project Approval** – a project initiation document has yet to be prepared detailing the scope of and benefits associated with the fleet project for review and approval by the Corporate Leadership Team (Change Board);
- 3. Project Governance Forums** – whilst some initial design group meetings have been held between Fleet Services; Procurement; and Finance, no defined governance structure has yet been established to support the fleet project (for example a project board supported with appropriate membership and a clearly defined terms of reference to provide scrutiny and challenge on project progress, or workstreams responsible for delivering specific elements of the project);

Additionally, the agreed actions from the initial meetings with Procurement and Finance have but not been recorded and monitored to ensure that all agreed actions have been completed;

- 4. Project Benefits** – whilst a draft financial model has been developed to assess the benefits associated with implementing a new fleet financing model, these have not been provided to an established project board; the CLT Change Board; and executive committees for review and challenge. Additionally, wider project costs and benefits whilst considered, have not yet been documented and quantified.

Management has advised that key operational benefits are expected to include an electronic and paperless fleet management system; and telematic solutions that are compatible with Council's existing fleet systems such as Tranman;

- 5. Project Plan** - no project plan has been established detailing the timeframes and responsibilities for delivery of the areas included within the project scope;
- 6. Project risks, issues, and dependencies** – the risk, issues, and dependencies associated with delivery of the fleet project have not yet been considered and recorded in a project risks, issues, and dependencies (RAIDS) log;
- 7. Project progress reporting** – the fleet project is included in the Council's change portfolio. Due to the absence of a dedicated project manager, regular fleet project progress reporting has not yet been established for inclusion in the CLT Change Board management information pack;
- 8. Stakeholder engagement plan** - internal and external stakeholder engagement plans have not yet been established. The project team has confirmed that while there has been informal engagement with internal stakeholders, external stakeholders, whilst considered, have not yet been recorded; and
- 9. Procurement strategy and plan** – there is currently no defined project procurement strategy and plan. The project team has conducted informal 'meet the bidder sessions' however the outcomes of these meetings were not documented.

Risks

- With no project initiation document detailing the rationale for the project; its scope; and associated project costs and benefits, it is not possible to confirm that project deliverables are fully aligned with the Council's strategy;
- The project may not be effectively managed and / or governed, resulting in potential late delivery; outcomes that do not meet expectations; and inability to deliver benefits;
- Risks, issues, and dependencies that are not effectively managed could adversely impact project delivery if they crystallise;
- Application of a procurement process that is not aligned with the Council's established processes and standing orders;
- Stakeholder needs are not identified; incorporated in the project plan and are not delivered;
- Lack of compatibility between new fleet management systems and existing systems; and
- Potential duplication with the existing CGI telematics contract for existing Council vehicles.

1. Recommendation – Project Management Resource

Experienced project management resource should be identified and allocated to the fleet project to support effective project delivery;

Agreed Management Action

Project manager now in place.

Owner: Paul Lawrence, Executive Director of Place

Implementation Date: 31 January 2019

Contributors: Gareth Barwell, Head of Place Management; Scott Millar, Fleet and Workshops Manager

2. Recommendation – Project Governance Framework

An appropriate project governance framework should be designed and implemented. This should include (but not be limited to) a project board with appropriate representation from senior management who will be responsible for scrutiny of project progress and decision making. The project governance framework should also include clear terms of reference detailing the roles and responsibilities of all established governance forums.

Agreed Management Action

Project board to be finalised and evidence submitted indicating terms of reference, meeting scheduling and meeting notes

Owner: Paul Lawrence, Executive Director of Place

Implementation Date: 29 March 2019

Contributors: Gareth Barwell, Head of Place Management; Scott Millar, Fleet and Workshops Manager

3. Recommendation – Project Management Framework

a) Guidance should be obtained from the Strategy and Insight Change and Delivery team in relation to an appropriate project management framework. Initial guidance is available at [project management toolkit](#). The agreed framework should then be designed and implemented.

b) The framework should include (but not be restricted to) a full project business case; project initiation document; project plan; RAID log; benefit tracker; and project status / highlight reporting.

It is also expected that benefits will include an electronic and paperless fleet management system; and telematic solutions that are compatible with Council's existing fleet systems such as Tranman;

- c) All project documentation should be provided to the project board for ongoing review and scrutiny, and project status / highlight reporting provided to the Strategy and Insight Change and Delivery team for submission to the CLT Change Board; and
- d) Actions from all project governance meetings should be documented; allocated; and monitored to confirm their completion.

Agreed Management Action

- a) Agreed. The guidance designed by Strategy and Insight will be applied to support the Fleet project management framework;
- b) Agreed – all documentation noted above will be prepared to support the project;
- c) Project documentation will be approved by the Project Board. Status reporting will be provided to Strategy and Insight for inclusion in the CLT Change Board pack; and
- d) Agreed – actions will be documented; allocated; and monitored to confirm their completion.

Owner: Paul Lawrence, Executive Director of Place
Contributors: Gareth Barwell, Head of Place Management; Scott Millar, Fleet and Workshops Manager

Implementation Date: 28 June 2019

4. Recommendation – Stakeholder Engagement

An internal and external stakeholder engagement plan should be developed; approved by the Project Board; and applied throughout the project, with key actions included in the overall project plan.

Agreed Management Action

An internal/ external stakeholder engagement plan will be developed; approved by the project Board and applied throughout the project. Any key stakeholder engagement actions will also be reflected in the project plan.

Owner: Paul Lawrence, Executive Director of Place
Contributors: Gareth Barwell, Head of Place Management; Scott Millar, Fleet and Workshops Manager

Implementation Date: 28 June 2019

5. Recommendation – Procurement Strategy and Plan

A procurement strategy and plan should be designed in consultation with the Procurement team; approved by the project board; implemented and consistently applied to support the procurement process.

This should include (but not be limited to) ensuring that the new fleet management system will support paperless processes and is compatible with existing fleet systems; and establishing the position in relation to existing CGI contractual arrangements for telematics.

Agreed Management Actions

- a) A procurement and strategy plan will be designed along with the procurement team; approved by the project Board and used to support the procurement process;
- b) The request for procurement will include requirements in relation to paperless processes and compatibility with existing fleet systems; and
- c) The contractual position with CGI regarding telematics will be confirmed prior to commencement of procurement.

Owner: Paul Lawrence, Executive Director of Place

Implementation Date: 30 July 2019

Contributors: Gareth Barwell, Head of Place Management ; Scott Millar, Fleet and Workshops Manager

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.
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Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>