Culture and Communities Committee

10.00am, Tuesday, 10 September 2019

Internal Audit – Localities Operating Model – referral from the Governance, Risk and Best Value Committee

Executive/routine
Wards
Council Commitments

1. For Decision/Action

1.1 The Governance, Risk and Best Value Committee has referred the attached Localities Operating Model Audit to the Culture and Communities Committee for review and scrutiny.

Andrew Kerr

Chief Executive

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Referral Report

Internal Audit – Localities Operating Model – referral from the Governance, Risk and Best Value Committee

2.   Terms of Referral

2.1   The Governance, Risk and Best Value Committee on 13 August 2019 considered a report by the Chief Internal Auditor, Internal Audit Annual Opinion for the year ended 31 March, which detailed the outcome of the audits carried out as part of the Council's 2018/19 Internal Audit annual plan and the status of open Internal Audit findings as at 31 March 2019.

2.2   The Governance, Risk and Best Value Committee agreed:

2.2.1   To note the Internal Audit opinion for the year ended 31 March 2019.

2.2.2   To request that the Chief Executive, Executive Directors and Chief Officer of the Edinburgh Health and Social Care Partnership, supported by the Chief Internal Auditor, report to the relevant Executive Committee at the earliest opportunity and the subsequent Governance, Risk and Best Value Committee setting out clear plans to ensure the closure of all historic and overdue internal audit management actions to enable an improvement to the overall Internal Audit Opinion for 2019/20.

2.2.3   To refer all audits with a red finding to the next meeting of the appropriate Executive Committee for their consideration and that action plans would be reported back to the Governance, Risk and Best Value Committee.

2.3   This report therefore refers the Localities Operating Model audit to the Culture and Communities Committee for consideration.

3.   Background Reading/ External References

3.1   Internal Audit Annual Opinion 2018/19 – report by the Chief Internal Auditor

3.2   Governance, Risk and Best Value Committee – 13 August 2019 – Webcast

4.   Appendices

Appendix 1 – Internal Audit – Localities Operating Model

The City of Edinburgh Council
Internal Audit

Localities Operating Model

Final Report

9 August 2019

PL1801

Significant improvement required	Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.

Contents

1. Background and Scope

Background

The Council's new Locality model was designed to meet the requirements of the [Community Empowerment (Scotland) Act, 2015](#) in relation to services delivered by the Council's Place directorate. The new model also responds to concerns raised in an Audit Scotland report [An overview of Local Government in Scotland 2014](#) regarding sustainability of Local Authority services given increasing demand for services and decreasing resources.

The new Localities model was approved by the Council's Communities and Neighbourhoods Committee, in November 2015, resulting in creation of four Localities (North East, North West, South East, and South West) across the City in April 2016.

The new localities model was both complex and ambitious, with services delivered across the locality geographies by the Council; partner organisations; and external bodies, with the objective of increasing responsiveness and relevance of service delivery; decentralising the Council decision making process; and increasing community participation in the democratic process.

The Edinburgh Partnership

The *Community Empowerment (Scotland) Act, 2015*, requires Local Authorities to establish and participate in Community Planning Partnerships that will work together to produce Locality Improvement Plans (LIPs). In Edinburgh, Community Planning is overseen by the Edinburgh Partnership (EP). The Council is one of a number of strategic partners represented on the EP Board which agreed that each locality should produce and deliver a 5-year strategic LIP with the objective of co-ordinating partnership activities to reduce poverty and inequality. Development and delivery of the LIPs is the main strategic activity for each locality.

In April 2019, the Partnership agreed a new structure to enable better focus for partnership working in the city that includes four city-wide partnership groups, four local community planning partnerships, and 13 new Neighbourhood Networks. Each group will take responsibility for a theme or plan to support achievement of the Partnership goal of a city where poverty and inequality are reduced and will feed into the Partnership Board. This new structure is in the process of being implemented.

Council Governance of Community Planning; Delivery of Council Locality Services; and LIP Actions

The Council established four Locality Committees (LCs) in February 2018 that were allocated responsibility for governance of community planning; development and delivery of the locality improvement plans and supporting actions; reporting on performance; and escalating service delivery challenges to the Partnership Board via the Council's nominated Board representative.

Management has advised that the remit of LCs includes leading and co-ordinating local community planning activities; monitoring local delivery of services by the Council, Police Scotland and the Fire and Rescue Service; approving the Neighbourhood Environment Programme and Community Grants Fund; and facilitating public engagement, consultation, participation and feedback on all areas within the LCs' remit.

Localities also have direct management responsibility for a range of Council services, including Housing, local Transport and Environment, and local Lifelong Learning services including branch and school libraries. Each of these services are delivered via a matrix management arrangement with strategic and policy support from central services within the Place Directorate, and in the case of Lifelong Learning, Communities and Families.

On 7 February 2019, a review of LCs was presented to a meeting of the full Council by resulting in dissolution of the LCs on 1 April 2019

Governance of Council services delivered across the four localities is provided by the appropriate Council Executive Committees. Oversight of community planning (which includes delivery of locality improvement plan actions by the Council) forms part of the remit of the Culture and Communities Committee, and policy matters that affect localities are the responsibility of the Policy and Sustainability Committee.

The Council established the following strategic objectives for Localities:

- Empower citizens and communities and improve partnership working;

- Implement a lean and agile locality operating model;

- Deliver better outcomes and improved citizen experiences; and

- Embed values and develop culture.

Additionally, implementation of the localities model was expected to deliver savings via flexible allocation and utilisation of resources within cross-functional teams; elimination of duplicate roles; and improved budget allocation due to closer linkages between decision-makers and service users, however, within the Council, the majority of services delivered across localities are managed centrally by divisional teams. Where localities have direct management responsibility for Council services, matrix management arrangements have also been established with the relevant divisional teams

Budgets to support delivery of Council services via the localities have not been established. Consequently, locality service delivery costs continue to be allocated to centralised budgets and managed by the relevant centralised divisions.

Council employees located in localities have delegated financial authorities to raise purchase orders via the Oracle financial system. One of the key controls built into Oracle is authorisation limits that prevent individuals from raising and approving purchase order in excess of their delegated authorities. Oracle users are required to submit an authorisation form approved by their line manager and a senior Finance officer to either gain access to the system or change their authorisation limit.

Scope

The scope of this review was to assess the design adequacy and operating effectiveness of key controls supporting the current Council localities operating and governance model.

The review also provided assurance on the following key risks:

- failure to deliver Locality strategic objectives in line with Council strategy and relevant Council pledges;

- statutory non-compliance; and

- failure to deliver projected cost savings.

Limitations of Scope

- Delivery of Health and Social Care Partnership services across the Localities and the requirements of the Public Bodies (Joint Working) (Scotland) Act, 2014 are specifically excluded from scope. The review focused only on Council services delivered across the Localities; and

- Edinburgh Partnership governance - the review was limited to the Council's governance and oversight of Council services delivered across localities, and delivery of Council Locality Improvement Plan (LIP) actions.

Further details on the scope of our review are included at Appendix 2 – Areas of Audit Focus.

Reporting Date

Our audit work concluded on 15 April 2019, and our findings and opinion are based on the outcomes of our testing at that date.

Consequently, a number of reports to both Council committees and the Edinburgh Partnership relating to Locality Improvement Plans provided to Internal Audit after this date have not been considered when preparing our report.

2. Executive summary

Total number of findings: 2

Summary of findings raised	
High	1. Localities Governance and Operating Model
Low	2. Oracle Financial System – Authorised Approval Limits

Further detail on the basis of the classifications applied to our findings is included at Appendix 1.

Opinion

Significant Improvement Required

It is acknowledged that the original design of the localities model was ambitious as the structure involved operation of a matrix model within the Council between the four locality teams and city wide services.

Our review highlighted that the initial localities operating model; governance; and risk management frameworks established by the Council were not adequately designed as they were not well enough integrated to fully support effective ongoing monitoring of Council service delivery performance across the four localities, and progress with delivery of the Council's strategic Locality Improvement Plan (LIP) actions, and we identified the significant control weaknesses detailed below.

Whilst locality improvement plans have been prepared, and clear strategic objectives set, no post implementation review has been performed to confirm that the localities model is operating as expected and has delivered the benefits anticipated by the Council.

Additionally, established locality service delivery performance measures are not appropriately designed to support ongoing monitoring and review of the effectiveness of Council services delivered, and financial performance across the Localities.

We also confirmed that not all Locality risk registers are regularly reviewed and updated to ensure that all risks have been identified; assessed; appropriate owners allocated; and that realistic timeframes have been set to ensure that appropriate controls are established to ensure that the risks are effectively managed.

Consequently, one high rated finding has been raised.

Management has advised that the Localities operating model and risk management frameworks are in the process of being redesigned following dissolution of the Localities Committees as a result of a decision taken by full Council in February 2019, and that the established Council governance framework supporting for oversight of services across the localities and progress with LIP actions will remain unchanged.

It is Internal Audit's opinion that the recommendations included in the High rated finding raised should be incorporated (where appropriate) in the revised Localities operating model and established Council locality governance arrangements to support ongoing delivery of Council services across localities; implementation of Council LIP actions; and effective ongoing monitoring of both service delivery performance and LIP action progress.

The Low rated finding raised reflects one instance where a manager's delegated authority limit within the Oracle financial system had been increased (from £10K to £100K) without his knowledge, and with no supporting authorisation or approval from his line manager to process the limit increase.

Management response from the Place Directorate and Strategy and Communications

It is recognised the Council's localities operating model has not been fully effective and that oversight of locality performance and delivery of locality improvement plan actions could be improved. This is mainly attributable to the ambitious and complex design of the original localities operating model.

The Localities operating model is in the process of being redesigned following dissolution of the Localities Committees as in February 2019, and the Internal Audit recommendations included in the first finding below will be considered and implemented (where appropriate) in the design of the new model and incorporated within reporting provided to established Council executive committees that are responsible for oversight of service delivery across the localities and monitoring progress with delivery of LIP actions.

Once the new locality model has been designed, details of the new design and implementation plan will be shared with Internal Audit by 31 March 2020 to demonstrate how their recommendations will be addressed and implemented. It has been agreed with Internal Audit that new management actions will be raised at that time to track implementation progress.

3. Detailed findings

1. Localities Governance and Operating Model	High

Our review of the established Council localities operating model and governance and risk management frameworks confirmed that:

1. a post-implementation review of the effectiveness of the localities operating model has not yet been performed;

2. the process supporting development of Council aspects of the Locality Improvement Plan (LIP) actions has not been documented. We also noted that:

    - The Council's LIP actions are not aligned with the locality budgets and operational capacity;

    - ownership of Council LIP actions is not clear; and

    - progress with delivery of actions is not monitored, and a number of actions have not yet been delivered.

3. whilst performance measures for Council services delivered across localities have been established and are reported to Localities Committees, they are not adequately designed to support effective ongoing monitoring of locality performance as they are based on centralised divisional performance measures that are split across each Locality;

4. there are no established engagement protocols and escalation processes between centralised divisions and localities, with ongoing engagement between divisions and localities performed on an informal basis;

5. as locality service delivery costs continue to be allocated to centralised division budgets managed by the relevant Heads of Service, budgets devolved to and managed by the localities is less than 1% of total expenditure within localities. Additionally, localities are not involved in, or consulted as part of, the annual budget planning process;

6. whilst some progress is evident with the migration of locality risk registers onto the Pentana risk management system, review of risk registers confirmed that that majority of locality risks have not been updated for some time; that several risks are not supported by action plans; and that owners have not been allocated to ensure that actions are implemented to address the risks identified;

7. there is currently no established succession planning process within localities to ensure that appropriate successors are identified and trained as contingent resources for key Council roles in the event of unplanned absence or unexpected resignations.

Risks

The potential risks associated with our findings are:

- the design of the current model may not support long term compliance with the *Community Empowerment (Scotland) Act, 2015*, and address the concerns raised by Audit Scotland in their 2014 report regarding sustainability of Local Authority services given increasing demand for services and decreasing resources;

- the Council's Locality Improvement Plan (LIP) actions may not be delivered;

- the Council cannot confirm that services are being coordinated and prioritised between services and localities and delivered effectively within budget; that locality customer expectations are being met; and the expected benefits for the localities operating model will be achieved;

- locality service delivery issues are not escalated and resolved in a timely manner;

- locality risks are not identified and effectively managed;

- operational risks associated with inefficient allocation of work; duplication of roles; and ineffective monitoring leading to potential financial loss; and

- potential reputational consequences in the event of failure of the Council's localities operating and established governance framework.

1.1 Recommendation - Localities Operating Model Post Implementation Review

- a post implementation review of the Council's localities operating model and established governance framework should be performed to confirm whether it has effectively supported and governed delivery of the Council services across the localities and delivery of the Council's LIP actions;

- The outcomes of the post implementation review should be documented; and

- Lessons learned from the post implementation review should be incorporated in the design of the future Council localities operating model and locality reporting provide to established Council governance forums.

1.1 Agreed Management Action - Localities Operating Model Post-Implementation Review

Not applicable – refer management response in section 2 above.

Owner: N/A **Contributors:** N/A	**Implementation Date:** N/A

1.2 Recommendation – Development and Delivery of Council Locality Improvement Plan Actions

The planning process supporting development and delivery of the Council's Locality Improvement Plan (LIP) action plans, should be documented; retained and agreed. This should include (but not be restricted to):

1. analysis of responses received in relation to delivery of Council services across localities and strategic objectives from all participants involved in the locality planning process;

2. roles; responsibilities; and accountabilities of all Council teams involved in supporting delivery of LIP actions;

3. documentation detailing how LIP actions (including appropriate prevention measures) have been selected and prioritised;

4. LIP actions should be discussed and agreed with all centralised divisions that will be involved in supporting their implementation;

5. consideration of capacity constraints; availability of resources; alignment of resources between the Council's locality and centralised division teams; and any other constraints that could impact delivery of LIP actions;

6. alignment of LIP actions with the Council's strategic objectives;

7. dependencies on other areas of the Council to support implementation of LIP actions;

8. the costs to the Council associated with delivery of LIP actions;

9. design and implementation of management information to enable monitoring of delivery progress with LIP actions; and

10. details of the Council's governance arrangements established to monitor delivery of Council LIP actions.

1.2 Agreed Management Action - Development and Delivery of Council Locality Improvement Plan Actions

Not applicable – refer management response in section 2 above.

Owner: N/A **Contributors:** N/A	**Implementation Date:** N/A

1.3 Recommendation - Locality Service Delivery Performance Measures

The current performance framework for Council services delivered across localities should be refreshed. This should include (but not be limited to):

- key performance indicators (KPIs) that are aligned with the Council service to be delivered across localities. These should be specific; measurable; achievable; relevant; time bound; explainable and relative to organisational change (SMARTER);

- agreement of KPIs between centralised divisions responsible for delivering locality services and localities;

- a consolidated view of locality performance that is provided to the Corporate Leadership Team (CLT) and relevant Council executive committees;

- review and challenge of locality performance at relevant Council governance forums; and

- inclusion of locality performance in performance objectives (looking ahead conversations) for managers of Council divisions; locality managers; and their teams.

1.3 Agreed Management Action - Locality Service Delivery Performance Measures

Not applicable – refer management response in section 2 above.

Owner: N/A **Contributors:** N/A	**Implementation Date:** N/A

1.4 Recommendation - Engagement with Council centralised divisions

Engagement protocols between localities and Council centralised divisions should be designed and implemented to support delivery of services across localities. This should include processes to ensure that:

- all service requests from localities are communicated completely; accurately; and in a timely manner to centralised divisions;

- services are delivered within the timeframes specified in the agreed locality key performance indicators (KPIs); and

- issues with service delivery are escalated and resolved in a timely manner.

1.4 Agreed Management Action - Engagement with Council centralised divisions

Not applicable – refer management response in section 2 above.

Owner: N/A **Contributors:** N/A	**Implementation Date:** N/A

1.5 Recommendation - Locality budget planning and financial management

- Finance should be engaged in the design of the new locality operating model to ensure that the proposed solution can be supported by an appropriate and effective locality financial operating model;

- The design of the new financial operating model should consider the benefits associated with allocating budgets and cost centres to localities and calculating and reporting locality costs on an ongoing basis;

- The rationale supporting the decisions in relation to the design of the new locality financial model should be recorded.

1.5 Agreed Management Action - Locality budget planning and financial management

Not applicable – refer management response in section 2 above.

Owner: N/A **Contributors:** N/A	**Implementation Date:** N/A

1.6 Recommendation - Risk Management

1. Centralised and individual localities risk registers should be reviewed and refreshed to ensure that:

- they include all operational and strategic risks (including risks associated with third parties) that could impact upon service delivery, or delivery of locality improvement plan (LIP) actions;

- that the impact and probability of the risks have been assessed;

- appropriate owners have been allocated to all risks; and

- action plans and delivery dates have been prepared to support implementation of appropriate controls to manage the risks.

2. Locality risk registers should be included in the information provided to relevant Council governance forums (for example, the Place Directorate Risk Committee).

1.6 Agreed Management Action- Risk Management

Not applicable – refer management response in section 2 above.

Owner: N/A **Contributors:** N/A	**Implementation Date:** N/A

1.7 Recommendation - Succession Planning

Locality roles with associated key person dependency risks should be identified and a succession planning exercise performed to identify potential successors who could fill these roles in the event of unplanned long-term absence or unexpected resignations.

The skills and experience of the potential successors should be considered in comparison to key Locality roles and training and support (including knowledge transfer) provided where required.

1.7 Agreed Management Action - Succession Planning

Not applicable – refer management response in section 2 above.

Owner: N/A **Contributors:** N/A	**Implementation Date:** N/A

2. Oracle Financial System – Authorised Approval Limits — **Low**

Our testing of the budgetary approval process in Localities identified one instance where the Transport and Environment Manager (the user) could potentially authorise a purchase order in excess of their approved £10K authorisation.

We confirmed that the user was initially allocated a £10k Oracle approval limit in December 2016, as per a signed authorisation form.

The approval limit was then increased to £100k in March 2018 with no supporting request from either the user or their line manager. Additionally, the user was not aware of this revised limit.

The Finance and Procurement Systems helpdesk within Finance was unable to provide any reason or supporting documentation for this unauthorised change.

The user's authorisation limit has now been restored to £10k.

Risks

Risk of financial approvals in excess of authorised approval limits that could potentially result in financial loss.

2.1 Recommendation - Authorisation Limits Review

- Finance and Procurement team should implement appropriate controls to ensure that limit changes are only processed when supported by request forms that have been authorised and approved by line managers;
- A review of existing limits within Oracle should be performed to establish whether this issue is limited to this one instance, or whether the problem is potentially more systemic; and
- If the issue is systemic, Finance should engage with Risk Management to ensure that appropriate controls are designed and implemented.

Agreed Management Action- Authorisation Limits Review

A large-scale exercise, involving over 500 changes to the structure, was undertaken during the winter months realigning Place, taking into account changes relating to Transformation. A review of all Oracle Requisition Approvers for the department of Place has been initiated and is currently underway.

More fundamentally, a rolling programme of all Oracle Requisition Approvers, across all divisions, has been reinstated. Prior to 2015 this was business as usual (BAU), however due to the proposed

introduction of the enterprise resource planning solution and other budget cuts and staff reductions this was suspended.

The significance of this regular review was recognised and reinstated in 2018. This will be rigorously implemented until firmly re-embedded as part of BAU across the business

Owner:	**Implementation Date:**
Stephen Moir, Executive Director of Resources	26 June 2020
Contributors:	
Hugh Dunn, Head of Finance; Alison Henry, Corporate Finance Senior Manager; Layla Smith, Business Manager; Annette Smith, Executive Assistant; David Camilleri, Principal Accountant - Financial Systems; Brenda Brownlee, Senior Accountant	

Appendix 1 - Basis of our classifications

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

Appendix 2 – Areas of Audit Focus

The audit focus areas and related control objectives included in the review were:

Audit Focus	Control Objectives
Corporate strategy	A post implementation review has been performed to confirm that the Localities model: • has delivered the expected benefits detailed in the initial Localities implementation plan; • is operating as expected; and • remains aligned with the overall Council strategy and relevant Council pledges.
Governance and management oversight	• There is a clearly established localities governance model with reporting lines into the Place Senior Management Team; the Corporate Leadership Team; and relevant Council executive committees; • Delegated authorities have been established for each locality detailing their financial and service delivery decision making authorities; • Locality managers and employees have a clear understanding of their roles and responsibilities; • Service delivery responsibilities have been clearly defined between the Localities and functional Council service delivery teams; and • Reporting lines and communication channels are well defined, and clearly communicated to all employees.
Resource and Budget Management	Processes have been established to ensure that locality service demands are appropriately prioritised; resourced; and funded from functional service budgets.
Operational Performance	• Locality key performance indicators (KPIs) have been designed and implemented to support service delivery; • KPIs have been shared and agreed with central Council service delivery teams; • Progress against KPIs is regularly monitored and recorded to support operational management and reporting to relevant governance forums; • There is an established customer engagement process to ensure that all citizens can effectively engage and communicate with Locality teams to request services; • There is an established engagement process to ensure that all Locality requests are communicated to central service delivery teams; • There is an established escalation process applied in instances where Locality requests have not been delivered by centralised teams within established KPIs; • There is an established Locality customer complaint process; and • Performance against relevant KPI's is included in the Locality managers annual looking forward conversations; and is assessed a part of the looking backwards conversations.
Risk Management	• Locality risk committee meetings have been established; • Locality risk registers are maintained, and regularly updated, with any significant locality risks escalated and included in the Place Directorate risk register;

	• Constructive and measurable actions are designed for each of the risks identified; and • Actions are appropriately allocated, and their completion monitored.
Development and delivery of Local Improvement Plans	• A clear process has been established and is applied to support development of LIPs; • Responses from all participants are collected; reviewed and analysed, with emerging themes identified and included (where appropriate) in LIPs; • Resource availability and other constraints are considered when creating plan objectives; • Completed plans are made publicly available; and • Progress against plan is monitored and reported to the appropriate governance forums and executive committees.
Succession planning	• Key locality roles have been identified and appropriate succession plans established.