Governance, Risk and Best Value Committee

10.00am, Tuesday, 1 August 2023

Internal Audit Update Report: Quarter 1 2023/24

Item number	
Executive/routine	Executive
Wards	
Council Commitments	

1.   Recommendations

1.1   It is recommended that the Committee:

1.1.1. notes progress with the 2023/24 Internal Audit plan approved by Committee in March 2023;

1.1.2. reviews the outcomes of 2023/24 Internal Audit reviews completed in Quarter 1;

1.1.3. reviews the audits included in the 2023/24 plan to ensure they remain aligned with key risks and emerging priorities;

1.1.4. approves inclusion of an audit of Facilities Management Helpdesk Services within Corporate Property Services to the 2023/24 Internal Audit plan, following a request from elected members and officers.

1.1.5. notes the current Internal Audit risk profile and action being taken to mitigate risks; and

1.1.6. notes progress with delivery of Internal Audit key priorities and ongoing areas of focus.

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Report

Internal Audit Update Report: Quarter 1 2023/24

2. Executive Summary

2.1 The 2023/24 Internal Audit (IA) plan approved by Committee in March 2023 has commenced, with 2 reviews complete and a further 17 reviews underway.

2.2 The IA plan is reviewed quarterly to ensure planned audits remained aligned to key risks and emerging priorities.

2.3 The IA risk profile continues to be managed within risk appetite, with mitigating actions in place as required.

3. Background

2023/24 IA plan

3.1 The 2023/24 IA plan was approved by Committee on 14 March 2023. As agreed by Committee, the plan will be reviewed quarterly with any proposed changes presented to Committee for review and approval.

4. Main report

2023/24 IA Plan

4.1 The 2023/24 IA plan approved by Committee on 14 March 2023 consists of 45 audits (34 for the Council and 11 for other organisations).

4.2 Delivery of the 2023/24 IA plan has commenced, with 2 audits complete and a further 17 either in planning or fieldwork. Details of progress for 2023/24 priority audits and expected timescales for completion is provided in Appendix 2.

4.3 In addition, the GRBV committee self-evaluation and skills assessment agreed as part of the 2023/24 IA work programme is underway.

2023/24 audit reports for scrutiny

City of Edinburgh Council

4.4 One report included in the 2023/24 IA plan was completed for the Council during Quarter 1 which was assessed as '*limited assurance*' and a report detailing outcomes are included within this report:

- Edinburgh Employer Recruitment Incentive

4.5   In line with the request from Committee in March 2023, the following review has also been completed, and a report detailing outcomes are included within this report.

- Council Budget Setting Process – Lessons Learned

Quarterly review of the 2023/24 IA Plan

4.6   As agreed with Committee, the IA plan is reviewed quarterly to ensure it remains aligned with key risks and emerging issues impacting the Council. There are 10 'priority' audits which are currently underway, with the remaining 5 audits due to commence in the next quarter (see Appendix 2).

4.7   The audit of Financial Sustainability for the Health and Social Care Partnership will be now completed in two phases. Phase 1 of the audit will assess the design of controls established to support the ongoing financial sustainability of the partnership and Phase 2 will assess the effectiveness of the controls identified during Phase 1.

4.8   Due to a number of issues regarding quality and timeliness of service provision which has been raised by elected members, and officers within Corporate Services and Children, Education and Justice Services, Committee is asked to approve an audit of Facilities Management Helpdesk Services for Corporate Property Services as an addition to the 2023/24 IA plan. The audit team would require an estimated 30 audit days to complete the review. It is anticipated that this can be completed within existing IA resources.

4.9   Appendix 3 sets out the indicative and recurring audits which are planned to be complete for the Council for the remainder of the year. Members are requested to review the IA work programme and advise Internal Audit if there are any new or emerging areas impacting the Council where they consider IA assurance is required.

4.10   Any additions to the plan, will require a review of the current plan in line with available resource and capacity, which may result in a request to remove or defer an audit currently included within Appendix 3. Following member review and discussion, any proposed changes will be presented to the October 2023 meeting for approval.

IA Key Performance Indicators

4.11   Revised key performance indicators (KPIs) to support effective and timely delivery of the IA plan by both services and the IA team were approved by Committee in March 2023.

4.12   As delivery of the 2023/24 IA plan is in early stages, limited KPI performance data is currently available, however a summary of performance for relevant KPIs to date is provided below:

- service area responses were received for all Terms of Reference issued to date, and no delays were experienced in responses received at Head of Service/Director level.

- there was one instance where the 15 days KPI for provision of the agreed management actions and implementation dates from the service took 17 days instead of 15.

- there was one instance where approval of an audit report from the Head of Service/Service Director took 4 days instead of the 3 day target.

4.13   A further update on performance in meeting KPIs throughout Q2 will be included in the October Internal Audit update.

IA Risk Profile

4.14   The IA risk register was reviewed in June 2023, with assurance that appropriate actions are currently being taken to address the risks highlighted in the March 2023 update to Committee.

4.15   Actions to mitigate the following risks continue in relation to the following:

- Applications and systems design – the upgrade of the audit system is complete. IA capacity is reduced slightly while the team becomes familiar and proficient with the system, and they support services in using the system.

- Capacity – capacity within the team is reduced due to parental leave from May to October 2023.

Progress with Internal Audit key priorities

4.16   Progress with IA key priorities and ongoing areas of focus is detailed below:

- continued work to develop use of the upgraded audit system including streamlined audit workflows and automated reporting.

- roll-out of the upgraded integrated follow-up system for live tracking and updating of agreed management actions across the Council.

- development of an Internal Audit Data Analytics Strategy with a pilot project underway to explore the feasibility of using a data analytics tool to increase sample sizes and improve reliability of data across audits completed.

- IA representation across the follow key governance forums and working groups across the Council:
  - Strategic Programme Board
  - Essential Learning Governance Board
  - Inclusion Review Board
  - Fraud and Serious Organised Crime Group
  - Directorate Risk Committees

- o Corporate Leadership Team Risk Committee
- o Covid Inquiry Working Group
- o Council Health and Safety Group
- o Council Cyber Information Security Steering Group (CISSG)
- o Strategic Complaints Group

5. Next Steps

5.1 IA will continue to monitor progress with plan delivery and the other activities noted in this report.

6. Financial impacts

6.1 Costs for delivery of agreed PwC audits remain within the agreed budget. Delivery of the 2023/24 IA plan will seek to limit PwC resource to specialist areas only.

6.2 There are no associated budget implications for completion of audits completed for other organisations as direct recharge is applied for costs incurred.

7. Stakeholder/Community Impact

7.1 Delivery of an IA plan which is not aligned to key risks and priorities will result in a disproportionate use of limited resources across both services and IA.

8. Background reading/external references

8.1 [Public Sector Internal Audit Standards](#)

8.2 [Approved 2023/24 IA Plan GRBV March 2023 – item 8.1](#)

8.3 [Approved 2023/24 IA Audit Charter GRBV March 2023 – item 8.2](#)

9. Appendices

9.1 Appendix 1 – 2023/24 Priority audit progress and expected completion dates as at 13 July 2023

9.2 Appendix 2 – Work programme for 2023/24 indicative and recurring audits

9.3 Appendix 3 – Internal Audit Reports for scrutiny:

- Edinburgh Employer Recruitment Incentive
- Council Budget Setting Process – Lessons Learned

Appendix 1: 2023/24 Priority audit progress and expected completion dates as at 13 July 2023

Priority Audits complete			Outcome
1.	Cross directorate	**Council Budget Setting Process – Lessons Learned** Review of Corporate Leadership Team (CLT) lessons learned for the 2023/24 Council budget setting process, as requested by GRBV March 2023.	N/A no rating applied
2.	Place	**Edinburgh Employer Recruitment Incentive (EERI)** Review of the design and effectiveness of processes established for managing EERI fund applications from employers including eligibility, assessment, payments, and verification.	Limited Assurance
Total priority audits in reporting			**2**
Priority Audits in fieldwork			Expected Completion
3.	Cross Directorate	**Procurement – Contract Standing Orders** Focussed assessment of compliance with the Council's Contract Standing Orders – specifically tender documentation, evaluation of tenders and quotes and award for a sample of contracts cross directorate. Will not include procurement of consultants as this will be subject to a separate future review.	September 2023
4.		**Supplier and Contract Management** Assessment of application of the Contract Handover, and Contract Review Meeting guidance as set out in the Council's Contract Management Manual and toolkit to ensure effective performance management of contracts, resolution of issues and provision of best value for a sample of contracts cross directorate.	
5.	Corporate Services	**Key financial systems - Debtors** Review of the design and operation of key controls established to ensure timely creation of debtor invoices, prompt processing of payments and effective control of write-offs, cancellations, credit notes and recovery.	
6.	Children, Education and Justice Services	**Review of Historic Complaints** Review of historic complaints to confirm whether any handled by for employees noted in Project Apple outcomes had been appropriately investigated and reported.	
7.	Health and Social Care Partnership	**Financial Sustainability** Review of the processes applied to confirm the ongoing financial sustainability of the partnership, and the design and appropriateness of actions to address any significant gaps identified.	Phase 1 September 2023 Phase 2 April 2024
8.	Place Directorate	**Management of mixed tenure works** Review the Council's policies and processes for engaging with owners and private landlords for scheduling and funding/payment for common repairs and improvements across mixed tenure areas.	October 2023

9.	Other audit activities	**GRBV self-evaluation and skills assessment** Facilitation of GRBV Committee self-evaluation and skills assessment in line with relevant CIPFA guidance.	December 2023
Total priority audits in fieldwork			**7**

Priority Audits in planning			**Expected Completion Date**
10.	Place Directorate	**Housing stock condition – tenant safety, damp, and mould** Review of the Council's initial approach to the Scottish Housing Regulator's January 2023 request that landlords ensure that they have appropriate, proactive systems to identify and deal with any reported cases of damp and mould timeously and effectively.	October 2023
11.	Corporate Services Directorate	**CGI - IT Currency Management, Obsolescence, and Innovation Review** Review of CGI's established approach to currency management and obsolescence of hardware and software including reviewing, consolidating, and replacing applications including implementation of new, and maintenance of existing solutions	November 2023
12.	Cross Directorate	**Cyber - Directorates Incident Response** Review of directorates and service level approach to cyber incident management in line with the readiness, response, and recovery model. This will include review of a sample of departmental business impact analysis, business continuity plans and training/awareness.	December 2023
Total priority audits in planning			**3**

Priority Audits not yet started			**Expected Start Date**
13.	Children, Education and Justice Services Directorate	**Children's Social Work Practice Review** Review of processes and procedures established to support review of children's social work practices across social work practice teams to confirm that the levels of support provided remain appropriate to meet the child's needs, and that all changes in circumstances have been considered.	
14.	Corporate Services Directorate	**CGI - Contract Management** Review of compliance with established contract management arrangements for CGI including delivery of key contractual requirements including incident resolution and service level agreements.	August 2023
15.	Place Directorate	**Management of scaffolding for housing property repairs** Review of the design and operating effectiveness of the Council's approach to managing scaffolding during repairs to housing properties including relevant consents and permits, advance notification to and ongoing communications with occupants, contractor and budget management and health and safety risk assessments.	
16.		**Housing - Void Management** Review of the design and operation of controls established to ensure that empty council housing properties (voids) are managed effectively including review of programmed voids.	July 2023

17.		**Housing - Repairs Right First Time** Review of the Council's approach and performance for completing repairs 'right first time' in line with the required two criteria of indicator 10 of the [Scottish Social Housing Charter](#), including completion of all aspects of the repair within the Council's target timescale and no recall to resolve subsequent defects within 12 months	November 2023
Total priority audits not yet started			**5**
Total priority audits			**17**

Appendix 2: Work programme for 2023/24 indicative and recurring audits

Indicative Audits in planning			Expected Completion Date
1.	Corporate Services Directorate	**CGI – Complex Change Management** Agile review of the end to end change journey for a sample of complex change requests to identify areas for improvement and highlight good practice.	March 2024
Total indicative audits in planning			**1**

Indicative Audits not yet started			Expected Start Date
2.	Cross Directorate	**Overtime and expense payments** Review of compliance with controls established to ensure that overtime and expense payments are made in line with the council's Pay Policy and Overtime guidance. Will focus on a high-level review of a sample of areas with high overtime and expenses volumes /values.	August 2023
3.	Corporate Services Directorate	**Key Financial Systems – VAT recovery** Review of design and operation of controls established to ensure adequate arrangements are in place to maximise the recovery of VAT and ensure recovery is in line with requirements. Will be limited to sample of high value/high volume areas	August 2023
4.	Cross Directorate	**Fleet – Mission Zero for Transport** Review the Council's readiness to ensure all its fleet is renewed to a standard that meets the targets laid out by the Scottish Government's Mission Zero for Transport (legally binding target of net-zero by 2045) and the Council's target to be net zero by 2030	September 2023
5.		**Workforce Capacity to Support Service Delivery** Review of the initial design of service delivery and capacity planning arrangements in line with the 2023-27 Business Plan Priorities and Medium-Term Financial Plan. Review will consider initial workforce capacity approach in 23/24 and then service delivery in 24/25.	
6.		**Partnership Working** Review of the design of the overarching strategy and approach to ensure that the Council realises proposed partnership working benefits, efficiencies and improved outcomes as set out in the 2023-27 Business Plan. Review will focus on a sample of areas and will span 23/24 and 24/25 considering initial approach and then delivery of outcomes.	
7.		**Recruitment and Selection** Review of compliance with the Council's Recruitment and Selection Policy including pre-advertisement requirements such as approval, supporting documentation, recruitment panels, training, advertisement, screening, and pre-employment checks.	

8.		**Community Centres – Assurance Framework**	
		Review of established oversight arrangements to confirm that community centres are safely and effectively managed in line with established community centre management arrangements agreed with the Council.	
9.		**City Regional Deal – Cost Inflation**	
		Review of a focused area aligned to the Council's role as Accountable Body for the City Region Deal which commenced in 2018 and will provide circa £1.3bn investment into the city region over a 15-year period.	
10.	Health and Social Care Partnership	**Mental Health and Wellbeing Services**	September 2023
		Review of arrangements to support delivery of outcomes for provision of mental health and wellbeing services across Edinburgh.	
11.		**Implementation of Total Mobile**	December 2023
		Review of implementation of Total Mobile project to identify lessons learned and improvement actions to support implementation of similar projects in future.	
12.	Children, Education and Justice Services Directorate	**Refugee and Migration Services**	September 2023
		Review of approach to supporting refugees and adults with no recourse to public funds and alignment with the Scottish Government New Scot Refugee Integration Strategy.	
13.		**Devolved School Management**	December 2023
		Review of processes established to ensure compliance with the Scottish Government devolved school management guidance which set out how local authorities fund schools and the accountability and responsibility for financial decisions. Will include review of processes for a sample of schools.	
Total indicative audits not yet started			**12**
Total indicative audits			**13**

Recurring Audits in fieldwork			Expected Completion
14.	Place Directorate	**Trams to Newhaven**	September 2023
		Ongoing agile review during the final stage of construction. Reviewing ongoing governance and financial management, stakeholder management and readiness for operations.	
15.	Corporate Services	**Enterprise Resource Planning (ERP)**	November 2023
		Ongoing agile review of project management and governance supporting the R12 upgrade of the Oracle financial systems and implementation of the new sundry debt management solution (Apex).	
Total recurring audits in fieldwork			**2**

Recurring Audits in planning			Expected Completion Date
16.	Place Directorate	**Port Facility Security Plan** Annual review of existence and operation of the Port Facility Security Plan and emerging risks as per Department for Transport requirements.	November 2023
Total recurring audits in planning			**1**
Recurring Audits not yet started			Expected Start Date
17.	Cross Directorate	**Validation of Implementation of Previously Closed Management Actions** Review of a sample of previously implemented and closed IA agreed management actions to confirm that they have been effectively sustained.	September 2023
18.	Place Directorate	**Transfer of the Management Development Funds Grant (TMDF)** Bi-annual light touch review of the key controls supporting TMDF from the Council to registered social landlords in line with Scottish Government requirements.	December 2023
Total recurring audits not yet started			**2**
Total recurring audits			**5**

Other Organisations Audits in planning			Expected Completion Date
19.	Edinburgh Integrated Joint Board (EIJB)	**Hosted Services** Review of budget, oversight and assurance arrangements established for hosted services (services which are operationally managed on a pan Lothian basis either through one of the four Health and Social Care Partnerships or Royal Edinburgh and Associated Services).	September 2023
20.	Lothian Pension Fund (LPF)	**LPF People Processes** Review of the adequacy and operating effectiveness of established people processes to ensure robust controls are in place, complied with and support achievement of LPF objectives. Will include consideration of the employee lifecycle, key personnel and responsibilities of the People and Communications team which includes brand, people practices, strategic communications, and colleague, member, and employer engagement.	October 2023
21.		**LPF Information Security** The audit will review the design of the suite of IT policies, standards and procedures that have been developed during 2022 to prevent, respond and manage information security across LPF, as well as ensuring they are aligned to the IT strategy due to be formalised during 2023.	October 2023

Total other organisation audits in planning			3
Other Organisations Audits not yet started			**Expected Start Date**
22.	Edinburgh Integrated Joint Board (EIJB)	**Innovation and sustainability programme** Review of oversight and assurance for funding, progress and delivery of the innovation and sustainability programme (with specific focus on the bed-based review and community mobilisation projects).	October 2023
23.	Edinburgh Integrated Joint Board (EIJB)	**Workforce Optimisation** Review of the governance and oversight processes to monitor delivery of the initial short-term actions set out in the 'Working Together' the EIJB Workforce Strategy 2022-25, specifically the key strategic workforce priorities and commitments across the four themes '*Health and Wellbeing, Culture and Identity, Workforce Capacity and Transformation*, and *Leadership and Development'*.	
24.	Lothian Pension Fund (LPF)	**Business continuity and incident response** Review of the adequacy and operating effectiveness of key controls and processes established to provide assurance that LPF maintains business continuity plans to ensure they maintain services during an emergency or extended incident. Will include consideration of roles and responsibilities, policies and procedures, Business Continuity Plans, testing, lessons learned and monitoring and reporting arrangements.	August 2023
25.		**Senior Managers and Certification Regime (SM&CR)** Review of the adequacy and operating effectiveness of governance processes established to provide assurance of compliance with the key elements and prescribed responsibilities of the SM&CR.	September 2023
26.		**Project Forth** Project Forth – audit completion dependent on decision. Suggested areas include project delivery or associated elements such as resulting Transfer of Undertakings - Protection of Employment (TUPE) or asset transfer.	TBC
Total other organisations audits not yet started			**5**
Total other organisations audits			**8**

Appendix 3

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Internal Audit Final Report

Edinburgh's Employer Recruitment Incentives (EERI)

07 July 2023

PL2301

Overall Assessment	Limited Assurance

Contents

This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2023/24 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2023. 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 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.

Executive Summary

Overall opinion and summary of findings

Review of the design and effectiveness of the controls in place to review Edinburgh's Employer Recruitment Incentives (EERI) applications and process funding payments provide limited assurance that the Council's objectives to provide funding only to the eligible groups and detect and prevent potential frauds are being met.

Improvements in the following areas have been identified to support effective processing of EERI applications and payment processing:

- minimum evidence requirements to validate the job and employees' compliance to eligibility conditions, including barriers to employment
- recording of checks to ensure that employers pay funded employees the salary agreed between the Council and employer at the application stage
- resumption of engagement among the Council, employers, and employees to reduce the risk of employers underpaying employees engaged on the scheme

- inclusion of Fraud and Serious Organised Crime (SOC) risks in the service risk register, clear guidance from the Corporate Risk team for compiling service risk registers and completion of relevant fraud prevention and detection training for staff members involved in processing grant funding applications.

Areas of good practice

Our review identified:

- effective Oracle workflow controls have been established to segregate duties at payment stage between verifiers and approvers
- controls have been established to ensure EERI funding is prioritised to SMEs and third sector organisations
- access to EERI data in shared drives and Teams channels has been appropriately restricted to employees with EERI responsibilities.

See Appendix 1 for Control Assessment and Assurance Definitions

Audit Assessment

Audit Area	Control Design	Control Operation	Findings	Priority Rating
1. Application processing, fraud prevention and detection	🔴	🔴	Finding 1 – EERI application processes	High Priority
			Finding 2 - Ongoing EERI verification checks	High Priority
			Finding 3 - Fraud awareness, risk management and training	Medium Priority
2. Data security and confidentiality	🟠	🟠	Finding 4 – Helix user access management	Medium Priority

Internal Audit Report: PL2301 – Edinburgh's Employer Recruitment Incentives (EERI)

Background and scope

Edinburgh's Employer Recruitment Incentives (EERI) is a programme funded by the Scottish Government under the No One Left Behind (NOLB) funding stream to help employers fill vacancies and create new or additional jobs/apprenticeships. In 2021/22 and 2022/23, additional funding from the Scottish Government's Young Person's Guarantee was also utilized to create additional EERIs targeted at young people. The funding is open to employers from all sectors, but a priority is given to private small and medium scale enterprises (SME) and third sector organisations. Each employer is permitted to make up to two funding applications per financial year, and successful applicants are awarded with funding of up to £6,000 to cover wages, training, travel, and other costs including recruiting and employing candidates, who are currently out of work and fulfil other EERI fund eligibility criteria. The awarded funding is paid in four instalments over a period of 52 weeks.

Some of the key conditions for the new job to be eligible for funding include:

- a contract of minimum of 52 weeks employment or a fixed duration apprenticeship, with a minimum of 16 hours employment each week
- payment of the Real Living Wage to standard employees, and a minimum wage rate or higher to apprentices
- payment of a salary greater than the received funding.

The incentive is awarded for new jobs starting during the financial year and all applications must be completed, and approved, with the individual starting their employment by 31 March of the financial year in which the funding comes from.

Scope

This audit was completed at the request of the service with the aim of making improvements to processes ahead of the 2023/24 financial year. Officers worked collaboratively with audit and welcomed the opportunity to strengthen the controls.

The objective of this review was to assess the design and effectiveness of processes established for managing EERI fund applications from employers, as well as the ongoing relationship throughout the time of the contract, including eligibility, assessment, payments, and verification.

Risks

- Fraud and Serious Organised Crime
- Reputational

Limitations of Scope

The following areas were excluded from scope:

- individual applications' eligibility and payment validation checks

Reporting Date

Testing was undertaken between 6 March 2023 and 5 April 2023. Our audit work concluded on 12 April 2023 and our findings and opinion are based on the conclusion of our work as at that date.

Findings and Management Action Plan

Finding 1 – EERI Application Processes

Finding Rating	High Priority

The Scottish Government has provided a framework including a list of criteria for the job and the employee to meet to be eligible for EERI funding. The funding applications should demonstrate compliance to these eligibility conditions which includes the employee having a barrier to employment. Our review however identified that no evidence requirements have been established by the Council to verify that the jobs and employees funded by the scheme meet all the eligibility conditions, including a genuine barrier to employment. Management advised that while the Council has not previously been issued with any guidance on the evidence requirements; they received 'Updated Evidence Requirements' from Improvement Service (the national improvement organisation for local government authorities in Scotland) for NOLB in March 2023.

Our review of the Council's EERI application form also identified that employers are not asked to declare any potential conflicts of interest. Additionally, the Council team responsible for processing EERI applications have not established a formal process to record and mitigate internal conflicts of interest. Conflicts of interest are currently managed informally by asking another colleague to review the application when the employer is known to a Council team member.

The Council has established a 10-day service target to process all EERI applications. While management advised that applications were typically processed in 1-2 days, there was no process at the time of the audit to monitor applications against the 10-day processing timeframe. Following the audit, the spreadsheet used to track applications has been updated to capture the date of receipt.

Risks

- **Fraud and Serious Organised Crime –** the Council may fund employment to employees who have no barriers to employment, additionally conflicts of interest may not be managed appropriately providing opportunity for override of controls

- **Service Delivery –** the Council does not ensure EERI applications are processed within the 10-day service target.

Recommendations and Management Action Plan: EERI application processes

Ref.	Recommendation	Agreed Management Action	Action Owner/ Lead Officer	Timeframe
1.1	Evidence requirements should be established to ensure that the funded jobs and employees meet the eligibility criteria. These evidence requirements should be published on	Eligibility criteria are already clearly defined and published on the website. Prior to March 2023 there was no guidance as to how to evidence these, so, in line with nationally established practice, self-certification was considered sufficient. The guidance on documentation, which was published in March 2023 established	**Owner:** Paul Lawrence, Executive Director of Place	31/12/2023

			Lead Officers:	
	Council website, application packs and the validation of evidence checks should be retained. When establishing Council's evidence requirements, management should consider referring the updated evidence guidance, issued by Improvement Service in March 2023.	evidence requirements for proof of identity and right to work in the UK, however; in evidencing barriers to employment, self-certification "via a robust registration process" is the recommendation. We will adopt the guidance's recommendations in full. The website and information packs have been updated to confirm what evidence will be required to confirm the employee's identity and right to work. The evidence will be reviewed as part of the application process and copies retained as per the Council's retention policy. We will also follow the recommendation regarding evidencing barriers to employment, meaning that self-certification will continue to be acceptable. Given the many barriers that exist, and the different ways in which these manifest, it would be too complex to define which evidence was required, and likely be seen as intrusive by the employees. It would also mean misalignment with other Local Authorities, which could likely cause reputational damage to the Council. To mitigate any risk arising from this, the process guidance has been updated to ensure that all officers follow all steps of the established onboarding procedure, including meeting with the employees for completing registration forms, which would mean discussing the barriers to employment and how they manifest. We will record this on our risk register and review it periodically in line with the evolving fraud risk landscape.	**Lead Officers:** Elin Williamson, Head of Business Growth & Inclusion Philip Ritchie, Business Growth & Inclusion Contracts & Programme Manager Vicki Lorimer, Business Growth & Talent Development Lead	
1.2	A process should be established to ensure conflict of interest declarations are sought at application stage from employers. A further Conflict of Interest process supported by a formal register should be established within Business Growth and Inclusion for employees processing EERI applications, with details of conflicts and mitigating actions recorded.	The application form and employer information pack has been updated to include a conflict-of-interest statement, asking employers to declare any known conflicts or pre-existing relationships with BG&I staff members. A register for conflict of interests will be created for BG&I.		30/09/2023

Finding 2 – Ongoing EERI Verification Checks

Finding Rating	High Priority

The terms and conditions of EERI funding mandates the employer to remunerate the employee as per the wages agreed with the Council during the EERI grant application process. Management advised that visual checks are in place to ensure that wages agreed at application could be reconciled with the employee's contract of employment and their payslips for the period.

Internal Audit reviewed documentation submitted by a sample of twenty approved employers and identified that nine of the twenty employers provided a contract of employment that did not match the salary or contracted hours agreed at application stage. A sample check of payslips for one quarter also identified that nine out of twenty employers were paying employees' wages below the amount included in their funding application. In three out of these nine cases, the change to the employee's contracted hours or hourly rate should have reduced the employer's entitlement to funding but the full amount was paid by the Council.

The EERI Employers Pack states that, before an employee starts work, a meeting should be arranged between the Council, the employer, and the employee to complete final paperwork and compile an action plan to monitor the employee's professional development. Review of the current practice identified that the Council issues paperwork to the employee for completion by email and has no direct engagement with the employee to confirm they are aware of, and are actively participating in, the scheme.

Employee's typed 'signatures' are also accepted, which further increases the fraud risk. Management has advised that these virtual processes were established during the Covid-19 pandemic when face-to-face meetings could not be arranged, and those processes are still retained.

A review of the process to ensure funding instalments are only paid following confirmation of compliance with Scottish Government funding conditions identified that, while employers must submit payslips for review to demonstrate continuation of employment at the agreed salary, there is no check in place to ensure that the employee has received their wages. As employees engaged in the scheme no longer have direct contact with the Council, employers are expected to notify the Council when the employment has terminated.

Risks

- **Fraud and Serious Organised Crime –** approved employers funded by EERI may not pay wages to employees as per grant funding application

- **Financial and Budget Management -** the Council may be exceeding award amounts in line with the grant requirements.

Recommendations and Management Action Plan: Ongoing EERI verification checks

Ref.	Recommendation	Agreed Management Action	Action Owner / Lead Officer	Timeframe

2.1	Checks to ensure employees are paid the salary agreed at application stage and reflected in their contract of employment, should be formalised and recorded on the EERI tracker. Where anomalies are identified, employers should be contacted and a review carried out to consider ongoing funding entitlement, including consideration to withdrawing or reducing funding subject to action taken by the employer to address the disparity.	The EERI tracker has been updated to include prompts and verifications that checks are being performed. The process map has been updated to reflect actions, including escalation processes, to be taken when anomalies are identified.	**Owner:** Paul Lawrence, Executive Director of Place **Lead Officers:** Elin Williamson, Head of Business Growth & Inclusion Philip Ritchie, Business Growth & Inclusion Contracts & Programme Manager Vicki Lorimer, Business Growth & Talent Development Lead	30/09/2023
2.2	Formalised checks should be introduced and recorded to ensure payslips submitted by employers quarterly reflect the actual salary paid and is aligned to the wages agreed at application stage and noted in the employee's contract of employment.	The EERI tracker has been updated to prompt and verify that checks are being performed. The process map has been updated to reflect actions, including escalation processes, to be taken when anomalies are identified.		30/09/2023
2.3	Initial meetings (remote or in person) between the Council, approved employers and employees should resume, and quarterly action plan meetings with all three parties should be completed, at least on a sample basis with coverage across all employers in a financial year.	Processes will be updated to reflect that the first meeting should take place prior to employment starting to ensure that all eligibility criteria has been meet. Processes will resume to conduct meetings with the employees and employers, either in person or via Teams/Facetime, and staff will use their discretion as to which is required on a case-by-case basis. All employees will have an agreed action plan, setting out level of support required and plan for next steps.		31/12/2023
2.4	End-to-end checks on salary payments should be introduced to ensure that employees receive the wage that has been outlined within their contract of employment.	Following the updated protocols regarding payslip checks, in-person meetings and employee action plans, a relationship with the employees will be re-established and they will be made aware that they should notify us if salary payments are not as expected.		30/09/2023

Finding 3 – Fraud Awareness, Risk Management and Training

Finding Rating	Medium Priority

A review of the draft risk register for Business Growth and Inclusion identified that Fraud and Serious Organised Crime (SOC) risks had not been included on the latest version, which was last updated in May 2021.

Additionally, a review of MyLearningHub training logs for Council employees with EERI responsibilities identified that 3 out of 5 colleagues had not completed mandatory Anti-Bribery & Fraud Prevention e-learning, as required by the Council's role specific learning logs.

Risks

- **Fraud and Serious Organised Crime –** fraud risks and mitigating actions are not identified by employees who process EERI applications and payment processing.

Recommendations and Management Action Plan: Fraud awareness, risk management and training

Ref.	Recommendation	Agreed Management Action	Action Owner / Lead Officers	Timeframe
3.1	In line with the Council's Risk Management Framework, the risk register for the EERI team should be updated and maintained on a quarterly basis, ensuring that current and emerging risks are captured, documented, assessed, with mitigating action identified and implemented, and risks escalated to the Sustainability and Development risk register and Place Directorate Risk Committee where required.	We are in the process of updating and revising the risk register for the Business Growth and Inclusion service, where this will be included.	**Owner:** Paul Lawrence, Executive Director of Place **Lead Officers:** Elin Williamson, Head of Business Growth & Inclusion Philip Ritchie, Business Growth & Inclusion Contracts & Programme Manager Vicki Lorimer, Business Growth & Talent Development Lead	31/12/2023
3.2	Council employees engaged in processing EERI, and other grant funding applications should complete the mandatory Anti-Bribery & Fraud Prevention e-learning. Management should also consider providing team members with additional fraud detection and prevention training specific to their roles.	All team members have now completed this training and the requirement to have completed this training prior to working on EERI has been included to the process document.		30/09/2023

Finding 4 – Helix User Access Management

Finding Rating	**Medium Priority**

Helix is a client management system and system administration for City of Edinburgh Council managed by Capital City Partnership (CCP). The system is used to contain privacy notices for employees engaged in Employer Recruitment Incentive schemes across the Council.

Our review identified that one of the three Helix users in the Council no longer have EERI responsibilities. Management advised that user access processes were under review with CCP, as it was unclear whether Council users from other service areas may have access to EERI data.

Risks

- **Technology and Information –** Council Helix users who do not have EERI responsibilities have access to privileged information about EERI employees.

Recommendations and Management Action Plan: Helix user access management

Ref.	Recommendation	Agreed Management Action	Action Owner/Lead Officers	Timeframe
4.1	User access procedures and reviews should be established in conjunction with Capital City Partnership to ensure that Council employees without EERI responsibilities have their access removed upon leaving, moving roles or when their responsibilities change.	We are working with Capital City Partnership regarding access across all Helix provision. Due to the complexities of several organisations and local authorities using the system, this will take longer to complete in full.	**Owner:** Paul Lawrence, Executive Director of Place **Lead Officers:** Elin Williamson, Head of Business Growth & Inclusion	31/03/2024
4.2	Outcomes of the review of Helix user access should be recorded and the users' access to Helix system which is disproportionate to their current role should be escalated.	In the meantime, all Helix access within Business Growth and Inclusion is monitored and removed for those not working on projects where this is required.	Philip Ritchie, Business Growth & Inclusion Contracts & Programme Manager Vicki Lorimer, Business Growth & Talent Development Lead	30/09/2023

Internal Audit Report: PL2301 – Edinburgh's Employer Recruitment Incentives (EERI)

Appendix 1 – Control Assessment and Assurance Definitions

Control Assessment Rating		Control Design Adequacy	Control Operation Effectiveness
Well managed	🟢	Well-structured design efficiently achieves fit-for purpose control objectives	Controls consistently applied and operating at optimum level of effectiveness.
Generally Satisfactory	🟢	Sound design achieves control objectives	Controls consistently applied
Some Improvement Opportunity	🟠	Design is generally sound, with some opportunity to introduce control improvements	Conformance generally sound, with some opportunity to enhance level of conformance
Major Improvement Opportunity	🔴	Design is not optimum and may put control objectives at risk	Non-conformance may put control objectives at risk
Control Not Tested	**N/A**	Not applicable for control design assessments	Control not tested, either due to ineffective design or due to design only audit

Overall Assurance Ratings	
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

Internal Audit Report

Council Budget Setting Lessons Learned Review

12 July 2023

CD2301

Contents

This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2023/24 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2023. 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 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.

Executive Summary

Summary of findings and audit assessment

Our review of the Corporate Leadership Team (CLT) lessons learned exercise of the 2023/24 Council budget process, and consideration of budget processes in a sample of other Scottish local authorities together with best practice sources concludes that the lessons learned process undertaken was adequate and completed within a sufficiently short timeframe to enable timely recommendations to strengthen the process for 2024/25 onwards. Two findings based on the CLT lessons learned exercise have been identified as well as two further findings informed by best practice, and review of the processes of, and engagement with key officers at three other local authorities.

The budget process lessons learned exercise took account of comments made by elected members during Council meetings where the 2023/24 budget was considered and included consultation with all political groups which established a consensus on members' feedback on the 2023/24 budget process, with recommendations to strengthen to process going forward reflecting feedback gathered.

The lessons learned exercise was completed by the newly appointed Executive Director for Corporate Services, who was not in post at the time of the 2023/24 budget process which brought a fresh perspective on the process. The recommendations also aim to ensure that the Council's Medium-Term Financial Plan is considered as part of the revised budget process to support development of a sustainable budget reflective of the Council's forecasted financial position.

Audit Area	Control Design	Control Operation*	Findings
1. Review of CLT lessons learned process	🟢	N/A	No issues noted
2. Review of member comments and CLT lessons learned recommendations	🟢	N/A	Finding 1 - Budget information for elected members
3. Review of budget process in a sample of other Scottish local authorities	🟢	N/A	Finding 2 – Process for emergency / late budget proposals Finding 3 – Best practice recommendations from other local authorities
4. Review of budget process best practice sources	🟢	N/A	Finding 4 – Annual budget lessons learned process

See Appendix 1 for Control Assessment Definitions

(*Design-only review - control operation not tested)

Internal Audit Report: CD2301 – Council Budget Setting Lessons Learned Review

Background and scope

Following the budget setting process for 2023/24, at the March 2023 meeting of the Governance Risk and Best Value (GRBV) committee members requested that the Corporate Leadership Team (CLT) review the process followed and provide recommendations that would strengthen and improve the process for 2024/25 onwards.

In addition, the GRBV committee requested that an independent review of the officer lessons learned process which considered best practice from other Scottish Local Authorities was undertaken by the Internal Audit as part of the 2023/24 Internal Audit programme.

It was agreed that the CLT lessons learned report would be presented to the Council's Finance and Resources Committee in June 2023, and the Internal Audit report presented to the GRBV committee in August 2023.

The CLT lessons learned exercise was led by the Executive Director of Corporate Services and the outcomes of were reported to the Finance and Resources Committee on 20 June 2023. The report set out the process undertaken which included consultation with all political groups and detailed the following recommendations designed to strengthen the budget process from 2024-25 onwards:

- to provide budget training for all Councillors
- to start the budget process, particularly identifying change proposals earlier in the year, before summer recess
- to build in support and regular meetings with each political group through the autumn and winter
- that where possible, proposals should be taken through relevant Executive Committees
- that a report is taken to Council in September to amend the standing orders to alter the deadline for budget motions to a week and a day before Council.

Findings and Management Action Plan

Finding 1 – Budget information for elected members

During the budget sessions both at Council and subsequent Executive committee meetings, several concerns from elected members were noted regarding a lack of clarity on the information that underpinned budget proposals, specifically how fees and charges calculations were impacted.

In addition, some elected members also commented that they felt less well informed about the timeline for the budget itself and would welcome further information in this area to help them review budget proposals.

The CLT lessons learned exercise recognised this with a recommendation that budget training would be offered and open to all members and would focus on supporting understanding of some of the technical aspects of Council finance as well as how directorate budgets are currently structured and allocated.

At the Finance and Resources Committee on 20 June 2023, members requested that officers provide additional information for elected members including a timetable for the budget process, and information on what documents underpin the budget proposals.

Discussions with key officers at all three Councils contacted confirmed that a budget timetable setting out key dates and deadlines is made available to their members.

Risks

- **Financial and Budget Management** – members may be unaware of the key inputs, dates, and deadlines for the budget process

- **Governance and Decision Making** – members may lack clarity on the key areas which underpin the budget, impacting their ability to effectively scrutinise budget proposals.

Recommendations and Management Action Plan: Budget information for Elected members

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
1.1	In line with members' request at the Finance and Resources committee on 20 June, a revised budget timetable reflecting the updated process and setting out key dates and deadlines in the process, as well as expected dates for external inputs (such as the Local Government Finance Settlement) should be developed for members.	A budget timetable will be developed and put forward for agreement at Finance and Resources Committee on 21st Sept 2023.	Deborah Smart, Executive Director of Corporate Services	Hugh Dunn, Service Director - Finance and Procurement Gillie Severin, Head of Strategy and Insight.	21/09/2023
1.2	Delivery of the CLT lessons learned recommendation on member training should include preparation of additional materials for members which clearly set out the budget process and the key policies and documents that underpin the budget proposals, including but not limited to, fees and charges proposals.	Member training will be developed to include the additional material and detail requested.	Deborah Smart, Executive Director of Corporate Services	Hugh Dunn, Service Director - Finance and Procurement Gillie Severin, Head of Strategy and Insight.	30/09/2023

Finding 2 – Process for emergency / late budget proposals

The CLT lessons learned exercise recommends that effective scrutiny of budget proposals by all political groups can be supported by requiring the budget proposals to be provided a week and a day before Council.

It is, however, recognised that external events such as a later than expected announcement of the Local Government Financial Settlement can cause delays which may impact timely provision of information to members, resulting in a possibility that emergency or late budget changes may need to be brought to Council.

Review of the 2023/24 budget processes for three other Scottish Council's highlighted that two of the three Councils advised that they had encountered late provision of information from third parties, which had a subsequent impact on the budget process. It was noted that each Council dealt with this situation in different ways, with one fully restating the budget prior to presentation at Council, and the other implementing a system where officers are allowed to pass amendments if they are not significantly consequential to the budget, and have been reviewed by Finance, and agreed by the Head of Governance.

Risks

- **Financial and Budget Management** – external parties may provide funding or change funding levels at the short notice, leading to the budget becoming incorrect

- **Governance and Decision Making** – late changes to the budget are dealt with incorrectly, leading to a lack of effective scrutiny.

Recommendations and Management Action Plan: Process for emergency / late budget proposals

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
2.1	It is recognised that decisions to support late adjustments to the budget process on an emergency basis will need to be agreed between officers and Members, and changes made to Standing Orders and delegated authorities where relevant. The Council may wish to consider developing a process to support late adjustments to the budget where emergency changes are necessary.	A process to support changes to the agreed budget timetable to accommodate late or emergency changes will be developed and put forward for agreement at Finance and Resources Committee on 21st November 2023.	Deborah Smart, Executive Director of Corporate Services	Hugh Dunn, Service Director - Finance and Procurement Gillie Severin, Head of Strategy and Insight.	21/11/2023

Finding 3 – Best practice recommendations from other local authorities

During our review of the budget process and practices across three other local authorities, there was discussion with key officers on the various situations encountered by them during their most recent budget cycle:

- in one council, Finance colleagues were assigned to political groups on an annual basis, meaning that the same person is not always available to support the same political group each year

- in another council, Finance colleagues were present to support political groups through the budget process from shortly after the first quarter of the new financial year

- in addition, Finance colleagues prepared budgets for a variety of scenarios, including a flat budget settlement, or increased ring-fenced funds within the settlement

- other councils also enforced strict deadlines on political group budget proposals to ensure that effective scrutiny of proposals could be carried out by other political group members

- one council had a Strategic Finance Group which enabled cross political group discussions to take place throughout the year, and especially in advance of the budget meeting

- another council reported that draft, officer-prepared budget proposals were shared by one political group outwith the agreed protocols for sharing budget documents with third parties.

The above situations provided the basis for the recommendations below; these recommendations should be considered as part of the planned budget setting process improvement workshop which has been agreed to be held with members.

Recommendations and Management Action Plan: Best practice recommendations

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
3.1	Where resources are available, consider assigning a permanent Finance colleague to each political group to ensure they receive consistency of support from a named officer.	To work through these options with members at the planned budget setting process improvement workshop and adopt those considered to support and strengthen City of Edinburgh Council's budget setting process.	Deborah Smart, Executive Director of Corporate Services	Hugh Dunn, Service Director - Finance and Procurement Gillie Severin, Head of Strategy and Insight.	30/09/2023

3.2	Where resources are available, consider extending provision of support and availability of Finance colleagues during the lead up to the Council budget proposal deadline to provide advice and guidance to political groups on aspects of budget proposals.				
3.3.	Developing budgets for a range of scenarios (e.g., funding reductions, flat budget settlements) to ensure that budget proposals are as robust as possible.				
3.4	Consider whether revised budget deadline dates should be strictly enforced once they have been confirmed, and only emergency changes (as noted in Finding 2 above) can be allowed by following a specified process.				
3.5	Consider the possibility of creating a Strategic Budget Group composed of the Finance Leads for each political group to meet and discuss the budget and receive the same briefing; potentially to design and review budget proposals with input from officers in advance of Council meeting.				
3.6	Consideration of whether officer-developed proposals shared with political groups should be kept in a secure location, and if proposals should be watermarked as 'draft' to ensure that if sharing the information outwith agreed protocols occurs, the information is clearly identified as not officially agreed by the Council.				

Finding 4 – Annual budget lessons learned process

During our review of best practice for budget processes it was noted that an annual lessons learned process, which formalises reflection and review of the annual budget setting process once complete and enables members and officers to consider what went well and what could be improved from the budget process cycle that year and inform the next iteration of the budget cycle, is recommended. This aims to ensure the process is continually improved and meets the changing needs of the Council.

Risks

Financial and Budget Management – the Council may not be following best practice suggested by professional bodies (such as CIPFA or COSLA).

Recommendations and Management Action Plan: Annual budget lessons learned process

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
4.1	Consider implementing an annual lessons learned exercise as part of the budget process to enable officers and members to reflect on what went well and what could be improved on in the latest budget process and agree changes to strengthen and inform the process for the next year.	A further lessons learned process will be carried out early in the new 2024/25 financial year and reported to Finance and Resources Committee before Summer Recess.	Deborah Smart, Executive Director of Corporate Services	Hugh Dunn, Service Director - Finance and Procurement Gillie Severin, Head of Strategy and Insight.	30/06/2024

Appendix 1 – Control Assessment Definitions

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Major Improvement Opportunity	🔴	Design is not optimum and may put control objectives at risk	Non-conformance may put control objectives at risk
Control Not Tested	**N/A**	Not applicable for control design assessments	Control not tested, either due to ineffective design or due to design only audit

Internal Audit Report: CD2301 – Council Budget Setting Lessons Learned Review