

Finance and Resources Committee

10.00am, Thursday 10 October 2019

Resources Directorate – Internal Audit Action Update

Item number	7.2
Executive/routine	Executive
Wards	All
Council Commitments	

1. Recommendations

- 1.1 It is recommended that the Committee:
- 1.2 Note the 2018/19 Internal Audit opinion and the associated summary findings from the final audits undertaken in the plan relevant to the Resources Directorate.
- 1.3 Note the position in respect of the current open and overdue internal audit findings relating to the Resources Directorate.
- 1.4 Agrees to refer this report and any feedback from the Committee to the next available meeting of the Governance, Risk and Best Value Committee.

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Resources Directorate - Internal Audit Action Updates

2. Executive Summary

- 2.1 This report follows Internal Audit's annual opinion for the City of Edinburgh Council for the financial year ended 31 March 2019 and the outcomes of Internal Audits completed at the end of the 2018/19 Internal Audit Plan which have either a Councilwide finding and are applicable to all Directorates or are specific to the Resources Directorate.
- 2.2 No 'Critical' Internal Audit findings were raised during the course of 2018/19 and the total number of findings and High rated findings raised had decreased when compared to prior years. However, a number of significant weaknesses in the Council's overall control environment were identified by Internal Audit.
- 2.3 It was the Chief Internal Auditor's independent and professional opinion that the Council's established control environment; governance and risk management arrangements had not adapted or evolved sufficiently to support effective management of the changing risk environment and the Council's most significant risks, putting achievement of the Council's objectives at risk.
- 2.4 Consequently, Internal Audit reported a 'red' rated opinion, with an assessment towards the middle of this category, reflecting that significant enhancements are required to the Council's established control environment; governance; and risk management arrangements to ensure that the Council's most significant risks are effectively mitigated and managed. This outcome remained unchanged when compared to the Internal Audit opinion presented for the 2017/18 financial year.
- 2.5 The completion of the 2018/19 Internal Audit plan brought with it a number of reports which identified management actions for the Resources Directorate to address. This report outlines the summary status of these internal audit reports for scrutiny by the Committee, as detailed in Appendix 1. In addition, the Internal Audit actions that remain open and are now overdue for completion by the Resources Directorate as at 23 September 2019 are outlined in Appendix 2.

3. Background

- 3.1 The objective of Internal Audit (IA) is to provide high quality independent audit assurance over the control environment established to manage the Council's most significant risks, and their overall governance and risk management arrangements in accordance with Public Sector Internal Audit Standards (PSIAS) requirements.
- 3.2 It is the responsibility of the Council's Chief Internal Auditor to provide an independent and objective annual opinion on the adequacy and effectiveness of the Council's control environment and governance and risk management frameworks in line with PSIAS requirements. The opinion is provided to the Governance, Risk, and Best Value Committee and should be used to inform the Council's Annual Governance Statement.
- 3.3 Where control weaknesses are identified, Internal Audit findings are raised, and management agree actions and timescales by which they will address the gaps identified.
- 3.4 It is the responsibility of management to address and rectify the weaknesses identified via timely implementation of these agreed management actions.
- 3.5 The IA definition of an overdue finding is any finding where all agreed management actions have not been implemented by the final date agreed by management and recorded in Internal Audit reports.
- 3.6 Internal Audit is not the only source of assurance provided to the Council as there are a number of additional assurance sources including: external audit, regulators and inspectorates, that the Committee should equally consider when forming their view on the design and effectiveness of the Council's control environment, governance and risk management arrangements.

4. Main report

Internal Audit Opinion 2018/19

- 4.1 Internal Audit considered that significant enhancements were required to the Council's control environment, governance and risk management arrangements to ensure that the Council's most significant risks were effectively mitigated and managed and raised an overall 'red' rated opinion, with an assessment towards the middle of this category. This opinion aligned with the outcome reported for the 2017/18 financial year and was subject to the inherent limitations of internal audit (covering both the control environment and the assurance provided over controls).
- 4.2 No 'Critical' Internal Audit findings were raised for 2018/19 and the total number of findings (including High rated findings) raised had decreased when compared to prior years, which highlighted some positive improvement. However, a number of new and significant weaknesses in the Council's control environment had been identified, together with an increased trend in the percentage and ageing of overdue IA findings as at 31 March 2019 in comparison to prior years.

- 4.3 Consequently, whilst it was IA's opinion that whilst some progress was evident, the Council's established control environment; governance; and risk management frameworks had not yet adapted sufficiently to support effective management of the changing risk environment and the Council's most significant risks, putting achievement of the Council's objectives at risk.

Areas where improvement is required

- 4.4 The 2018/19 Internal Audit plan and the associated reports completed in the final quarter of the plan identified improvements being required in a number of areas, as detailed in Appendix 1:
- 4.4.1 The majority of Internal Audit findings raised highlighted that key first line management controls (most notably quality assurance reviews) had either not been established or, where established, are not consistently reviewed to confirm their ongoing effectiveness to support management of key service delivery risks. This was highlighted in the outcomes of several reviews, including GDPR (gap analysis) Internal Audit Actions Follow-up; Contract Management; Developer Contributions and IR35 and Right to Work.
 - 4.4.2 Significant concerns were also highlighted in relation to effective management of technology risks, as the Council's technology partner CGI UK Limited had not implemented ongoing vulnerability scanning as a service. Consequently, potential network vulnerabilities may not be fully identified and addressed in a timely manner. Progress has already been made in this area since the conclusion of these audits.
 - 4.4.3 The technology Certifications and Software Licencing review also confirmed that CGI had not yet established adequately designed processes to support effective ongoing management of the Council's full population of software licences, which could potentially impact user access and also has associated cost implications for the Council. Quarterly updates on the Digital Services Programme continue to be submitted to the Governance, Risk and Best Value Committee to scrutinise progress in this area. Additionally, the Elected Member Digital Advisory Board, with membership from the Finance and Resources Committee maintains an overview of performance, progress and risks in this area.
 - 4.4.4 The Financial Systems Access Controls review identified a significant finding, a plan for which is currently being developed by Digital Services to be applied across all the Council's financial systems. The full detail of this report was discussed as a Part B item at the Governance, Risk and Best Value Committee, with the Head of Finance as the Council's Statutory Section 95 Chief Financial Officer in attendance to respond to questions.
 - 4.4.5 Reviews of major projects and organisational change confirmed that the Council's Change Board is now providing effective oversight of the

Council's major projects portfolio, and that projects are generally well managed. However, further improvements were required to ensure that senior responsible officers (SROs) and supporting project managers consistently manage projects in line with the Council's established project management framework; whole of life (capital and revenue) costing is applied when calculating project costs; the impact of changes on support provided by Council Directorates to the Health and Social Care Partnership is consistently considered when preparing business cases; and that adequate project management resource is provided to support delivery of major projects.

- 4.4.6 Whilst the Property and Facilities Management Division has consistently achieved their financial savings targets, the Asset Management Strategy review confirmed that a new realistic and achievable Council Asset Management strategy is required to ensure that ongoing financial savings targets and service delivery improvements are achieved across the Council's operational property portfolio, to support effective and ongoing property portfolio management, optimisation, and maintenance. IA also highlighted that complete and accurate data and management information on the occupancy status; market and lease values; and condition of the Council's property assets was required to support achievement of the Council's property management objectives. These issues are being addressed as part of the new Asset Information Management Systems (AIMS) project. In addition, the Finance and Resources Committee maintains a strong and ongoing assurance role in respect of the Asset Management Strategy and receives regular reports upon this area of work.

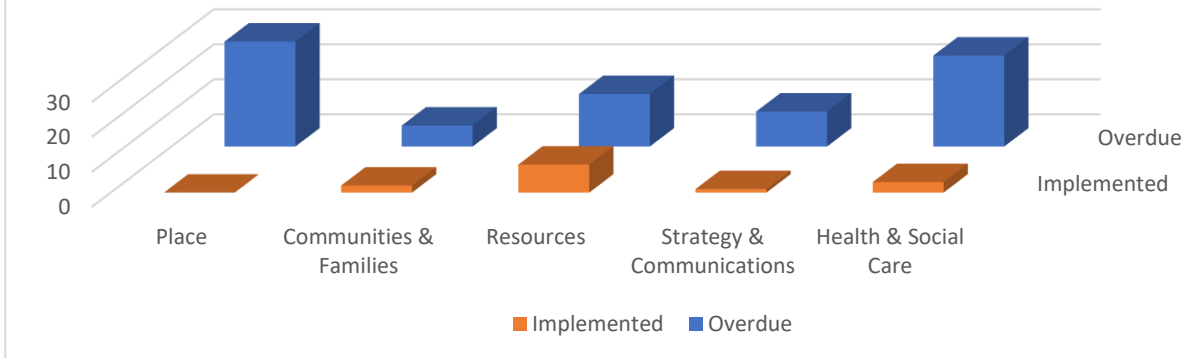
Areas where positive assurance was provided

- 4.5 Although some improvements were required, the Payments and Charges review used a combination of data analytics and sample testing to confirm that the majority of adult residential care home; licencing; and parking permit fees that generate circa £55M income annually for the Council were accurately calculated and applied.

Open and Overdue Internal Audit actions as at 23 September 2019

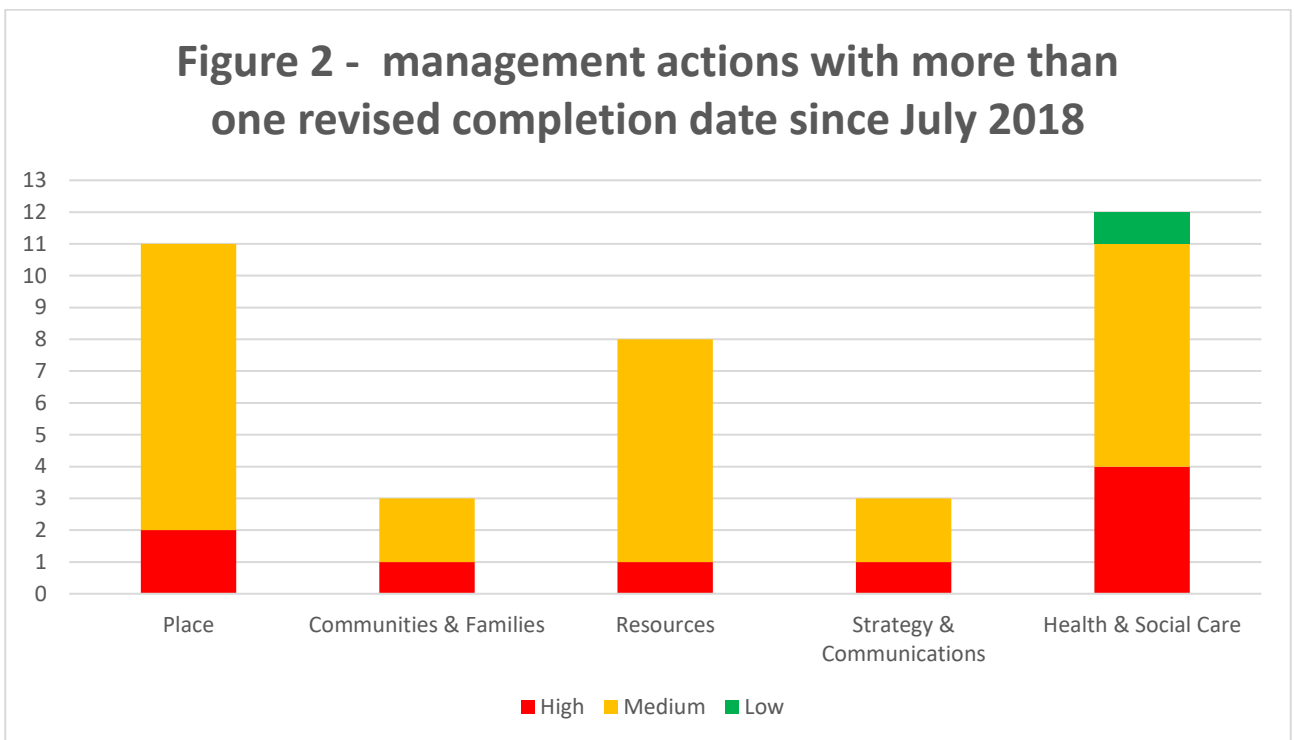
- 4.6 Figure 1 illustrates the allocation of the total of 87 overdue management actions between those where action is required 73 and the 14 that have been passed to IA for review across the directorates/divisions. As members of the Committee will note, the Resources Directorate continues to make positive progress with closing overdue actions.

Figure 1: Overdue and Implemented Management Actions by Directorate



4.7 Of these 37 management actions, 9 are associated with High rated findings, only one of which is the responsibility of the Resources Directorate, as detailed in Figure 2 below:

Figure 2 - management actions with more than one revised completion date since July 2018



4.8 In addition to these actions, which are deemed to be both open and overdue, there are a range of findings that are currently open but are not overdue. These continue to be tracked and managed by the Executive Director of Resources and the Resources Heads of Service.

5. Next Steps

- 5.1 The Resources Directorate is actively managing the response to the internal audit findings and progress against these is reviewed at the Corporate Leadership Team on a monthly basis. The Executive Director of Resources continues to hold Quarterly Performance and Assurance Meetings with the Resources Heads of Service and their direct reports to ensure that the timely completion, evidence and closure of internal audit actions remains a priority for all Divisions within the Directorate.

6. Stakeholder/Community Impact

- 6.1 As with all internal audit related findings, this report highlights that the Council is currently exposed to a level of risk that puts achievement of its objectives at risk and which could potentially impact services delivered and support provided to citizens, stakeholders, and community groups.

7. Background reading/external references

- 7.1 None.

8. Appendices

- 8.1 Appendix 1 - Audits Completed Between 1 April 2018 and 31 March 2019
8.2 Appendix 2 - Internal Audit Overdue Management Actions as at 23 September 2019

Appendix 1 – Audits completed between 1 April 2018 and 31 March 2019

Ref	Review Title	Report Outcome	No. of findings raised			
			High	Medium	Low	Totals
Council wide Audits						
1.	Contract Management and Construction Industry Scheme Payment Deductions	Significant Enhancements	2	-	-	2
2.	Validation	Significant Enhancements	2	-	1	3
3.	Financial System Access Controls	Significant Enhancements	1	-	-	1
4.	Emergency Prioritisation and Complaints – Customer Contact Centre	Generally Adequate	-	2	1	3
5.	GDPR (Gap Analysis) Follow-up	Generally Adequate	1	1	1	3
6.	IR35 and Right to Work	Generally Adequate	1	1	1	3
7.	Payments and Charges	Generally Adequate	-	5	-	5
8.	Organisational Change	Generally Adequate	-	1	-	1
	Totals		7	10	4	21
Resources Directorate Audits						
9.	Public Sector Cyber Action Plan for Cyber Resilience Review	Significant Enhancements	1	2	-	3
10.	Public Services Network (PSN) Accreditation	Significant Enhancements	2	1	-	3
11.	Certifications and Software Licencing	Significant Enhancements	2	-	-	2
12.	Implementation of Asset Strategy and CAFM system	Significant Enhancements	3	-	-	3
13.	Implementation of Facilities Management Service Level Agreement	Generally Adequate	1	-	-	1
	Totals		9	3	-	12

Appendix 2 - Internal Audit Overdue Management Actions as at 23 September 2019

Glossary of terms

- Project – This is the name of the audit report.
- Issue Type – This is the priority of the audit finding, categorised as Critical, High, Medium, Low and Advisory.
- Issue – This is the name of the finding.
- Status – This is the current status of the management action. These are categorised as Pending (the action is open and there has been no progress towards implementation), Started (the action is open, and work is ongoing to implement the management action), Implemented (the service area believe the action has been implemented and this is with Internal Audit for validation).
- Agreed Management action – This is the action agreed between Internal Audit and Management to address the finding.
- Estimated date – the original agreed implementation date.
- Revised date – the current revised date. **Red** formatting in the dates field indicates the last revised date is overdue.
- Number of revisions – the number of times the date has been revised post implementation of TeamCentral. **Amber** formatting in the dates field indicates the date has been revised more than once.

Ref	Project/Owner	Issue Type	Issue/Status	Agreed Management Action	Dates
1	Historic Unimplemented Findings MIS1601 - issue 1 Budgetary Impact	Medium	Recommendation 1 - Budgetary Impact Implemented	The repairs and maintenance budget for 2016/17 will be closely monitored as services are now procured direct from suppliers and an imbedded due diligence process has been developed. This will inform the budget setting process, but it should, however, be noted that this has historically been based on availability and not need.	Estimated Date: 31/03/2017 Revised Date: 29/06/2018 No of Revisions 1
2	Non-Housing Invoices Schedule of Rates	Medium	New non-housing contractor framework Implemented	The non-Housing contractor framework will be re-tendered during 2017. The inclusion of detailed best-value and due-diligence options will be considered as part of the process. This may include schedule of rates, gain share, penalties etc or a combination.	Estimated Date: 31/08/2017 Revised Date: 31/03/2019 No of Revisions 3
3	Non-Housing Invoices Availability of documentation	Medium	Computer Aided Facilities Management (CAFM) Implemented	It is anticipated that Computer Aided Facilities Management (CAFM) system will be in operational use (services being implemented on a rolling programme thereafter) in early 2017 with a non-Housing R&M implementation process in place for FY 2017/18	Estimated Date: 01/04/2017 Revised Date: 31/08/2018 No of Revisions 2

Ref	Project/Owner	Issue Type	Issue/Status	Agreed Management Action	Dates
4	Enterprise Resource Planning (ERP) MP1804 - Issue 3 ERP Detailed Project Plans	High	ERP Issue 3.1 - Finance: Claremont project plan Implemented	Detailed plans will be developed in collaboration with third party suppliers onboarding onto the programme and when they are engaged in delivery. Timelines for Claremont being engaged is subject to change, but indicative timeline is – 30 August 2019	Estimated Date:30/08/2019 Revised Date: No of Revisions0
5	Enterprise Resource Planning (ERP) MP1804 - Issue 3 ERP Detailed Project Plans	High	ERP Issue 3.2 - HR: Midland project plan Implemented	Detailed plans will be developed in collaboration with third party suppliers onboarding onto the programme and when they are engaged in delivery. Timelines for Midland HR being engaged is subject to change, but indicative timeline is – 31 July 2019	Estimated Date: 31/07/2019 Revised Date: No of Revisions 0

Ref	Project/Owner	Issue Type	Issue/Status	Agreed Management Action	Dates
6	<p>Planning and S75 Developer Contributions</p> <p>End to end developer contribution processes, procedures, and training</p>	High	<p>PL 1801 Iss 2 Rec 2.3(1) Legal agreements and rates</p> <p>Implemented</p>	<p>Legal Services has developed a contributions template for use by planning officers prior to the determination of an application where contributions are required. Planning will continue to work with Legal Services to refine and finalise the template. 1. Legal Services will develop a template which will contain a drop-down list of all information required to be filled in by Planning officers for every developer agreement, prior to a minded to grant status being issued by Planning.2. To ensure consistency, Legal Services will apply a revised hourly charge rate based on a blended rate of the charges made by existing external firms preparing developer contribution legal agreements.</p>	<p>Estimated Date: 01/07/2019</p> <p>Revised Date:</p> <p>No of Revisions 0</p>

Ref	Project/Owner	Issue Type	Issue/Status	Agreed Management Action	Dates
7	Property Maintenance Monitoring of outstanding jobs	Medium	Monitoring of outstanding jobs Implemented	The AS400 system does not allow recoding or reporting on completion until invoice stage. Contractors are already confirming when jobs complete to agreed Service Level Agreements (M&E in particular). This includes outstanding jobs. New contracts being procured will require all contracts to report on performance, but this is not anticipated to be complete until end 2017 by which time Computer Aided Facilities Management (CAFM) will also be in place. CAFM will support monitoring of outstanding works orders. In the meantime, as noted in Finding 2, an interim monitoring/tracking process has been developed for condition survey high risk/urgent items	Estimated Date: 31/12/2017 Revised Date: 31/05/2019 No of Revisions 4

Ref	Project/Owner	Issue Type	Issue/Status	Agreed Management Action	Dates
8	Cyber Security - Public Sector Action Plan RES1808: Issue 1: Critical Operational Cyber Security Controls	High	RES1808: Issue 1: Recommendation 4.1 - User access controls Implemented	CGI indicated that the full recommendations made by the external auditor could not be implemented without significant change to the contract and at a notable additional cost. CGI provided the Council and the External Auditors with details of the current oversight of the CGI Wintel and UNIX password policies. Current ongoing evidence of this oversight via the Security Working Group will be provided to external audit, a statement confirming the risk acceptance by the Executive Director of Resources will be prepared, approved, signed, and provided to Scott Moncrieff.	Estimated Date: 31/05/2019 Revised Date: No of Revisions 0

Ref	Project/Owner	Issue Type	Issue/Status	Agreed Management Action	Dates
9	Resilience BC Completion and adequacy of service area business impact assessments and resilience arrangements	High	Rec 12.2 Resources - Annual assurance from Third Party Providers Started	Assurance should be obtained annually for statutory and critical services from third party service providers that their resilience plans remain adequate and effective; and have been tested to confirm that the recovery time objectives for systems and recovery time and point objectives for technology systems agreed with the Council were achieved. Where this assurance cannot be provided, this should be recorded in Service Area and Directorate risk registers.	Estimated Date: 28/06/2019 Revised Date: 30/06/2020 No of Revisions 1
10	Enterprise Resource Planning (ERP) MP1804 - Issue 3 ERP Detailed Project Plans	High	ERP Issue 3.3a - Debt Management - draft project plan Started	Detailed plans will be developed in collaboration with third party suppliers onboarding onto the programme and when they are engaged in delivery. No supplier is in place for replacement of the debt management system. Draft project plan with key milestones and deliverables will be prepared for 30 August 2019	Estimated Date: 30/08/2019 Revised Date: 29/11/2019 No of Revisions 2

Ref	Project/Owner	Issue Type	Issue/Status	Agreed Management Action	Dates
11	Planning and S75 Developer Contributions Backlog of Legacy Developer Contributions	High	PL 1802 Recommendation 1.1 Review of developer contributions held in the Finance database Started	A full review of all developer contributions held in the Finance database will be performed, and all entries reconciled to amounts held on deposit and/or in the general ledger.	Estimated Date: 31/01/2016 Revised Date: 30/09/2020 No of Revisions 1
12	Asset Management Strategy Issue 1: Visibility and Security of Shared Council Property	Medium	Review of existing shared property Started	A review of the office estate is underway by the Operational Estates team to identify third party users and approach them to seek appropriate leases or licences to allow them to occupy the premises and ensure the Council is appropriately reimbursed.	Estimated Date: 31/10/2018 Revised Date: 31/08/2019 No of Revisions 2

Ref	Project/Owner	Issue Type	Issue/Status	Agreed Management Action	Dates
13	Asset Management Strategy Issue 1: Visibility and Security of Shared Council Property	Medium	Formalised rental agreements Started	The Operational Estates team are also reviewing third sector tenancies across the Operational Estate. This will require the collation of information directly from establishments (who have traditionally made direct arrangements with third parties), to capture all instances and formalise these arrangements. Given the size and complexity of this task, it is envisaged that this will take around two years to complete.	Estimated Date: 31/10/2018 Revised Date: 31/10/2019 No of Revisions 2
14	Asset Management Strategy Property and Facilities Management Data Completeness; Accuracy; and Quality	High	Property and Facilities Management Data Completeness; Accuracy; and Quality Pending	Current Computer Aided Facilities Management (CAFM) system users have access to the operational data they need in the system to perform their roles and are also updating the CAFM system with new data. Whilst the vision is to have all property data in CAFM, the volume of property data that could be captured and recorded is near infinite, therefore property data that will retained in CAFM has to be focused on the effort and cost to collect versus the value it provides. The CAFM Business Case includes requirement for a Data Quality Manager, who will be the responsible data steward for Property and Facilities Management (P&FM) data. Their role is not necessarily to collect the data but to ensure rigor and control over it. This will involve ensuring regular reviews of data within the system and ensuring that data is managed and maintained in line with the established CAFM data	Estimated Date: 31/03/2016 Revised Date: 31/03/2022 No of Revisions 1

Ref	Project/Owner	Issue Type	Issue/Status	Agreed Management Action	Dates
				<p>hierarchy and agreed Council information management policies and procedures.</p> <p>Sharing data steward responsibilities across services is problematic, as they hold responsibility and accountability for the data under their remit. It would be highly unlikely that a data steward from another service would want to take on the additional accountability of data from P&FM. We recommend that P&FM establish their own data steward.</p> <p>The CAFM Business Case includes the delivery of a Data Quality Strategy for P&FM. The objective of the data quality strategy is to attribute risk and value to the data maintained in the system. Additionally:</p> <ul style="list-style-type: none"> • data change processes and procedures that capture data processing and management in CAFM will be designed and implemented. • processes for reviewing data quality, for example, review of condition survey data run in tandem with review of property data every five years, will be designed and implemented. • data validation controls within CAFM will be applied; and • data quality audit controls for individual data fields available in CAFM will be applied, and audit reports run at an appropriate frequency to identify any significant changes to key data. 	

Ref	Project/Owner	Issue Type	Issue/Status	Agreed Management Action	Dates
15	Asset Management Strategy Property and Facilities Management Data Completeness; Accuracy; and Quality	High	Resolution of known data quality issues Pending	<p>A reconciliation of the two lists has been performed and there are no obvious discrepancies other than properties which are out with the scope of the survey team.</p> <ul style="list-style-type: none"> • The viability of establishing a referencing system for concessionary lets in the CAFM system will be explored. • The volume and value of known concessionary lets across the Council Estate will form part of the Annual Investment Portfolio update which is reported to the Finance and Resources committee. • There is an ongoing work stream looking at vacant and disposed properties and the systems updates required. 	<p>Estimated Date: 31/03/2016 Revised Date: 31/03/2022 No of Revisions 1</p>