

# Governance, Risk and Best Value Committee

10.00am, Thursday, 22 December 2016

## Internal Audit Quarterly Update Report: 1 July 2016 – 30 September 2016

Item number	7.1
Report number	
Executive/routine	
Wards	

### Executive summary

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Internal Audit has made reasonable progress in the first quarter of the audit year. This report provides details of the activity from 1 July 2016 – 30 September 2016.

### Links

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Coalition pledges	<a href="#">CP30</a>
Council outcomes	<a href="#">CO25</a>
Single Outcome Agreement	

## Internal Audit Quarterly Update Report: 1 July 2016 – 30 September 2016

### 1. Recommendations

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- 1.1 Committee is requested to note the progress of Internal Audit in issuing ten internal audit reports during the quarter and to note the areas of higher priority findings for reviews issued in this quarter.
- 1.2 Committee is requested to refer the report noted in Appendix 1 as potentially being of interest to the Audit and Risk Committee of the Edinburgh Integrated Joint Board (IJB) to that Committee.

### 2. Background

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- 2.1 Internal Audit is required to deliver an annual plan of work, which is scoped using a risk-based assessment of Council activities. Additional reviews are added to the plan where considered necessary to address any emerging risks and issues identified during the year, subject to approval from the relevant Committees.
- 2.2 Status of work and a summary of findings are presented to the Governance, Risk and Best Value Committee for consideration on a quarterly basis.

### 3. Main report

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#### **Audit Findings for the period**

- 3.1 Internal Audit has made reasonable progress in the first quarter of the audit year with 10 reports being issued for the quarter. These reports contain a total of eight High, nine Medium and 10 Low findings.
- 3.2 The status of outstanding recommendations from reports issued prior to this period is discussed in the report 'Internal Audit follow-up arrangements: status report from 1 July 2016 to 30 September 2016'.
- 3.3 Appendix 1 provides a summary of reports and the classification of findings in the period. A copy of all final reports is available to members.
- 3.4 Appendix 2 provides a summary of the High Risk findings and associated management actions.

## External assessment

- 3.5 The Public Sector Internal Auditing Standards that govern our activities requires that we undergo an external quality assessment every five years. In order to obtain this, the Internal Audit function has joined the 'Partnering Scheme' promoted by the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), which is a sub-group of CIPFA.
- 3.6 Under the SLACIAG scheme, we will be subject to an external assessment by the Chief Internal Auditor of North Lanarkshire, which has been scheduled for Q4 of the calendar year. This is an important mile stone in our development and as an organisation that is dedicated to continuous improvement, and while we would hope that the progress we have made over the last two years is recognised, we would be disappointed if this review did not identify areas for further development.
- 3.7 At the time of writing, the review remains in progress and the outcome is yet to be finalised therefore, will be reported in the next quarterly update.

## Half Year Key Performance Indicators (KPI's)

- 3.8 We report our KPI's to this Committee bi-annually. The end of September marked the end of the first half of the 2016/17 audit year. Our KPI's are currently tracking as follows:

KPI	Current status	H2 2015/16 status
<b>Staffing</b>		
Chief Internal Auditor & Principal Audit Managers to be professionally qualified		
Internal Audit training events to be held during the year		
<b>Operational</b>		
Audits outlined in the annual plan to be completed in the year initially planned		
Terms of Reference (ToRs) to be agreed for each audit before substantive field work commences		

Exit meetings to be held at the end of the fieldwork	Green	Green
Draft reports issued to management for comment within 2 weeks of the exit meeting	Green	Yellow
Management comments received within 2 weeks of draft report being issued	Red	Red
Recommendations agreed with management prior to issue of the final report	Green	Green
Final report issued within 1 week of final management comments being received	Green	Green
<b>Reporting</b>		
Status of recommendations to be tracked, with overdue high and medium grade recommendations being reported to the GRBV	Green	Green
<b>Wider Relationships</b>		
Average client satisfaction score for quality	Green	Green
Average client satisfaction score for efficiency	Green	Green
Average client satisfaction score for timing	Green	Green

We have included within Appendix 3 the half year KPI's for 2016/17.

- 3.9 We continue to experience difficulties in obtaining management comments within what is a challenging timescale. We have observed an improvement in the quality of management response with less re-work required but obtaining sufficiently timely response remains problematic.
- 3.10 The remaining indicators are tracking broadly in line with our expectations, with client feedback scores continuing to be particularly strong although we are noticing a lower response rate than was previously the case.

#### **4. Measures of success**

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- 4.1 Once implemented, the recommendations contained within these reports will strengthen the Council's control framework.

#### **5. Financial impact**

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- 5.1 None.

#### **6. Risk, policy, compliance and governance impact**

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- 6.1 If Internal Audit recommendations are not implemented, the Council will be exposed to the risks set out in the relevant detailed Internal Audit reports. Internal Audit recommendations are raised as a result of control gaps or deficiencies identified during reviews therefore overdue items inherently impact upon compliance and governance.
- 6.2 To mitigate the associated risks, the Committee should review the progress of Internal Audit and the higher classified findings, and consider if further clarification or immediate follow-up is required with responsible officers for specific items.

#### **7. Equalities impact**

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- 7.1 No full ERIA is required.

#### **8. Sustainability impact**

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- 8.1 None.

#### **9. Consultation and engagement**

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- 9.1 None.

#### **10. Background reading/external references**

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- 10.1 None.

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## Links

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<b>Coalition pledges</b>	CP30 - Continue to maintain a sound financial position including long-term financial planning
<b>Council outcomes</b>	CO25 - The Council has efficient and effective services that deliver on objectives
<b>Single Outcome Agreement</b>	
<b>Appendices</b>	Appendix 1 – Summary of Internal Audit report findings issued for period of 1 July 2016 – 30 September 2016. Appendix 2 – Summary of High Risk Findings and Management Actions for period of 1 July 2016 – 30 September 2016. Appendix 3 – 2016/17 Half Year KPI Results

## Summary of Internal Audit reports issued for period 1 July 2016 – 30 September 2016

Internal Audit reports				
Title of Review	High Risk Findings	Medium Risk Findings	Low risk Findings	Advisory Comment
Contract Management: Edinburgh Building Services and Housing Asset Management – PL1606	5	2	1	1
Infrastructure Inspections – PL1605	2	2	-	-
Review of Grant Management – CSE 1601	1	1	-	-
Licensing – PL1602	-	2	3	-
Service Level Agreements with Outside Entities – RES 1605	-	2	-	-
Internally Managed Investments (Lothian Pension Fund)– RES 1602	-	-	3	-
Carbon Reduction Reporting - MIS 1605	-	-	2	-
Port Facility Security Plan – MIS 1602	-	-	1	-
Implementation of 2017/17 savings – RES 1604#	-	-	-	-
Monitoring of Air Quality – PL 1604	-	-	-	-
<i>Total</i>	8	9	10	-

# This review may be of interest to members of the Audit & Risk Committee of the Edinburgh Integrated Joint Board and it is proposed that this review is referred to that Committee.

***City of Edinburgh Council***

**Internal Audit**

**Quarterly Summary of Critical/High Risk  
Findings and Management Actions**

**(1 July 2016 – 30 September 2016)**

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# Section 1 – Contract Management: Edinburgh Building Services and Housing Asset Management

PL 1606

## Total number of findings

	Critical	High	Medium	Low
<b>Total</b>	-	5	2	1

## Background

### *Edinburgh Building Services*

Edinburgh Building Services (EBS) is the Council's in-house building maintenance service. The services it delivers include:

- Repairs to council houses;
- Planned maintenance and renewals;
- Adaptations to allow tenants to remain in their home;
- Repairs to empty homes to bring them to a lettable standard; and
- Cyclical inspections including gas and lifts.

EBS has an internal workforce which is supplemented by external contractors where specialist skills and materials are required, or EBS do not have the capacity to do the job themselves. Contractor payments were £8.5m in 2015/16, against a projection of £4.5m, which was a reflection in part of the increased activity during the year, with around 10% more work being delivered than originally forecast, as well as limits on the capacity of the internal workforce due to overtime and recruitment freezes. EBS' overall expenditure for the year was 14% higher than budgeted, which was offset by the 10% increase in income from works recharged to the Housing Revenue Account. A surplus of £4.8m was reported for 2015/16 (budgeted surplus £5.1m).

The 32 external contractors used regularly by EBS are appointed under a framework agreement. The main term of these contracts ended on 31 March 2016, with contract extensions signed in May 2016 to allow time to procure the new framework contracts. EBS is also permitted to use contractors from the non-housing framework. There is minimal off-contract spend.

### *Housing Asset Management*

Housing Asset Management (HAM) delivers the capital programme for council housing. Its key activities include the kitchen and bathrooms replacement scheme, external fabric repairs, and energy projects delivered with Changeworks. HAM has a contract framework which was approved by the Finance and Resources Committee in March 2015. Due to the high value of many of its projects, HAM invites at least three framework contractors to tender for each project. The contract for each project is awarded in line with the Council's Contract Standing Orders.

Expenditure on the core capital programme for housing in 2015/16 was c. £39m.

### **Scope**

The scope of this review will be to assess the design and operating effectiveness of the Council's controls relating to contract management and quality assurance in Edinburgh Building Services. The sub-processes and related control objectives included in the review are:

- Appointment of contractors;
- Commissioning revenue and capital works;
- Contract monitoring;
- Quality assurance; and
- Management information.

### **Summary of High Risk Findings**

#### Allocation of works to contractors and authorisation of payments

A framework contractor can be instructed to undertake a job by any EBS team leader, surveyor or operations manager with no secondary authorisation required.

This is appropriate for most EBS repairs where a speedy response is required and the works are routine and low value. However:

- There is no threshold above which the allocation of work to an external contractor must be authorised by a senior officer;
- There is no limit on the value of payments which a team leader may authorise;
- Team leaders are permitted to authorise payment for work which they themselves instructed the contractor to complete.

As an illustration (and there were no concerns over this piece of work), there was one payment for £17,710 in our sample which was authorised by the senior surveyor who had instructed the contractor to complete those works. The original works order was created by Repairs Direct on the instructions of the senior surveyor with an estimated value below their £10,000 authorisation limit.

#### Scrutiny of invoices

All works procured under the framework contract should be ordered and invoiced using the schedule of rates agreed with the contractor. Team leaders should review all invoices received to confirm that the charges reflect the work commissioned and completed, and all work is charged according to the schedule of rates.

We reviewed a sample of 35 paid invoices which had been authorised by team leaders and identified:

- 8 invoices with no schedule of rates codes listed. It is unclear how the team leader authorising payment was able to verify that charges were accurate;
- A further 4 invoices which referred to a valuation certificate the team leader who authorised the payment was unable to provide;
- 4 invoices with no works order attached. The original works order should be attached to each invoice as evidence that the work billed was commissioned by EBS; and
- 7 invoices where billed items were not listed on the original works order. There was no evidence that the team leader had challenged these charges.

We were unable to reconcile any charges on the invoices to the schedule of rates provided by EBS.

#### Quality Assurance

Each team leader is expected to conduct 20 site visits a month. These site visits should cover both EBS operatives and sub-contractors in order to verify that work is being completed safely and to an acceptable standard.

Team leaders completed 1,344 site visits between April 2015 and March 2016, 49% of the target number of visits. This covers c. 1% of jobs completed in the year (127,000), and does not give sufficient data to monitor the quality of work completed by EBS and its contractors.

#### Repairs Direct

Requests for repairs from tenants and neighbourhood housing officers are placed through the Repairs Direct contact centre which is managed by Customer Services. Repairs Direct programme work directly or refer the request to a quality control officer if it is judged to be complex. Repairs Direct receive around 10,000 calls a month.

Repairs Direct has experienced significant resourcing difficulties in the past year, with the number of call handlers falling from 19 in April 2015 to 10 in April 2016. The sickness absence rate was 10% in April 2016.

This has had a noticeable impact on performance. Only 10% of calls from tenants were answered within 30 seconds in April 2016, against a target of 90% set out in the current SLA. This compares with 75% in April 2015. 33% of incoming calls were abandoned, compared to 6% in April 2015.

It should be noted that future targets will be set for the Contact Centre as a whole, and on implementation of the Transactional Services review the target will be 55% of all calls coming in to the Contact Centre to be answered within 30 seconds.

Housing Asset Management: Contract Monitoring

The contract framework for capital works was approved by the Finance and Resources Committee in March 2015. The committee report stipulated that key performance indicators would be used to measure the success of the framework, assessing service levels, quality, and health and safety and technical compliance. To date, contract monitoring arrangements have not been embedded and key performance measures have not been assessed for HAM contractors.

However, HAM has identified a number of performance issues through monitoring customer complaints. Two high value capital contracts have been terminated due to poor performance, and another contractor has had an Improvement Notice served. An Improvement Plan is now in place for this contractor and is monitored closely.

**Recommendations and Agreed Management Action for High Risk Findings**

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p><b>Allocation of works to contractors and authorisation of payment</b></p> <p><i>Commissioning works</i> A scheme of delegation should be agreed to establish authorisation limits for officers.</p> <p>We recommend that high value works are authorised by a second individual before an external contractor is instructed to complete the works.</p>	<p>Review current schemes of delegation for authorisation limits and authorisation of payments for repair ordering in Repairs Direct and Housing Property. This will include a secondary approval stage for orders and invoices of high value.</p> <p>The allocation of works process (assigning work to a procured contractor) will be reviewed and a robust system identified and embedded to ensure that an</p>	<p>30 September 2016</p> <p>30 September 2016</p>	<p>Complete</p> <p>Complete</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p><i>Authorisation of payments</i> A scheme of delegation should be agreed to establish authorisation limits for team leaders, operations managers and senior managers.</p> <p>We recommend that high value invoices are authorised by a second individual.</p> <p>Officers must not authorise payments for works which they themselves allocated to the contractor.</p>	<p>officer does not authorise the payment of any works which they ordered</p> <p>All staff involved in authorisation of work and payments will be trained in these new limits and processes.</p> <p>Role of compliance teams will be strengthened and include a percentage audit of authorisation processes and secondary approvals. Any anomalies will be reported to the Housing Property Manager.</p> <p>Contract Management Board meetings will be set up and held monthly, chaired by Housing Property Manager. These board meetings will scrutinise contract management across the service, for both revenue and capital works. A quarterly report will be brought to the Housing and Regulatory Services Senior Management Team.</p> <p><b>Responsible Officer:</b> Housing Property Manager</p>	<p>31 October 2016</p> <p>30 September 2016</p> <p>30 August 2016</p>	<p>Complete</p> <p>Complete</p> <p>Complete</p>

<b>Scrutiny of invoices</b>			
<p>Payments to contractors should only be made where it has been established that the agreed work has been completed, and has been billed at the contracted rate.</p> <p>We recommend that:</p> <ul style="list-style-type: none"> <li>• Invoices are rejected where there is no job ticket attached;</li> <li>• Invoices are rejected where the schedule of rates is not clearly applied; and</li> <li>• It is ensured that team leaders have the correct schedule of rates so they can check the accuracy of charges.</li> </ul>	<p>Letter will be sent to contractors re-iterating the requirement to comply with all aspects of invoice submissions. Where this is not complied with the invoice will be rejected.</p>	Complete	
	<p>SORs have been re-issued to contactors and Team Leaders</p>	Complete	
	<p>Variation to any works order will require to be agreed in advance of work being carried out. Any variation above a set financial limit will require sign off by Team Leader or Operations Manager, depending on the value. This will be communicated to contractors.</p>	30 September 2016	Complete
	<p>Process for authorisation of invoices will be reviewed ensuring clarity on authorisation limits, what information/documentation must be present for sign off, where invoices should be rejected.</p>	30 September 2016	Complete
	<p>All relevant staff will be retrained on revised procedures including SORs.</p>	31 October 2016	Complete
	<p>Random selection of invoices from each contractor will be investigated each month by the Compliance Team to ensure that agreed submission and authorisation processes are being followed. Any anomalies will be reported to the Housing Property Manager.</p>	31 October 2016	Complete
	<p>Contract Management Board meetings will be set up and held monthly, chaired by Housing Property Manager. These board meetings will scrutinise contract management across the service, for both revenue and capital works. A quarterly report will be</p>	30 August 2016	Complete

	<p>brought to the Housing and Regulatory Services Senior Management Team.</p> <p><b>Responsible Officer:</b> Housing Property Manager</p>		
<p><b>Quality Assurance</b></p> <p>The quality assurance framework should be reviewed to achieve a targeted approach with focus on areas identified as higher risk through analysis of customer feedback, value of work completed, and potential safety risk. This should include recorded site visits.</p>	<p>An improved Site Inspection Checklist has been devised, which includes a scoring framework for works.</p> <p>Site inspection will be targeted to contractors, and individual trades based on analysis of increased expenditure, customer feedback and any potential or reported safety risk or incidents. The programme will target 2% of jobs completed.</p> <p>Empty Homes and Kitchen and Bathroom inspections will be included as part of the quality assurance check process. This would provide an additional 2,500 inspections within the programme.</p> <p>All relevant staff will be trained on revised procedure.</p> <p>Independent Review of Gas Safety Processes and Standard of Work to be carried out.</p> <p>Contract Management Board meetings will be set up and held monthly, chaired by Housing Property Manager. These board meetings will scrutinise contract management across the service, for both revenue and capital works. A quarterly report will be brought to the Housing and Regulatory Senior Management Team.</p>	<p>Complete</p> <p>30 September 2016</p> <p>Complete</p> <p>31 October 2016</p> <p>Complete</p> <p>30 August 2016</p>	<p>Complete</p> <p>Complete</p> <p>Complete</p> <p>Complete</p>

	<p>Discussion will be held with Procurement Services on Housing Property being early adopters of revised corporate contract management processes.</p> <p><b>Responsible Officers:</b> Housing Property Manager</p>	30 August 2016	Complete
<p><b>Repairs Direct</b></p> <p>Customer Services should put in place a clear action plan with a view to achieving full compliance with the Service Level Agreement between EBS and Repairs Direct within an agreed timescale.</p> <p>Management should consider accelerating channel shift at Repairs Direct to increase the proportion of requests made online and reduce the pressure on staffing at the contact centre.</p>	<p>The recommendation to consider accelerating Channel Shift at Repairs Direct will be taken to Senior Managers in the Resources directorate.</p> <p>Performance measures set out in the SLA will be jointly scrutinised and monitored on a monthly basis.</p> <p>Staffing at Repairs Direct to be reviewed and additional staff put in place.</p> <p>Revised shift patterns to be implemented.</p> <p><b>Responsible Officers:</b> Operations Manager – Repairs Direct</p>	<p>Complete</p> <p>Complete</p> <p>Complete</p> <p>Complete</p>	
<p><b>Housing Asset Management: Contract monitoring</b></p> <p>Contract monitoring procedures should be established which include regular assessment of key performance indicators and performance meetings with contractors.</p>	<p>Bi monthly meetings will be held with contractors which will include review of KPI performance, quality of work, cost and safety.</p> <p>Capital contracts will be included in the remit of the Contract Management Board which will sit on a monthly basis, chaired by the Housing Property Manager. Reports on KPIs, quality, cost and safety will be reviewed by the contract management board so that any issues will be quickly identified and risk</p>	<p>30 August 2016</p> <p>30 August 2016</p>	<p>Complete</p> <p>Complete</p>

	managed appropriately. <b>Responsible Officers:</b> Housing Property Manager		
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Status of actions due will be validated by Internal Audit as part of the follow-up review process.

# Section 2 – Infrastructure Inspections

PL1605

## Total number of findings

	Critical	High	Medium	Low
<b>Total</b>	-	2	2	-

## Background

The Traffic and Engineering Maintenance service manages infrastructure such as bridges, flood prevention, coastal defence, reservoirs and structural schemes including new works, improvements, maintenance work, inspections and assessments.

### *Bridges*

The Council's bridge stock alone has a gross replacement value of £1,054m. Management of the bridge stock includes inspections, maintenance, assessments, strengthening of bridges, routing of abnormal loads, and maintaining accurate records of bridges. The Team also acts as the Technical Approval Authority for the Council in respect of road structures. In accordance with national guidance in the Design Manual for Roads and Bridges and the Council's own operational instructions, all bridges receive a General (visual) Inspection every 2 years. A Principal Inspection should be carried out every 6 years under the supervision of a chartered engineer. The period can be extended up to 12 years if a risk assessment is undertaken and documented.

### *Reservoirs*

Reservoirs are managed by the Flood Prevention Team who carry out routine inspections and undertake maintenance work on the six Council-owned reservoirs. The Council has a legal duty under the Reservoirs (Scotland) Act 2011 to register each of their reservoirs with the Scottish Environment Protection Agency (SEPA) and appoint panel engineers to undertake statutory monitoring and inspection.

### *Retaining Walls*

At present retaining walls adjacent to the road are not inspected or maintained. All repair work undertaken is reactive. This has been acknowledged as not being satisfactory and is recorded in the Transport – Traffic and Engineering Services Risk register at item TPR 38. A consultant is currently compiling an inventory of retaining walls greater than 1.5m in retained height. The consultant is also recording the condition of these walls. It is anticipated that the survey work and collation of data will be complete late summer 2016.

### **Scope**

The scope of this review was to assess the design and operating effectiveness of the CEC controls relating the inspection and maintenance of bridges, reservoirs and retaining walls. The sub-processes and related control objectives included in the review are:

- Inventory
- Inspection; and
- Maintenance & repairs.

### **Summary of High Risk Findings**

#### Principal bridge inspections

The Design Manual for Roads and Bridges states that a principal inspection should be carried out every 6 years. This is a close inspection, using specialist access equipment if necessary, supervised by a chartered engineer. The period between inspections can be extended up to 12 years if supported by a documented risk assessment.

Until 2015/16 there was not a programme of Principal Bridge Inspections (PBI) and unusual structures. PBIs have been undertaken on an ad hoc basis generally when a defect has been recognised or when a general inspection has identified the need for closer inspection.

The Maintenance team has now developed a risk-based plan for PBIs which details the 128 bridges that require inspection over a ten year period. However, it is noted that this programme has not been adhered to due to the limited staff resource and the inability to appoint consultants due to the need to make financial savings. At the date of audit, only two PBIs had been completed:

- 14 PBIs were programmed for 2015/16. One PBI is complete and another is ongoing. A principal inspection of George IV Bridge began in spring 2015, but has not yet reported as there have been issues in gaining access to parts of the structure.
- A further 14 PBIs are programmed for 2016/17. One PBI has been completed so far.

Accordingly 25 PBIs are now scheduled for completion by April 2017.

### Retaining walls

At present retaining walls adjacent to the road are not inspected or maintained. All repair work undertaken is reactive. This has been acknowledged as not being satisfactory and is recorded in the Transport – Traffic and Engineering Services Risk register at item TPR 38.

A consultant is currently compiling an inventory of retaining walls greater than 1.5m in retained height. The consultant is also recording the condition of these walls. It is anticipated that the survey work and collation of data will be complete late summer 2016.

At the time of audit, however, there is no complete record of retaining walls the Council is responsible for inspecting, their current condition, and the organisation or individual responsible for maintaining them.

The Council does not have an inspection or maintenance programme for retaining walls. No team currently has retaining walls within its remit.

### **Recommendations and Agreed Management Action for High Risk Findings**

<b>Recommendations</b>	<b>Agreed Management Actions</b>	<b>Target Date</b>	<b>Status of Actions Due</b>
<b>Principal bridge inspections</b>  Steps should be taken to address the backlog of PBIs, and PBIs identified as being required should be completed.  Once the results of a principal inspection are known, management should formulate and implement an action plan for the repair and maintenance of the bridges.	Tenders will be invited to commission consultants to undertake the 25 PBIs at an estimated cost of £200k which can partly be absorbed within the Roads, Structures & Flood Prevention Budget.	1 April 2017	Not due.
	Quantify the internal staff resource required to manage the Principal Bridge and Retaining Wall Inspections.	31 December 2016	Not due.
	Findings from the PBIs completed along with those from General Inspections will inform the Bridge Maintenance Programme. .  <b>Responsible Officer:</b> Roads, Structures & Flood prevention Manager	1 April 2017	Not due.



# Section 3 – Review of Grant Management

CSE 1601

## Total number of findings

	Critical	High	Medium	Low
<b>Total</b>	-	1	1	-

## Background

Council Outcome No. 20 for culture, sport and major events states “Edinburgh continues to be a leading cultural city where culture and sport play a central part in the lives and futures of citizens.” Strategic partnerships with third sector cultural organisations such as the Edinburgh International Festival are key to delivering this. The Culture & Sport Committee approved grant funding for 2015/16 consisting of:

Culture Grants	£4,403,405	35 organisations
Festival City Theatres Trust	£769,576	1 organisation
Art Development Project Funding	£37,496	2 funding streams
<i>Total grant funding</i>	<i>£5,210,477</i>	

We reviewed the application process and subsequent monitoring for a sample of 5 grants awarded for the 2015/16 financial year. We also reviewed monitoring of Festival City Theatres Trust, which is funded under a service level agreement. The total grant funding reviewed was £3,890,684 (75%) of the total value of culture grants awarded.

## Scope

The scope of this review was to assess the design and operating effectiveness of the Council’s controls relating to grant funding to culture and sport partners. The sub-processes and the related control objectives are:

- Awarding of grants;
- Partnership with recipients; and
- Transparency of the process and outcomes.

## **Summary of High Risk Finding**

### Conflicts of Interest

Conflicts of interest are difficult to define due to their inherent subjectivity and are often the subject of public scrutiny. The Culture and Sport Committee consists of 15 elected members. They approve grant funding to cultural organisations on an annual basis. A review of Companies House records and the Register of Interests found that ten of the elected members are current or recent directors of one or more of the funded organisations.

This could result in the perception of conflicts of interest as in effect, elected members are awarding grants to organisations that they are connected to and have an interest in.

The Councillors' Code of Conduct set by the Standards Commission for Scotland defines holding office in a company or voluntary organisation as a declarable non-financial interest (section 4.22). The Code states that an elected member must withdraw from the meeting room until any discussion or vote on an item where they have a declarable interest is concluded (section 5.7). The Code further advises that councillors should not accept a role or appointment if it would mean they frequently declare an interest at a particular committee on which they sit (section 5.22).

There is an exemption within the code (section 5.18–d) where the appointment has been approved by the councillor's local authority and the company or voluntary organisation was:

- i) Established wholly or mainly for the purpose of providing services to the councillor's local authority; and
- ii) Entered into as a contractual arrangement with that local authority for the supply of goods and/or services to that local authority

In such a case, the councillor is not required to withdraw from discussion or voting, but must declare their interest.

The Culture and Sport Committee approved grants to 36 cultural organisations on 8 March 2016. The 13 councillors present between them held 24 directorships on the boards of charities receiving grants. Only 9 interests in directorships were declared at the meeting. No councillors withdrew from the meeting. It is not clear to Internal Audit that the 9 interests declared were in organisations that would qualify for the section 5.18-d exemption.

## Recommendation and Agreed Management Action for High Risk Finding

Recommendation	Agreed Management Action	Target Date	Status of Actions Due
<p><b>Conflicts of interest</b></p> <p>In accordance with the Councillors' Code of Conduct, Councillors must declare an interest where they are a member or director of a public body, company, or other organisation. Unless the exemption discussed above applies, councillors must withdraw from the meeting room until discussion or voting on an item where they have a declarable interest. This includes scrutiny or funding of charities of which they are a director.</p> <p>To meet best practice governance standards, we recommend that councillors do not sit on Committees which award grants to and scrutinise the activity of charities of which they are a director.</p>	<p>Committee clerks will remind elected members at Committee meetings on the actions required on declaring interests and minimising the risk of potential conflicts of interest.</p> <p>Best practice governance arrangements will be highlighted to group leaders and a full briefing issued to all elected members covering this area of the Code of Conduct.</p> <p>Mandatory induction training for new elected members in May 2017 on these areas will be in place</p> <p><b>Responsible Officer:</b> Head of Corporate Strategy &amp; Insight and the Governance &amp; Democratic Senior Manger</p>	<p>1 August 2016</p> <p>30 September 2016</p> <p>30 June 2017</p>	<p>Complete</p> <p>Complete</p> <p>Not due.</p>

Status of actions due will be validated by Internal Audit as part of the follow-up review process.

## Internal Audit -KPIs for H1 2016/17

KPI	Target Level	Current status	H2 2015/16 status	Comments
<b>Staffing</b>				
Chief Internal Auditor & Principal Audit Managers to be professionally qualified	100%	100%	100%	
Internal Audit training events to be held during the year	2	1	4	A learning seminar event was held on 14 September. A further 5 seminar events and a full day soft skill training event, are planned over the winter. These are in addition to the informal 'on the job learning that occurs in our routine day to day activities.
<b>Operational</b>				
Audits outlined in the annual plan to be completed in the year initially planned	90%	31% - see comments	88%	<p>Excluding Continuous Testing and the Schools Assurance project, the 2016/17 audit plan contained 38 identified audits, 4 unplanned audits and 3 audits held for the Edinburgh IJB (a total of 45 audits). As at 30 September 14 audits had been completed and 15 were in progress. The remaining 16 had yet to commence.</p> <p>We have an out-put bias toward the second half of the year due to the anticipated lower productivity in the Summer (holiday) period and greater levels of PwC Specialist support scheduled for H2.</p> <p>We would however have hoped to have made greater progress to date and while the 90% target is, based on our current planning, still achievable, there is a risk that we may not be able to close out all the planned audits by the end of the year.</p>
Terms of Reference (ToRs) to be agreed for each audit before substantive field work commences	100%	100%	100%	
Exit meetings to be held at the end of the fieldwork	100%	100%	100%	
Draft reports issued to management for comment within 2 weeks of the exit meeting	90%	93%	83%	We find more complex or controversial reports harder to turn round within the targeted timescale due to audit findings receiving a greater degree of challenge at the exit meeting stage.
Management comments received within 2	90%	43%	46%	We continue to experience difficulties in obtaining management

weeks of draft report being issued				comments within what is a challenging timescale. We have observed an improvement in the quality of management response with less re-work required but obtaining sufficiently timely response remains challenging.
Recommendations agreed with management prior to issue of the final report	100%	100%	100%	
Final report issued within 1 week of final management comments being received	80%	100%	96%	
<b>Reporting</b>				
Status of recommendations to be tracked, with overdue high and medium grade recommendations being reported to the GRBV	100%	100%	100%	
<b>Wider Relationships</b>				
Average client satisfaction score for quality	3.5	4.9	4.9	Our client satisfaction survey works on a 1-5 scoring system (5 being highest)
Average client satisfaction score for efficiency	3.5	4.9	4.8	
Average client satisfaction score for timing	3.5	4.9	4.7	

NB: The KPI results exclude Continuous Testing & the Schools Assurance programme (other than the Wider Relationships section which includes Continuous Testing reports) as a consequence of their differing natures to core internal audit reports. These items follow different pathways that do not map to these KPIs.