Internal Audit Report

Contractors in Schools

20 July 2026

CEJ2505

Overall Assessment	Limited Assurance

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This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2025/26 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2025. 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 Global Internal Audit Standards (UK Public Sector) 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 Assessment	Limited Assurance

Engagement conclusion and summary of findings

Significant gaps, weaknesses or non-compliance have been identified in the process for the oversight and management of off-payroll contractors. Improvement in the system of governance, risk management, and control is required to effectively manage risks:

- all relevant stakeholders should be invited to attend Review Panel meetings until issues with the authorisation and oversight of contractors are resolved
- the Review Panel process should be enhanced by reviewing copies of key documentation to provide assurance that all elements of Council policy have been complied with
- current and residual risk assessment should always be recorded
- Education Services and HR should work collaboratively to review the process for the payment of off-payroll workers, to further enhance the effectiveness of controls
- a formal Service Level Agreement should be introduced which sets out the responsibilities of HR and relevant individual service areas in relation to their respective roles for contractors in schools management
- Education Services should engage with Finance to resolve the timeliness issues with financial monitoring reports
- all Directorates should review the controls they have in place to ensure off-payroll contractors are being managed and monitored adequately and consistently
- lessons learned from the investigation carried out by Education Services should be shared with all key individuals in the other Council Directorates to support awareness raising and continuous improvement.

Areas of effective practice

- risks associated with contractors in schools were reported to the Corporate Leadership Team, and are captured on the Commissioning Service and Performance, Quality and Improvement Service Risk Registers
- contractors with digital access identified by the investigation were risk assessed and deleted in phases in a timely manner, requiring schools to request approval for all current and future contractor accounts
- communications with the 124 schools included new process maps and checklists, and were clear and concise.

Overall management response

Children, Education and Communities directorate acknowledges that the risk associated with the limited controls on school contractors must be terminated.

When the concern was identified, Performance Quality and Improvement service, in collaboration with Digital Services, Information Governance and Education took immediate to action to reduce the risk. The Directorate will continue to prioritise the identification of a long-term, permanent solution in line with a corporate process which ensures fairness and accountability.

In addition, a review of controls for off-payroll contractors will be undertaken across the Council to identify potential areas for improvement.

Audit Assessment

Audit Area	Control Design	Control Operation	Findings	Priority Rating
Risk Management			See Finding 1	See Finding 1
Resolution of Investigation Issues			Finding 1 – Review Panel Process	High Priority
			Finding 2 – Payments to Contractors	Medium Priority
Governance and Oversight			Finding 3 – Contractor Payment Monitoring	Medium Priority
Lessons Learned		N/A*	Finding 4 – Corporate Oversight of Off-Payroll Contractors	High Priority
Information Governance			No issues Identified	N/A
Service Level Agreements		N/A*	See Finding 2	See Finding 2

*Control not tested due to ineffective design.

See Appendix 1 for Control Assessment and Assurance Definitions

Background and scope

In 2022, following a review of the Learning and Teaching Active Directory, officers within Children, Education & Communities (CE&C) raised concerns over the management of off-payroll contractors within schools. These concerns related to potential lack of governance around safeguarding, data protection, IT security, and financial regulations. No further investigation work was undertaken by the service at that time.

Following the appointment of the new Service Director for Education in 2025, Education Services identified that these concerns had not been resolved. A directorate-led audit of off-payroll workers and associated ICT contractor accounts followed in July 2025 to ensure that Council policies were being adhered to.

The Digital Education Team generated an initial report to understand the scale and the scope of the audit, which showed that approximately 500 Learning and Teaching accounts had been set up by schools without full consideration of all Council governance requirements:

- data protection considerations including access to Council systems by third-party contractors
- contracting arrangements, including compliance with procurement policies, demonstration of best value, and disclosure arrangements for contractors working in schools.

A report was presented to the Corporate Leadership Team (CLT) in September 2025, which included an action plan to treat the risk associated with the 500 contractor accounts, and sought approval to commission an independent investigation to further assess the implications on safeguarding, data protection, recruitment, insurance, procurement, and financial regulations. It was at this time that Internal Audit became aware of the issues and suggested that auditors undertake focused audit work in this area. Previous internal audits have highlighted risks in areas such as PVG, IR35, and contract management arrangements.

Details on IR35 – off payroll working is provided in Appendix 3.

Scope

This internal audit sought to confirm that adequate actions had been taken to address the risk of using off-payroll workers and contractors, and that lessons learned had been captured to ensure issues are fully resolved and to prevent reoccurrence.

Alignment to Risk and Business Plan Outcomes

The review also considered assurance for the following CLT risk categories:

- Regulatory and Legislative Compliance
- Health and Safety (including Public Safety)
- Governance and Decision Making
- Financial and Budget
- Technology and Information
- Fraud and Serious Organised Crime
- Reputational
- Supplier Contract and Partnership Management.

Business Plan Outcomes:

- attainment, achievement, and positive destinations are improved for all with a particular focus on poverty
- the Council has the capacity, skills, and resources to deliver its priorities efficiently, effectively and at lower cost.

Limitations of Scope

The audit covered work performed in the Children, Education and Communities Commissioning Team, but not central functions such as Procurement and Information Governance, or other Directorates within the Council.

Reporting Date

Testing was undertaken between 12 January 2026 and 11 February 2026.

Audit work concluded on 20 April 2026, and the findings and opinion are based on the conclusion of work as at that date.

Findings and Management Actions

Finding 1 – Review Panel Process

Finding Rating	High Priority

The new process designed to address the gaps in controls identified by the investigation of off-payroll contractors in schools requires schools to request central approval for the appointment of contractors and systems access using a digital form. All off-payroll contractors and external parties who require IT access are within the scope of this new process. Request forms are reviewed by a cross-Directorate Review Panel (the Panel) comprising Education, Commissioning, Digital, and Information Governance. The Panel makes recommendations to the Education Management Team (EMT) to approve or reject.

Approval of contractors

No contractor should be engaged without prior approval. Schools continue to engage contractors without these authorisations, as evidenced by a sample of 6 payments selected from financial monitoring reports (see Finding 2) which identified 3 contractors who were not approved by the Panel.

Review Panel attendance

Currently the Panel has representation from Education Operations, the Digital Education Team, the Commissioning Team, and the Information Governance Unit (IGU). However, while Commissioning and Procurement work closely together, there is no attendance from Procurement or Payroll. Until issues with the new process are resolved, guidance from all relevant teams may be required.

Submission of documentary evidence

The request form requires schools to confirm all elements of Council policy have been considered, such as informing the relevant Head of Education, completing Disclosure Scotland checks, ensuring compliance with the Council's Contract Standing Orders, and assessing IR35 tax implications. However, although there is a requirement for schools to confirm that appropriate checks have been performed and provide documentary evidence, this has not occurred. There is no evidence of IR35 assessments, PVGs or contractual documentation having been submitted when requested by the Panel.

Additionally, IGU confirmed that, as of March 2026, no Data Protection Impact Assessments (DPIAs) had been received from schools in relation to requests to the Panel.

Risk assessments

The new process requires current risk to be assessed by the Panel when requests are reviewed, and residual risk to be assessed following EMT decision. 24 out of 27 requests reviewed did not have the risk assessed and recorded at the appropriate stages.

Risks

- **Regulatory and Legislative Compliance** – with limited evidence available centrally, there is reduced assurance that the Council is adhering to legislation
- **Health and Safety (including Public Safety)** – contractors pose a risk to employees and children in schools if not properly vetted
- **Governance and Decision Making** – not all risks associated with contractors are considered in decision making
- **Fraud and Serious Organised Crime** – conflicts of interest, fraud, and serious organised crime could go undetected if appropriate checks are not completed prior to contractors being appointed
- **Reputational –** unapproved contractors pose a risk to the reputation of the Council if appropriate due diligence is incomplete
- **Supplier Contract and Partnership Management –** there is a reduced ability to resolve quality issues with the delivery of services if formal agreements are not in place, and with the appropriate due diligence completed.

Recommendations and Management Actions: Review Panel Process

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
1.1	Consideration should be given to whether HR, Procurement, and any other relevant stakeholders should be invited to attend Review Panel meetings until issues with the authorisation of contractors are resolved.	The Review Panel will continue to be held weekly until a corporate process is implemented. Terms of Reference will be updated to validate core membership in addition to IGU, Commissioning, Education, Digital Services.	Corporate Director Children, Education, and Communities	Strategic Planning & Commissioning Manager Operations Manager Education	31/12/2026
1.2	Due diligence performed by the Review Panel should be enhanced to evidence that the checklist has been completed by schools before any decision is made. This should include obtaining and reviewing copies of key documentation to provide assurance that all elements of Council policy have been considered, including: • best value assessment / confirmation that no options available via existing frameworks • DPIAs • proposed works order / contracts and agreements • evidence/outcomes of disclosure checks • compliance with procurement and financial thresholds • fraud prevention (e.g. conflicts of interest, and bribery) • IR35 tax compliance assessment • formal approval from the Corporate Director or a delegated officer.	Terms of Reference will include the mandatory requirement to submit evidence.		Strategic Planning & Commissioning Manager Operations Manager Education	30/12/2026
1.3	The current and residual risk assessment should be recorded for all requests from schools at the appropriate stages of the process.	Any residual risk will be assessed by the Review Panel and action taken where appropriate		Strategic Planning & Commissioning Manager Operations Manager Education (Risk)	30/09/2026

Finding 2 – Payments to Contractors

Finding Rating	Medium Priority

Schools submit Off-Payroll Worker (OPW) claim forms to HR for processing via the monthly OPW payroll run. These forms should be approved by school budget holders and accompanied with relevant invoices.

OPW Claim Form processing

For a sample of 6 payments made to OPWs in February 2026, the following issues were noted:

- where employees have two roles within the Council (requiring one payroll number for tax purposes), payments were not split into the relevant categories, leading to data which is difficult to analyse
- 2 out of 6 schools submitted an older form titled "Miscellaneous Fees Payroll" which did not capture all the requirements of the new process
- the 'IR35 assessment' and related fields were not confirmed as complete by schools on any of the 6 forms.

In addition, HR are not provided with a list of approved contractors and so do not know if payments are being made to contractors not authorised by the Council.

Service Level Agreements

HR are responsible for processing the monthly OPW payroll run, but there is no Service Level Agreement in place between HR and the requesting services setting out the services covered, the key decision makers, roles and responsibilities, approvals and authorisations, and change management arrangements.

Risks

- **Regulatory and Legislative Compliance** – if non-compliance is only captured at the payment stage, the Council could face legal challenge for non-payment for services provided
- **Fraud and Serious Organised Crime** – fraud and serious organised crime could go undetected if appropriate checks are not completed prior to contractors being paid
- **Reputational –** if the Council does not pay contractors accurately and on time, contractors may stop providing services
- **Reputational –** non-competitive engagement of contractors, or payments exceeding internal salary rates, could lead to dissatisfaction amongst colleagues and the public.

Recommendations and Management Action Plan: Payments to Contractors

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
2.1	Education Services and HR should work collaboratively to review the process for the payment of off-payroll workers, including: • whether HR should be provided with a regularly updated list of all approved off-payroll workers	HR, Education and Commissioning will agree an interim process to ensure accuracy and transparency which will take into consideration the development of a corporate process.	Corporate Director Children, Education, and Communities,	Strategic Planning & Commissioning Manager Operations Manager Education	30/12/2026

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
	• efficient checks and balances which confirm the appropriateness of payments without delaying the release of payments • consideration for whether Education Services should review OPW Claim Forms submitted by schools to identify issues and training needs prior to any payments being processed • consideration for requiring central Education Services to authorise OPW Claim forms until such time as issues are resolved.				
2.2	A formal Service Level Agreement should be documented, agreed and communicated which sets out the responsibilities of HR and individual service areas with regard to OPW Payroll and contractor payments and, requiring formal change management when procedures change.	This will be considered alongside recommendation 4.1.	Chief Executive	Operations Manager, Chief Executive's Office	30/04/2027

Finding 3 – Contractor Payment Monitoring

Finding Rating	Medium Priority

The Commissioning Team retrospectively monitor payments made to contractors in order to identify any contractors who have not been properly approved, and payments that breach procurement thresholds as set out in Council's Contract Standing Orders. These reports are provided by Finance.

For breaches and non-compliance to be identified effectively, the frequency of preparation and review of the financial monitoring report is vital. The first iteration of monitoring was performed for the 6 months to November 2025, and was completed in January 2026, with further monitoring completed in March 2026 for data available to February 2026. There was therefore a gap of 3 months between the two reports.

Risks

- **Regulatory and Legislative Compliance** – non-compliance may go undetected if monitoring is not sufficiently frequent
- **Governance and Decision Making** – ineffective decision making could occur if information is not available in a timely manner
- **Financial and Budget** – payments may be made to unauthorised contractors, and financial thresholds may be breached
- **Fraud and Serious Organised Crime** – fraud may be detected too late to take corrective action.

Recommendations and Management Actions: Contractor Payment Monitoring

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
3.1	Education Services should engage with Finance to resolve the timeliness issues with retrospective financial monitoring reports, and to discuss the frequency with which reports are produced. Reporting should be completed at the earliest opportunity to allow timely analysis and action.	The Commissioning Team will engage with Finance to ensure timely reporting of OPW.	Corporate Director Children, Education, and Communities	Strategic Planning & Commissioning Manager Principal Accountant	31/03/2027

Finding 4 – Corporate Oversight of Off-Payroll Contractors

Finding Rating	High Priority

HR have confirmed that the Council also engages off-payroll contractors in the Chief Executive's Office, Customer and Corporate Services, Place, and the Health and Social Care Partnership. The risks relating to off-payroll contractors are therefore not exclusive to Children, Education, and Communities.

Lessons learned from the Education Services investigation, and implementation of the new process have not yet shared with the other Directorates who engage off-payroll contractors across the Council.

Risks

- **Regulatory and Legislative Compliance** – off-payroll contractors are engaged in other Directorates but there is no central assurance that Council and legislative requirements are being met
- **Governance and Decision Making** – decisions relating to off-payroll contractors in other Directorates may not be considering all risks, and so impair effective decision making
- **Fraud and Serious Organised Crime** – conflicts of interest, fraud, and serious organised crime could go undetected if appropriate checks are not completed prior to contractors being paid.

Recommendations and Management Actions: Corporate Oversight of Off-Payroll Contractors

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
4.1	All Directorates should review the controls they have in place to ensure off-payroll contractors are being managed and monitored adequately and consistently to achieve desired outcomes, and in compliance with relevant policies and procedures.	A review of controls for off-payroll contractors will be undertaken across the Council. If areas for improvement are identified, these will be considered corporately.	Chief Executive	Operations Manager, Chief Executive's Office	30/04/2027
4.2	Lessons learned from the investigation carried out by Education Services on off-payroll contractors should be shared with all key individuals in the other Council Directorates.	The lessons learned will be shared with the Head of Democracy and Governance, Service Director for HR and Head of Procurement to consider whether improvements to the Council's governance processes are required.	Chief Executive	Operations Manager, Chief Executive's Office	30/12/2026

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.

Appendix 2 – Areas of Audit Focus and Control Objectives

Audit Areas	Control Objectives
Risk Management	• risks related to use of off-payroll contractors are identified, recorded and managed within a service risk register, and regularly reviewed to ensure appropriate mitigating actions are in place and remain effective, with escalation to divisional and directorate level risk committees where required. This includes consideration of fraud and serious organised crime related risks.
Resolution of Investigation Issues	• a full list of the issues identified in the investigation of off-payroll contractors has been documented • an action plan has been documented to track resolution of all issues identified with a clear statement on actions to be taken, responsible officers, and deadlines - using SMART principles • there is oversight of the action plan by officers and an appropriate governance forum to ensure all actions are implemented fully in a timely manner.
Lessons Learned	• there is a clear understanding of the root causes of all issues • the relevant controls have been reviewed and updated to reflect the root causes, and help ensure such issues do not reoccur, including roles and responsibilities, scheme of delegation, training arrangements, and communications • there has been clear communication to schools and other relevant officers to reinforce the requirement to comply with all controls, and to conform with relevant Council policies and procedures • robust training is available and monitored to ensure all responsible officers understand their roles and responsibilities.
Governance and Oversight	• a central process has been designed, documented, and communicated to all responsible officers to monitor and capture off-payroll contractors in schools, and to ensure that all relevant Council policies and procedures is being followed.
Information Governance	• information governance risks for off-payroll contractors are clearly understood, and effective controls have been established to ensure adherence to relevant Council policies and procedures.
Service Level Agreements and service standards	• where services are provided by another Council area, team or third party to support off-payroll contractors, there is a service level agreement in place which sets out the types or services provided, relevant service requirements, timescales and performance requirements.

Appendix 3 – Off-payroll Working (IR35)

IR35 - off-payroll working rules, is intended to ensure that individuals providing services through an intermediary such as a personal service company, but work in a similar way to an employee, pay broadly the same Income Tax and National Insurance contributions as employees. This is particularly relevant where schools engage individuals or small companies directly including arrangements described as consultancy, self-employment or contracted service arrangements. Whether IR35 applies depends on the substance of the engagement and the actual working practices, rather than how the work is described. As a public authority, the Council is responsible for assessing and documenting the employment status, establishing contractual arrangements and ensuring that required PVG checks are completed before individuals undertake regulated roles with children.