

Public Document Pack



To: Councillor Flynn, Convener; Councillor Yuill, Vice Convener; and Councillors Allard, Duncan, Graham, Lumsden, Avril MacKenzie, Reynolds and Townson.

Town House,
ABERDEEN, 18 September 2018

AUDIT, RISK AND SCRUTINY COMMITTEE

The Members of the **AUDIT, RISK AND SCRUTINY COMMITTEE** are requested to meet in **Committee Room 2 - Town House** on **TUESDAY, 25 SEPTEMBER 2018 at 2.00 pm.**

FRASER BELL
CHIEF OFFICER - GOVERNANCE

B U S I N E S S

DETERMINATION OF URGENT BUSINESS

- 1.1 Members are requested to determine whether any urgent business be considered

DETERMINATION OF EXEMPT BUSINESS

- 2.1 Members are requested to determine that any exempt business be considered with the Press and Public excluded

DECLARATIONS OF INTEREST

- 3.1 Members are requested to intimate any declarations of interest (Pages 5 - 6)

REQUESTS FOR DEPUTATION

4.1 There are no requests at this time

MINUTE OF PREVIOUS MEETING

5.1 Minute of Previous Meeting of 26 June 2018 (Pages 7 - 14)

COMMITTEE BUSINESS PLANNER

6.1 Committee Business Planner (Pages 15 - 22)

NOTICE OF MOTION

7.1 There are none at this time

FINANCE, PERFORMANCE RISK AND SERVICE WIDE ISSUES

Performance and Improvement

8.1 Information Governance Annual Statement 2017-2018 - GOV/18/072 (Pages 23 - 52)

8.2 Corporate Risk Register - GOV/018/076 (Pages 53 - 84)

8.3 RIPSA Annual Report - GOV/18/073 (Pages 85 - 120)

8.4 ALEO Assurance Hub - GOV/18/075 (Pages 121 - 158)

8.5 Fleet and MOT Issues - OPE/18/127 (Pages 159 - 206)

8.6 Scottish Public Services Ombudsman Decisions and Inspector of Crematoria Complaint Decisions - CUS/18/081 (Pages 207 - 216)

Control Environment and Assurance - Internal

8.7 Internal Audit Progress Report - IA/18/016 (Pages 217 - 232)

8.8 Timesheets and Allowances - IA/AC1909 (Pages 233 - 248)

8.9 General Data Protection Regulations - IA/AC/1904 (Pages 249 - 262)

- 8.10 Universal Credit and Housing Rent - IA/AC1909 (Pages 263 - 274)
- 8.11 Debtors System - IA/AC1902 (Pages 275 - 290)
- 8.12 VAT - IA/AC1906 (Pages 291 - 300)
- 8.13 Creditors Payments - IA/AC1901 (Pages 301 - 312)
- 8.14 Fixed Asset Register - IA/AC1823 (Pages 313 - 324)
- 8.15 Stores Purchasing - IA/AC1829 (Pages 325 - 336)

Control Environment and Assurance - External

- 8.16 External Audit Annual Report (Pages 337 - 358)
- 8.17 Audit Scotland's Report on Councils' Use of Arm's Length Organisations - GOV/18/078 (Pages 359 - 410)
- 8.18 Accounts Commission - Local Government in Scotland Challenges and Performance 2018 - GOV/018/077 (Pages 411 - 422)

Control Environment and Assurance – Audit Follow Up

- 8.19 Follow up on Agreed Internal Audit Recommendations - GOV/18/171 (Pages 423 - 436)
- 8.20 Internal Audit Follow Up on Agreed Recommendations - AI/18/015 (Pages 437 - 476)

EXEMPT/CONFIDENTIAL BUSINESS

- 9.1 Corporate Investigation Team Annual Report 2017/18 (Pages 477 - 498)

EHRIA's related to reports on this agenda can be viewed at
[Equality and Human Rights Impact Assessments](#)

To access the Service Updates for this Committee please use the following link:
<https://committees.aberdeencity.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13450&path=0>

Website Address: www.aberdeencity.gov.uk

Should you require any further information about this agenda, please contact Karen
Finch, tel 01224 522723 or email kfinch@aberdeencity.gov.uk

Agenda Item 3.1

You must consider at the earliest stage possible whether you have an interest to declare in relation to any matter which is to be considered. You should consider whether reports for meetings raise any issue of declaration of interest. Your declaration of interest must be made under the standing item on the agenda, however if you do identify the need for a declaration of interest only when a particular matter is being discussed then you must declare the interest as soon as you realise it is necessary. The following wording may be helpful for you in making your declaration.

I declare an interest in item (x) for the following reasons

For example, I know the applicant / I am a member of the Board of X / I am employed by...
and I will therefore withdraw from the meeting room during any discussion and voting on that item.

OR

I have considered whether I require to declare an interest in item (x) for the following reasons however, having applied the objective test, I consider that my interest is so remote / insignificant that it does not require me to remove myself from consideration of the item.

OR

I declare an interest in item (x) for the following reasons however I consider that a specific exclusion applies as my interest is as a member of xxxx, which is

- (a) a devolved public body as defined in Schedule 3 to the Act;
- (b) a public body established by enactment or in pursuance of statutory powers or by the authority of statute or a statutory scheme;
- (c) a body with whom there is in force an agreement which has been made in pursuance of Section 19 of the Enterprise and New Towns (Scotland) Act 1990 by Scottish Enterprise or Highlands and Islands Enterprise for the discharge by that body of any of the functions of Scottish Enterprise or, as the case may be, Highlands and Islands Enterprise; or
- (d) a body being a company:-
 - i. established wholly or mainly for the purpose of providing services to the Councillor's local authority; and
 - ii. which has entered into a contractual arrangement with that local authority for the supply of goods and/or services to that local authority.

OR

I declare an interest in item (x) for the following reasons.....and although the body is covered by a specific exclusion, the matter before the Committee is one that is quasi-judicial / regulatory in nature where the body I am a member of:

- is applying for a licence, a consent or an approval
- is making an objection or representation
- has a material interest concerning a licence consent or approval
- is the subject of a statutory order of a regulatory nature made or proposed to be made by the local authority.... and I will therefore withdraw from the meeting room during any discussion and voting on that item.

This page is intentionally left blank

AUDIT, RISK AND SCRUTINY COMMITTEE

ABERDEEN, 26 June 2018. Minute of Meeting of the AUDIT, RISK AND SCRUTINY COMMITTEE. Present:- Councillor Flynn, Convener; Councillor Yuill, Vice-Convener; Councillor Donnelly, the Depute Provost (as substitute for Councillor Lumsden); and Councillors Graham, Avril MacKenzie, McLellan (as substitute for Councillor Allard), Malik (as substitute for Councillor Duncan), Reynolds and Townson.

The agenda and reports associated with this minute can be found at:-
<https://committees.aberdeencity.gov.uk/ieListDocuments.aspx?CId=507&MId=6257&Ver=4>

Please note that if any changes are made to this minute at the point of approval, these will be outlined in the subsequent minute and this document will not be retrospectively altered.

MINUTE OF PREVIOUS MEETING OF 8 MAY 2018

1. The Committee had before it the minute of its previous meeting of 8 May 2018.

The Committee resolved:-

to approve the minute as a correct record.

COMMITTEE BUSINESS PLANNER

2. The Committee had before it the Business Planner as prepared by the clerk.

The Committee resolved:-

- (i) in relation to items 9 (Creditors Payments) and 11 (Stores Purchasing) to note that the Chief Internal Auditor advised that the draft reports had been issued to the Service and provided assurance that the outstanding reports would be presented to the meeting of this Committee on 25 September 2018;
- (ii) in relation to item 16 (Corporate Investigation Team – Annual Fraud Report), to note that there was an acknowledgement of staff shortages which had impacted on the workload of the team and that the report would be submitted to the September meeting of this Committee; and
- (iii) to otherwise note the content of the report.

AUDITED ANNUAL ACCOUNTS 2017/18 - RES/18/044

3. The Committee had before it a report by the Director of Resources which (1) provided an overview of the Council's 2017/18 audited Annual Accounts; and (2) presented the 2017/18 audited Annual Accounts for those registered charities where the Council was the sole trustee and were subject to statutory requirements for separate accounts and audit opinions.

AUDIT, RISK AND SCRUTINY COMMITTEE

26 June 2018

The report recommended:

That the Committee -

- (a) approve the Council's audited Annual Accounts 2017/18 for signature by the Director of Resources, Chief Executive and Council Co-Leader; and
- (b) approve the audited Annual Accounts 2017/18 for those registered charities where the Council was the sole trustee and to nominate a trustee to sign the accounts.

The Committee resolved:-

- (i) to note that the Interim Chief Officer Finance would provide a response to a question from the Convener relating to Music School Tutors;
- (ii) to request the Director of Resources and the Interim Chief Officer Finance to relay the thanks from the Committee to their teams for the work undertaken to get the annual accounts audited earlier than previous years;
- (iii) to note the thanks to the External Audit Team for the work in relation to auditing the accounts; and
- (iv) to otherwise approve the recommendations contained in the report.

ISA 260 REPORT TO THOSE CHARGED WITH GOVERNANCE

4. The Committee had before it a report by KPMG, the External Auditor which provided a summary of their audit opinions and conclusions on significant issues arising from the audit of the 2017/18 Council accounts and the accounts for registered charities.

The Committee resolved:-

- (i) to note that an unqualified independent audit opinion was likely to be issued for the annual accounts for the Council and the registered charities for the financial period 1 April 2017 to 31 March 2018;
- (ii) to note that an action plan to address the recommendations for improvement from External Audit had been agreed by management;
- (iii) in response to a question from Councillor Donnelly regarding the value of Marischal Square, to note that the reason for this was due to the change in the lease from an operational lease to a financial lease and that the valuations would be undertaken each year;
- (iv) in response to a question from the Convener regarding implementation dates of August 2018 contained within the Action Plan, to request the Interim Chief Officer Finance to provide an update at the September meeting of this Committee as to whether those actions had been completed; and
- (v) to otherwise note the content of the report.

AUDIT, RISK AND SCRUTINY COMMITTEE

26 June 2018

INTERNAL AUDIT PROGRESS - IA/18/014

5. The Committee had before it a report by the Chief Internal Auditor which advised on progress against the 2017/18 and 2018/19 internal audit plans.

The Committee resolved:-

- (i) to note that the Chief Internal Auditor had advised that the outstanding audit reports would be submitted to the September meeting of this Committee;
- (ii) in relation to a question from Councillor Townson relating to General Data Protection Regulations (GDPR) and whether benchmarking would be undertaken with other Local Authorities, to note that GDPR was new legislation and only been in operation since May 2018 and that the audit would be undertaken to provide assurance that the Council had adequate arrangements in place and that Internal Audit would not be benchmarking against other Local Authorities;
- (iii) in relation to a question from Councillor McLellan relating to GDPR training for elected members, to note that training had been offered and that for those elected members yet to receive the training additional dates would be scheduled; and
- (iv) to otherwise note the content of the report.

INTERNAL AUDIT CHARTER - IA/18/010

6. The Committee had before it a report by the Chief Internal Auditor which sought approval for the Internal Audit Charter.

The report recommended:

That the Committee approve the attached Internal Audit Charter.

The Committee resolved:-

- (i) in relation to a question from Councillor Townson regarding whether Internal Audit had authority through the Council's Financial Regulations to have access to the same level of information pertaining to ALEO's, to note that the Director of Resources advised that Internal Audit did not have the same access as ALEO's were separate legal entities;
- (ii) to otherwise approve the recommendation contained in the report.

INTERNAL AUDIT ANNUAL REPORT - IA/18/011

7. The Committee had before it a report by the Chief Internal Auditor which presented the Internal Audit Annual Report for 2017/18.

The report recommended:

That the Committee -

- (a) note the Annual Report for 2017/18;

AUDIT, RISK AND SCRUTINY COMMITTEE

26 June 2018

- (b) note that the Chief Internal Auditor had confirmed the organisational independence of Internal Audit;
- (c) note that there had been no limitation to the scope of Internal Audit work during 2017/18; and
- (d) note that during the year, KPMG completed an External Quality Assessment of Internal Audit that had already been reported to the Committee.

The Committee resolved:-

to approve the recommendations contained in the report.

INTERNAL AUDIT PLANNING - IA/18/012

8. The Committee had before it a report by the Chief Internal Auditor which presented the methodology and timing for future Internal Audit Plans.

The Committee resolved:-

- (i) to agree that a detailed single year Internal Audit plan would be prepared;
- (ii) to agree that the detail of themes to be covered over a three to five year period would be made more explicit in the planning documentation without identifying the specific area to be reviewed to achieve desired assurance outcomes;
- (iii) to agree that Internal Audit and the Council's management team keep (i) and (ii) above under review, to determine if and when a multi-year plan would be more desirable; and
- (iv) to agree that the same timetable be used for developing the 2019/20 Audit plan.

RIPSA - QUARTERLY REPORT - GOV/18/025

9. The Committee had before it a report by the Chief Officer Governance which advised that it was a requirement under paragraph 3.29 of the Scottish Government's Code of Practice for Covert Surveillance and Property interference that elected members review the authority's use of covert surveillance on a quarterly basis to ensure that it was being used consistently with the local authority's policy and that the policy remained fit for purpose.

The report recommended:

That the Committee note the update within the report.

The Committee resolved:-

- (i) in relation to a question from Councillor Townson regarding training for staff, to note that the Service Manager for Legal Services would determine how the training was recorded in staff records and would provide a response to Committee;

AUDIT, RISK AND SCRUTINY COMMITTEE

26 June 2018

- (ii) in relation to questions from members regarding the future reporting arrangements, to instruct the Team Leader, Governance to provide a report each quarter to provide assurance to the Committee all activity was being monitored appropriately; and
- (iii) to otherwise approve the recommendation contained in the report.

SCOTTISH PUBLIC SERVICES OMBUDSMAN DECISIONS AND INSPECTOR OF CREMATORIA COMPLAINT DECISIONS - CUS/18/017

10. The Committee had before it a report by the Director of Customer which provided information on all Scottish Public Services Ombudsman (SPSO) and Inspector of Crematoria decisions made in relation to Aberdeen City Council since the last reporting cycle to provide assurance to Committee that complaints and Scottish Welfare Fund applications were being handled appropriately.

The report recommended:

that the Committee note the content of the report.

The Committee resolved:-

to approve the recommendation contained in the report.

LOCAL SCRUTINY PLAN

11. The Committee had before it a report prepared by KPMG, the External auditor which set out the scrutiny risks identified by the local area network, proposed scrutiny responses and expected scrutiny activity for Aberdeen City Council during the financial year 2018/19.

The Committee resolved:-

to note the content of the report.

INTERNAL AUDIT REPORTS - FOLLOW-UP OF AGREED RECOMMENDATIONS - IA/18/009

12. The Committee had before it a report by the Chief Internal Auditor which advised on progress made by Services with implementing recommendations that had been agreed in previous Internal Audit reports.

The Convener stated that Services had been asked at each Committee whether they would be able to meet the timescales provided in the audit reports and enquired as to why the report before the Committee contained 60 outstanding recommendations.

AUDIT, RISK AND SCRUTINY COMMITTEE

26 June 2018

The Director for Resources advised that (1) the current position relating to outstanding audit recommendations was not acceptable and that he would ensure that the position improved for future reports; (2) the outstanding audit recommendations were discussed at CMT; (3) all Chief Officers had been instructed to undertake the work required to complete the audit recommendations; (4) Directors would be discussing any outstanding audit recommendations with Chief Officers during regular meetings; and (5) where there were significant delays in completing the audit recommendations that Chief Officers would be instructed to report to the Committee to provide an explanation as to why the deadlines had not been met.

The Committee resolved:-

- (i) in response to the Conveners statement regarding Services not meeting the previously agreed audit timescales to note that the Director of Resources provided an assurance that all Directors and Chief Officers would be held to task on the recommendations contained within audit reports and that the outstanding recommendations would be dealt with as a priority;
- (ii) to note that where Chief Officers had not progressed audit recommendations that they would be instructed to provide a report to the Committee to explain the reasons why the deadlines had not been adhered to;
- (iii) in relation to a question from the Vice Convener regarding the Craft Workers Terms and Conditions audit and whether the issues had been resolved, to note that the Chief Officer Operations and Protective Services advised that there had been no further negotiations with Trade Unions and that he would meet with the Chief Internal Auditor with a view to move the item forward; and
- (iv) to otherwise note the content of the report.

- **COUNCILLOR STEPHEN FLYNN, Convener.**

AUDIT, RISK AND SCRUTINY COMMITTEE
26 June 2018

This page is intentionally left blank

| | A | B | C | D | E | F | G | H | I |
|----|--|---|---------------|---------------|---------------|-------------|--------------------|---|---|
| 1 | AUDIT, RISK & SCRUTINY COMMITTEE BUSINESS PLANNER The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year. | | | | | | | | |
| 2 | Report Title | Minute Reference/Committee Decision or Purpose of Report | Update | Report Author | Chief Officer | Directorate | Terms of Reference | Delayed or Recommended for removal or transfer, enter either D, R, or T | Explanation if delayed, removed or transferred |
| 3 | 25 September 2018 | | | | | | | | |
| 4 | Internal Audit Progress and Performance | To provide an update on progress for the 2017/18 and 2018/19 audit | on the agenda | David Hughes | Governance | Governance | 2.4 | | |
| 5 | Internal Audit Follow Up on Recommendations | To provide an update on where Services are with implementing agreed recommendations | on the agenda | David Hughes | Governance | Governance | 2.3 | | |
| 6 | Transformation | To provide assurance that the Council has appropriate arrangements in place to ensure the success of its transformational aspirations. | | David Hughes | Governance | Governance | 2.2 | D | Delay due to combination of Internal Auditor resigning and the availability of key officers. |
| 7 | Timesheets and Allowances | To provide assurance that payments are accurate and justified, and that improvements recommended in previous reviews have been fully implemented. | on the agenda | David Hughes | Governance | Governance | 2.2 | | |
| 8 | General Data Protection Regulations | To provide assurance that the Council has adequate arrangements in place, that are understood throughout the organisation, to protect the Council's information. | | David Hughes | Governance | Governance | 2.2 | | |
| 9 | Devolved Education Management | To provide assurance that the scheme in place is adequate and that the decision making process is appropriate based on delegations in place. | | David Hughes | Governance | Governance | 2.2 | D | Commencement delayed pending planning meeting with the Service Report to be submitted in December |
| 10 | Impact of Universal Credit on rent collection | To provide assurance that appropriate arrangements have been put in place to manage the impact of Universal Credit on rent collection including intervention relating to identified vulnerable cases. | on the agenda | David Hughes | Governance | Governance | 2.2 | | |
| 11 | Internal Transport Tendering Procedures | to consider whether robust tendering procedures are in place and are operating satisfactorily. | | David Hughes | Governance | Governance | 2.2 | D | Service requested a delay to enable them to prioritise work demands Report to be submitted in December |
| 12 | Debtors System | To provide assurance over system controls, documentation supporting invoices raised and debt recovery process. | on the agenda | David Hughes | Governance | Governance | 2.2 | | |

| | A | B | C | D | E | F | G | H | I |
|----|--|--|---------------|-------------------|---------------|-------------|--------------------|---|--|
| 1 | AUDIT, RISK & SCRUTINY COMMITTEE BUSINESS PLANNER | | | | | | | | |
| | The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year. | | | | | | | | |
| 2 | Report Title | Minute Reference/Committee Decision or Purpose of Report | Update | Report Author | Chief Officer | Directorate | Terms of Reference | Delayed or Recommended for removal or transfer, enter either D, R, or T | Explanation if delayed, removed or transferred |
| 13 | VAT | To provide assurance over arrangements in place to maximise the recovery of VAT and ensure that VAT recovered is adequately supported. | on the agenda | David Hughes | Governance | Governance | 2.2 | | |
| 14 | Digital Strategy | To provide assurance that there are appropriate plans in place to manage the Council's digital strategy including reporting of progress against established milestones. | | David Hughes | Governance | Governance | 2.2 | D | Commencement delayed at the request of the Service pending Chief Officer Digital and Technology taking up post Report to be submitted in December |
| 15 | Creditors Payments | To provide assurance that there are adequate controls around the interface of payment data from named systems to the Creditors System (supporting documentation for and authorisation controls over input) | on the agenda | David Hughes | Governance | Governance | 2.2 | | |
| 16 | Fixed Asset Register | Consider whether procedures for ensuring timely recording of the acquisition/disposal of assets are adequate and that revaluations are undertaken in accordance with recognised best practice. | on the agenda | David Hughes | Governance | Governance | 2.2 | | |
| 17 | Stores Purchasing | Ensure appropriate arrangements are in place regarding procurement of stock | on the agenda | David Hughes | Governance | Governance | 2.2 | | |
| 18 | Health and Social Care Partnership Charging Policy | To provide assurance that there is a clear charging policy in place and that it is being complied with. | | David Hughes | Governance | Governance | 2.2 | D | Delayed at the request of the Service which are developing a new strategy Report to be submitted in February 2019 |
| 19 | Annual Information Governance Statement | To provide Committee with an annual report on the Council's information governance performance. | on the agenda | Caroline Anderson | Governance | Governance | 1.4 | | |
| 20 | RIPSA Annual Report | As per the Committee's decision 26/9/17 the report presented the annual report on the Council's RIPSA policy and the statistical information on RIPSA activity. | on the agenda | Jess Anderson | Governance | Governance | 5.2 | | |

| | A | B | C | D | E | F | G | H | I |
|----|--|--|---------------|----------------|------------------------------------|-------------|--------------------|---|--|
| 1 | AUDIT, RISK & SCRUTINY COMMITTEE BUSINESS PLANNER The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year. | | | | | | | | |
| 2 | Report Title | Minute Reference/Committee Decision or Purpose of Report | Update | Report Author | Chief Officer | Directorate | Terms of Reference | Delayed or Recommended for removal or transfer, enter either D, R, or T | Explanation if delayed, removed or transferred |
| 21 | External Audit, Annual Report | to set out Best Value and Wider Scope aspects of the annual audit | on the agenda | Andy Shaw | Governance | Governance | 3.1 | | |
| 22 | Money Laundering | To present the reviewed Money Laundering policy for approval. | | Brian Muldoon | Governance | Governance | GD7.1 | D | The report will be delayed due to the workload of the team. Additional work related to the Scottish Child Abuse Enquiry and work relating to National Fraud Initiative. It is proposed that the report will be submitted in February 2019. |
| 23 | ALEO Assurance Hub | To provide assurance to the Committee on the risk management, financial management and governance arrangements of the ALEOs within the remit of the Assurance Hub. | on the agenda | Iain Robertson | Governance | Governance | 1.2 | | |
| 24 | Corporate Risk Register | To present the annual Corporate Risk Register. | on the agenda | Vikki Cuthbert | Governance | Governance | 1.1 | | |
| 25 | Accounts Commission: Local Government in Scotland – Challenges and Performance 2018 | To present the Accounts Commission report along with the corporate response to their findings | on the agenda | Vikki Cuthbert | Governance | Governance | 1.3 | | |
| 26 | Audit Scotland Report on Councils' Use of Arm's Length Organisations | To present Audit Scotland's report on Councils' use of arms-length organisations for members' information. | on the agenda | Iain Robertson | Governance | Governance | 1.3 | | |
| 27 | Corporate Investigation Team - Annual Fraud Report 2017/18 | To consider the annual fraud report | on the agenda | Brian Muldoon | Governance | Governance | 5.2 | | |
| 28 | Fleet and MOT Issues | AR&SC 8 May - instruct the Chief Operating Officer to report back to this Committee within two committee cycles, following the completion of the investigation and following consideration of the matter being concluded by the Operational Delivery Committee. | on the agenda | William Whyte | Operations and Protective Services | Operations | 6.2 | | |

| | A | B | C | D | E | F | G | H | I |
|----|--|--|---------------|----------------------|----------------------|--------------------|---------------------------|--|---|
| 1 | AUDIT, RISK & SCRUTINY COMMITTEE BUSINESS PLANNER | | | | | | | | |
| | The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year. | | | | | | | | |
| 2 | Report Title | Minute Reference/Committee Decision or Purpose of Report | Update | Report Author | Chief Officer | Directorate | Terms of Reference | Delayed or Recommended for removal or transfer, enter either D, R, or T | Explanation if delayed, removed or transferred |
| 29 | SPSO Decisions, Inspector of Crematoria Complaint Decisions | In order to provide assurance to Committee that complaints and Scottish Welfare Fund applications are being handled appropriately, this report provides information on all Scottish Public Services Ombudsman (SPSO) and Inspector of Crematoria decisions made in relation to Aberdeen City Council since the last reporting cycle. | on the agenda | Lucy Mackenzie | Customer Experience | Customer | 6.9 | | |
| 30 | Follow Up on Agreed Internal Audit Recommendations | Audit, Risk and Scrutiny Committee - 26 June 2018 Outstanding Audit Recommendations (ii) to note that where Chief Officers had not progressed audit recommendations that they would be instructed to provide a report to the Committee to explain the reasons why the deadlines had not been adhered to | on the agenda | Fraser Bell | Governance | Governance | 2.3 | | |
| 31 | 04 December 2018 | | | | | | | | |
| 32 | Internal Audit Progress and Performance | To provide an update on progress for the 2017/18 and 2018/19 audit | | David Hughes | Governance | Governance | 2.4 | | |
| 33 | Voluntary Severance / Early Retirement (VSER) Scheme | To provide assurance that the terms of the VSER Scheme are complied with and that payments made / enhancements to pensions are accurate. | | David Hughes | Governance | Governance | 2.2 | | |
| 34 | Compliance with Procurement Legislation and Council Regulations | To provide assurance that the Council has appropriate arrangements in place that are being complied with, to ensure compliance with procurement legislation and internal regulations. | | David Hughes | Governance | Governance | 2.2 | | |
| 35 | Business Rates | To provide assurance over the accuracy of Business Rates billing and robustness of collection arrangements. | | David Hughes | Governance | Governance | 2.2 | | |
| 36 | Data security in a cloud based environment | To provide assurance over the Council's arrangements to ensure data security where business is transacted through the Cloud. | | David Hughes | Governance | Governance | 2.2 | | |
| 37 | National Care Home Contract | To provide assurance that risk to supply is controlled through adequate monitoring of supply and suppliers and related business continuity plans. (Ref Kingsmead Nursing Home.) | | David Hughes | Governance | Governance | 2.2 | | |
| 38 | ALEO Assurance Hub Annual Review | To review the ALEO Assurance Hub terms of reference and oversight of ALEOs over the previous 12 months | | Iain Robertson | Governance | Governance | 1.2 | | |
| 39 | Internal Audit Follow Up on Recommendations | To provide an update on where Services are with implementing agreed recommendations | | David Hughes | Governance | Governance | 2.3 | | |
| 40 | 14 February 2019 | | | | | | | | |
| 41 | Internal Audit Progress and Performance | To provide an update on progress for the 2018/19 audit | | David Hughes | Governance | Governance | 2.4 | | |

| | A | B | C | D | E | F | G | H | I |
|----|--|--|----------------------|----------------------|----------------------|--------------------|---------------------------|--|---|
| 1 | AUDIT, RISK & SCRUTINY COMMITTEE BUSINESS PLANNER | | | | | | | | |
| | The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year. | | | | | | | | |
| 2 | Report Title | Minute Reference/Committee Decision or Purpose of Report | Update | Report Author | Chief Officer | Directorate | Terms of Reference | Delayed or Recommended for removal or transfer, enter either D, R, or T | Explanation if delayed, removed or transferred |
| 42 | Internal Audit Follow Up on Recommendations | To provide an update on where Services are with implementing agreed recommendations | | David Hughes | Governance | Governance | 2.3 | | |
| 43 | Health and Safety | To provide assurance that appropriate arrangements to manage Health and Safety have been implemented across the Council. | | David Hughes | Governance | Governance | 2.2 | | |
| 44 | Prevention of Fraud, Bribery and Corruption | To provide assurance that the Council's arrangements for the prevention of fraud, bribery and corruption are adequate and proportionate. | | David Hughes | Governance | Governance | 2.2 | | |
| 45 | Pupil Equity Fund | To provide assurance that schools are spending in accordance with their plans, and that these were developed as required, to close the poverty related attainment gap. | | David Hughes | Governance | Governance | 2.2 | | |
| 46 | i-World | To provide assurance that appropriate control is being exercised over the i-World system and that interfaces to and from other systems are accurate and properly controlled. | | David Hughes | Governance | Governance | 2.2 | | |
| 47 | Craft Workers' Terms and Conditions | To provide assurance that new Terms and Conditions have been implemented and are being complied with. | | David Hughes | Governance | Governance | 2.2 | | |
| 48 | Bond Governance | To provide assurance that the requirements of the Bond Trust Deed are complied with. | | David Hughes | Governance | Governance | 2.2 | | |
| 49 | SPSO Decisions, Inspector of Crematoria Complaint Decisions | In order to provide assurance to Committee that complaints and Scottish Welfare Fund applications are being handled appropriately, this report provides information on all Scottish Public Services Ombudsman (SPSO) and Inspector of Crematoria decisions made in relation to Aberdeen City Council since the last reporting cycle. | | Lucy Mackenzie | Customer Experience | Customer | 6.9 | | |
| 50 | Equal Pay Audit | To present the outcome of the Equal Pay Audit. | | Neil Yacamini | People | Resources | 5.2 & 6.7 | | |
| 51 | ALEO Assurance Hub | To provide assurance to the Committee on the risk management, financial management and governance arrangements of the ALEOs within the remit of the | | Iain Robertson | Governance | Governance | Remit 1.3 | | |
| 52 | RIPSA Activity | Audit, Risk and Scrutiny Committee's decision 26/9/17 the Committee requested quarterly updates on policy/compliance. The update includes an update on training delivered, the number of applications "live" and extant, and any new procedural requirements. | | Jess Anderson | Governance | Governance | 5.2 | | |
| 53 | | | 30 April 2019 | | | | | | |
| 54 | Internal Audit Progress and Performance | To provide an update on progress for the 2018/19 audit | | David Hughes | Governance | Governance | 2.4 | | |

| | A | B | C | D | E | F | G | H | I |
|----|--|--|--------|----------------|---------------------|-------------|--------------------|---|--|
| 1 | AUDIT, RISK & SCRUTINY COMMITTEE BUSINESS PLANNER The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year. | | | | | | | | |
| 2 | Report Title | Minute Reference/Committee Decision or Purpose of Report | Update | Report Author | Chief Officer | Directorate | Terms of Reference | Delayed or Recommended for removal or transfer, enter either D, R, or T | Explanation if delayed, removed or transferred |
| 55 | Internal Audit Follow Up on Recommendations | To provide an update on where Services are with implementing agreed recommendations | | David Hughes | Governance | Governance | 2.3 | | |
| 56 | Digital Booking, Fees and Charges | To provide assurance over the controls around on-line booking and collection of fees and charges | | David Hughes | Governance | Governance | 2.2 | | |
| 57 | Music Centre | To provide assurance that procedures have been improved following completion of work undertaken by Corporate Investigation Team. | | David Hughes | Governance | Governance | 2.2 | | |
| 58 | Contract Management | To focus on recent identified issues - 3rd Don Crossing - Photovoltaic Panels To include data/intelligence used for monitoring escalation of risk | | David Hughes | Governance | Governance | 2.2 | | |
| 59 | Criminal Justice | To provide assurance that adequate control is exercised over income and expenditure, that system data is accurate and adequately supported, and that reporting arrangements between the Council and IJB are appropriate. | | David Hughes | Governance | Governance | 2.2 | | |
| 60 | Annual Committee Effectiveness Report | To present the annual effectiveness report for the Committee. | May-19 | | Governance | Governance | GD 7.4 | | |
| 61 | SPSO Decisions, Inspector of Crematoria Complaint Decisions | In order to provide assurance to Committee that complaints and Scottish Welfare Fund applications are being handled appropriately, this report provides information on all Scottish Public Services Ombudsman (SPSO) and Inspector of Crematoria decisions made in relation to Aberdeen City Council since the last reporting cycle. | | Lucy Mackenzie | Customer Experience | Customer | 6.9 | | |
| 62 | Other Items | | | | | | | | |

| | A | B | C | D | E | F | G | H | I |
|----|--|--|--|---------------|--|-------------|--------------------|---|--|
| 1 | AUDIT, RISK & SCRUTINY COMMITTEE BUSINESS PLANNER The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year. | | | | | | | | |
| 2 | Report Title | Minute Reference/Committee Decision or Purpose of Report | Update | Report Author | Chief Officer | Directorate | Terms of Reference | Delayed or Recommended for removal or transfer, enter either D, R, or T | Explanation if delayed, removed or transferred |
| 63 | Marchburn Park | Operational Delivery Committee 19 April 2018 that in regards to Marchburn Park, "to instruct the Chief Officer (Early Intervention and Community Empowerment) to bring a report to Audit following conclusion of all matters detailed within this report." | A report has been instructed to be discussed at Operational Delivery Committee within 6 months. Following conclusion of all matters a report will be submitted to this Committee. No date has been scheduled as yet. | | Early Intervention and Community Empowerment | Customer | | | |

This page is intentionally left blank

ABERDEEN CITY COUNCIL

| | |
|---------------------------|--|
| COMMITTEE | Audit, Risk & Scrutiny |
| DATE | 25 September 2018 |
| REPORT TITLE | Information Governance Management Annual Statement 2017-2018 |
| REPORT NUMBER | GOV/18/072 |
| DIRECTOR | Frank McGee |
| CHIEF OFFICER | Martin Murchie |
| REPORT AUTHOR | Caroline Anderson and Helen Cannings |
| TERMS OF REFERENCE | 1.1 |

1. PURPOSE OF REPORT

To provide Committee with an annual report on the Council's Information Governance Performance, including information about the changes implemented through the Council's readiness approach to ensure compliance with the General Data Protection Regulation (GDPR) and the Data Protection Act 2018.

2. RECOMMENDATION(S)

It is recommended that committee:

- 2.1 Note the information provided about the Council's information governance performance at sections 3.1 – 3.5 and in the Information Governance Report at Appendix 1.
- 2.2 Note the implementation of changes made through the Council's GDPR readiness approach, as part of the Council's wider information assurance improvement plan at sections 3.6 – 3.9.

3. BACKGROUND

Annual Information Governance Performance Report

- 3.1 The Council's Audit, Risk and Scrutiny Committee agreed the Council's revised and updated Information Governance Management & Reporting Framework in September 2016; as part of this the Committee agreed to receive an annual

report in relation to the Council's information governance performance, this is the second of these reports.

- 3.2 Ensuring the proper use and governance of the Council's information and data is an ongoing activity. New and changing legislation, systems, staff, and ways of doing business, as well as new and emerging cyber threats all shape and change the environment within which the Council operates in relation to effective use and governance of its information and data.
- 3.3 Keeping up means a careful balancing between the requirement to monitor and be adaptable to our changing environment, and the requirement to agree and implement assurance improvements over the medium term.
- 3.4 For this reason, the Council has established an Information Assurance Improvement Plan which will implement the required medium-term assurance improvements required. Progress to date on this work has been included in the Annual Report on the Council's Information Governance Performance.
- 3.5 Please refer to Appendix 1 for the consolidated Annual Report on the Council's Information Governance Performance from July 2017-June 2018.

The General Data Protection Regulation and the Data Protection Act 2018

- 3.6 The General Data Protection Regulation (GDPR) and the Data Protection Act 2018 (collectively now known as Data Protection legislation) came into force on the UK on 25 May 2018. This is the most significant change to privacy legislation since the Data Protection Act 1998 came into force and have effected changes to the Council's compliance requirements.
- 3.7 Readiness for these changes to data protection legislation have been managed as a key part of the Council's Information Assurance Improvement Plan for 2017-18, to make sure that the requirements of the new regulation are understood and prioritised as part of our broader interrelated programme of work to manage and improve information assurance.
- 3.8 An update on progress with the Council's Information Assurance Improvement Plan has been included in the Annual Report at Appendix 1.
- 3.9 The Council's readiness for the requirements of the General Data Protection Regulation have also been subject to Internal Audit, the outcome of which will be reported to this committee.

4. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report. There are potential indirect financial implications related to penalties for non-compliance, as outlined at section 5.3, below.

5. LEGAL IMPLICATIONS

- 5.1 The Council's use and governance of its information is subject to a variety of legislation including: The General Data Protection Regulation, the Data Protection Act 2018, the Public Records (Scotland) Act 2011, the Freedom of Information (Scotland) Act 2002, the Environmental Information (Scotland) Regulations 2004, and the Re-use of Public Sector Information Regulations 2015.
- 5.2 The Annual Information Governance Performance Report at Appendix 1 forms part of the Council's wider Information Governance Management and Reporting Framework and is a key component of ensuring that the Council is undertaking adequate monitoring of its compliance with the above legislation.
- 5.3 The General Data Protection Regulation and the Data Protection Act 2018 came into force on 25 May 2018 and brought significantly increased penalties for non-compliance with data protection law than was previously the case. The maximum penalty for non-compliance is now 4% of turnover, or €20 million, whichever is higher. 4% of the Council's turnover is £32.3 million, based on its overall revenue budget of £806 million.
- 5.4 As outlined in this report, the General Data Protection Regulation and the Data Protection Act 2018 has introduced other changes to data protection law which the Council have been required to address to ensure compliance. The readiness approach that has been undertaken to date has been focussed on ensuring that the Council was in a position to comply with the provisions of the new General Data Protection Regulation when it came into force, to mitigate the risk that the Council would be subject to enforcement action and financial penalty.
- 5.5 When the UK leave the EU the General Data Protection Regulation will be incorporated into UK law under the European Union (Withdrawal) Act 2018 so it is not anticipated that Brexit will impact this compliance requirement.

6. MANAGEMENT OF RISK

| | Risk | Low (L), Medium (M), High (H) | Mitigation |
|------------------|---|--|-------------------|
| Financial | There are no risks arising directly from the presentation of this report. This report is part of the Council's wider Information Assurance framework which mitigates against information related risk | N/A | N/A |
| Legal | As above. | N/A | N/A |

| | | | |
|---------------------|-----------|-----|-----|
| Employee | As above. | N/A | N/A |
| Customer | As above. | N/A | N/A |
| Environment | As above. | N/A | N/A |
| Technology | As above. | N/A | N/A |
| Reputational | As above. | N/A | N/A |

7. OUTCOMES

| Local Outcome Improvement Plan Themes | |
|--|--|
| | Impact of Report |
| Prosperous Economy | Information and data are key assets of the Council and recognised in the Aberdeen City Local Outcome Improvement Plan 2016-26 and the Strategic Aberdeen City Council Strategic Business Plan as critical enablers of the Council achieving its priorities for people, place and economy. The activities outlined in Appendix 1 of this report framework are focussed on ensuring that the Council's information is good quality, accurate, and up to date to inform decision-making, that it is used and governed in a way which is effective and lawful, that the Council has the right arrangements in place to enable data to be shared appropriately and safely with partners, where this is necessary, and to ensure that our information can effectively evidence our decisions and actions so the Council can be held accountable. |
| Prosperous People | As above |
| Prosperous Place | As above |
| Enabling Technology | As above |

| Design Principles of Target Operating Model | |
|--|--|
| | Impact of Report |
| Customer Service Design | The activities outlined in Appendix 1 of this report framework support the Customer Service Design principles by improving the quality and availability of information to enable early resolution and problem solving, to enable customer insight and to support evidence based decision making based on accurate and up to date data. |
| Organisational Design | The activities outlined in Appendix 1 of this report support the Council's Organisational Design |

| | |
|-----------------------------------|--|
| | principles by ensuring that the Council has the right role and supports, in the right place to ensure the effective and lawful governance and use of the Council's information. |
| Governance | The activities outlined in Appendix 1 of this report support the Council's Governance Design principles by ensuring that the Council's information is able to support evidence-based decision making, is open wherever possible so the Council can demonstrate transparency and promote stakeholder engagement, and is sufficiently robust to act as evidence in support of the Council's accountability |
| Workforce | The activities outlined in Appendix 1 of this report support the Council's workforce design principles by ensuring that the Council's workforce has the information it needs to be effective and empowered, and that staff are capable and confident in handling information securely and safely. |
| Process Design | The activities outlined in Appendix 1 of this report support the Council's approach to process design by that new processes appropriately consider information governance and are designed and implemented with a privacy and security by design approach. |
| Technology | The activities outlined in Appendix 1 of this report support the Council's approach to technology by ensuring new digital solutions are designed and implemented in a way which are secure, lawful, and in a way which respects our customers' privacy, and so fosters trust in new ways of interacting with the Council. |
| Partnerships and Alliances | The activities outlined in Appendix 1 of this report support the Council's approach to partnerships and alliances by ensuring that robust and lawful arrangements are in place for the information sharing required to enable effective partnerships and alliances. |

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|---------------------|
| Equality & Human Rights Impact Assessment | <i>Not Required</i> |
| Privacy Impact Assessment | <i>Not Required</i> |

| | |
|--|-----------------------|
| Duty of Due Regard / Fairer Scotland Duty | <i>Not applicable</i> |
|--|-----------------------|

9. BACKGROUND PAPERS

Not applicable.

10. APPENDICES (if applicable)

Appendix 1: Annual Information Governance Report

11. REPORT AUTHOR CONTACT DETAILS

Caroline Anderson
Information Governance Manager
canderson@aberdeencity.gov.uk
01224 522521

Helen Cannings
Information Governance Team Lead
hcannings@aberdeencity.gov.uk
01224 523430

Information Governance Management

Annual Report

Senior Information Risk Owner



July 2017-
June 2018

1 Introduction

- 1.1 The Council's Audit, Risk and Scrutiny Committee agreed the Council's revised and updated Information Governance Management & Reporting Framework in September 2016; as part of this the Committee agreed to receive an annual report in relation to the Council's information governance assurance. This is the second of these reports being presented to Committee.
- 1.2 This report collates, analyses and monitors the Council's performance in relation to freedom of information, data protection and information security, to ensure that trends, issues, incidents, and breaches are dealt with appropriately as they arise by the Information Governance Group.
- 1.3 Ensuring the proper use and governance of the Council's information and data is an ongoing activity. New and changing legislation, systems, staff, and ways of doing business, as well as new and emerging cyber threats, all shape and change the environment within which the Council operates in relation to effective use and governance of its information and data.
- 1.4 Keeping up means a careful balancing between the requirement to monitor and be adaptable to our changing environment, and the requirement to agree and implement assurance improvements over the medium term.
- 1.5 To this end, the Information Governance Group has established an Information Assurance Improvement Plan which will implement the required medium-term assurance improvements required. The Information Assurance Improvement Plan is focussed on the following nine key assurance areas:
 - Oversight & Control
 - Legal & Business Requirements
 - Technical & Physical Security
 - Business Continuity & Disaster Recovery
 - Information Sharing & Integration
 - Culture, Awareness & Training
 - Information Preservation
 - Information for Strategic Performance Management & Transformation
 - Realising Information Re-use Value
- 1.6 The Executive Summary at Section 2 of this report brings together the Information Governance Group's key activities from the last year; this includes activity arising from the ongoing monitoring of performance, and measures to improve assurance in the medium term.

2. Information Assurance Improvement Plan: Executive Summary of progress to June 2018

| Assurance Area | Key Issues | Improvement Action Taken | Result | Key Next Steps | Value |
|--|---|---|--|---|---|
| Oversight & Control | Information Asset level assurance and monitoring arrangements and assurance required | Information Asset assurance framework developed and established | Clear framework in place of roles, responsibilities and monitoring and assurance arrangements for Council information assets | <p>IG Group refresh to align with new Senior Information Risk Owner (SIRO) and Target Operating Model (TOM) functions will continue to monitor and report on Information Governance (IG) and to take appropriate remedial action as required</p> <p>Continue to report progress updates to SIRO in quarterly Information Governance Reports, with exceptions escalated to Corporate Management Team (CMT)</p> | The Council is undertaking appropriate monitoring, and continuously improving assurance around its information and data |
| Legal & Business Requirements | Council requirements for changes to Data Protection law (GDPR and the Data Protection Act 2018) which became enforceable from 25 May 2018 | GDPR Readiness programme rolled out to implement changes in three key areas of information & data, systems and processes, people & behaviour. | The Council has implemented measures to address changing compliance requirements | Continue to embed the foundations implemented as the Council's business as usual arrangements for the new compliance environment, folding in any actions identified by internal audit of GDPR Readiness. | The Council has the right framework in place to give assurance around its compliance with Data Protection legalisation |
| Technical & | The Council's firewall required updating to take advantage of | Next Generation Firewall has been implemented | The Council has up to date firewall protection in place | Tuning and further development of the solution to reach the | The Council is keeping its cyber network protection up to date |

| Assurance Area | Key Issues | Improvement Action Taken | Result | Key Next Steps | Value |
|--|---|---|---|--|---|
| Physical Security | advances in available solutions | | Cyber Essentials Plus Certificate 2018 awarded | best operational configuration | |
| | The Council requires to further enhance the email solution security for external communication | Transport Layer Security (TLS) and Sender Policy Framework (SPF) implemented | Implement Secure Email Blueprint | Implement Domain-based Message Authentication Reporting and Conformance (DMARC) and Domain-Keys Identified Mail (DKIM) | The Council has appropriate security of email communication and assurance for the public |
| | The Council requires all applications to be risk assessed to ensure all security controls are maintained to standards, and in accordance with disaster recovery and business continuity plans | Cycle of application risk assessment programme complete | Register of risk assessment now in place and ongoing as business as usual | Further development to link application risk register to other information and data assets already in place | The council has the necessary technical and physical resilience measures in place |
| Information Sharing & Integration | Information Sharing (IS) guidance and protocols reviewed due to changes in data protection law | Information Sharing Protocol (ISP) Register created and maintained for recording and reporting purposes | The Council understands its current information sharing arrangements for high risk, special category business functions | Review of sharing arrangements and update agreements where required. Review and update, as appropriate, information sharing procedures, guidance and templates for changes to Data Protection law. | The Council has appropriate governance arrangements in place to continue to share information compliantly with partners in accordance with Data Protection Act 2018 |
| Business Continuity & Disaster Recovery | The Council requires a high level of assurance around business continuity and disaster recovery arrangements for critical systems | Phase 1 complete, Phase 2 in progress | The Council understands where its business critical systems are and has improvement programme in place | Joint working with Business Continuity & Emergency Planning to make sure that appropriate arrangements are in place for resilience | The Council understands its assets and can continue to work and recover in the event of an incident |

| Assurance Area | Key Issues | Improvement Action Taken | Result | Key Next Steps | Value |
|--|--|--|--|---|--|
| | The Council requires an emergency on-call system for data breaches to be managed out of hours by the Duty Emergency Response coordinators (DERC) | On-call listing to incorporate Data Protection Officer advice and designated Chief Officer and Information Asset Owner | Data breaches can be responded to within the notification periods required of Data Protection Act 2018 | SIRO will establish revised DERC duties accordingly | The Council has appropriate data breach management in place to assess impact and likelihood of harm following a data breach out of hours, take appropriate action and notify the Information commissioner where necessary. |
| Training, Culture & Awareness | Staff and members need regular and up to date Information Governance Training | New Information Governance OIL training module launched Extensive face to face sessions delivered to staff in key roles as part of GDPR Readiness activities | Mandatory Information Governance online training in place for all staff 1200 staff in key roles attended face to face training as part of GDPR readiness activities | Monitor the uptake of mandatory OIL training through monthly exception reporting Continue to develop and deliver targeted face to face training based on staff roles | Our Staff have the right knowledge to play their role in the appropriate use and governance of the Council's information and data |
| | Providing appropriate support to ALEOs and partners | Guidance and support for Community Councils developed and shared ALEO GDPR Information sessions developed and delivered | Data Protection guidance and templates in place for Community Councils 3 Information Sessions for ALEOs delivered in Feb 2018. | Establish IG practice sharing and support Forum with ALEOs | The Council is establishing the right relationships and supports to promote and support good IG practice amongst our wider family. |
| Information Preservation | Ensuring that where appropriate key Council records are preserved | The Archives Service develop a preservation forum with Information Asset Owners (3 rd Tier managers) to ensure the appropriate transfer of all records requiring preservation is in place | The archives service develop a transfer preservation roadmap for records aligned to TOM business functions and Information Asset owners | Information Preservation transfer Register is established and maintained | The Council retains all identified and necessary business records that provide the corporate memory of its people across the place of Aberdeen |

| Assurance Area | Key Issues | Improvement Action Taken | Result | Key Next Steps | Value |
|--|---|---|---|---|---|
| Strategic Performance Management & Transformation | The Council has a fragmented understanding of its customers because of lack of data integration between key systems | Master Data Management Hub and Integration layer business requirements developed. Logical Data model developed | The Council is ready to procure a Master Data Management Hub and Integration layer | Procurement and implementation of Master Data Management Hub and Integration layer | The Council has the capability required to integrate its data about people and place |
| Realising Information Re-use Value | The Council wants to leverage the value of its information to be a data-driven, evidence-based decision making organisation | Two Business Intelligence pilots to be run, testing the governance requirements and analytics capabilities possible | The Council has an understanding of analytics capabilities from existing data sources that inform business intelligence technologies required | Test and evaluate business intelligence pilots | The Council has real-time insights and intelligence about service demand, resource allocation with predictive capabilities at individual, service and functional levels |
| | The Council wants to open up its non-personal data wherever possible to the benefit of its people, economy and place | Open Data Standards have been developed as part of the National Open Data Programme the Council is a part of. The Council has established its place within the Scottish Cities Alliance to publish core open data across local authority consortium | The Council is working collaboratively to build the foundations required for a sustainable open data programme | Open Data Platform to be implemented and regular open data publishing schedule to be agreed | The Council is opening up its data to benefit the people, place and economy of Aberdeen |

3. Information Governance Performance Information July 2016- June 2017

3.1 Data Protection Requests

Fig. 1: Annual number of requests received

| Type of Request | 12 months to June 2018 | 12 months to June 2017 |
|-------------------------|------------------------|------------------------|
| Subject Access Requests | 184 | 144 |
| Third Party Requests | 509 | 604 |

Fig. 2: Requests received in the 12 months to June 2018

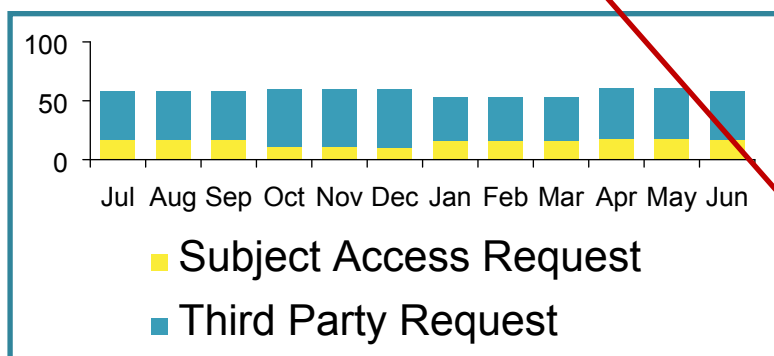


Fig. 3: Requests received by Directorate (Jul 2017 – Mar 2018)

| Directorate | Subject Access Request | Third Party Request | TOTAL |
|--|------------------------|---------------------|-------|
| Aberdeen City Health & Social Care Partnership | 12 | 29 | 41 |
| Communities, Housing & Infrastructure | 38 | 193 | 231 |
| Corporate Governance | 16 | 32 | 48 |
| Education & Children's Services | 46 | 71 | 117 |
| Office of the Chief Executive | 0 | 0 | 0 |
| Joint H&SCP E&CS | 19 | 57 | 76 |

Data Protection Requests

Data Protection legislation regulates the Council's role, rights and responsibilities in the use, management and protection of our customers' (staff and the public) personal data.

Subject Access Requests

Anyone who we hold personal data about can ask us for a copy of it.

Third Party Requests

Other organisations (for example, Police Scotland or the Care Inspectorate) can also request a customer's personal data under certain circumstances.

Commentary on number of requests received

In the last 12 months there has been an increase in SARs and a decline in reported TPRs.

The highest levels of SARs and TPRs were received for the areas of Customer (Early Intervention and Community Empowerment and Housing) and Operations (Integrated Children & Family Services). These requests are highest in the usual service areas however their management now falls within the Customer Function (see Fig. 4).

Of the 509 TPRs received in the last 12 months, 210 were related to CCTV.

Fig. 4: Requests received by Function (Apr 2018 – Jun 2018)

| Function | Subject Access Request | Third Party Request | TOTAL |
|---------------|--|---------------------|-------|
| Commissioning | 0 | 0 | 0 |
| Customer | 42 | 127 | 169 |
| Operations | Data Protection Requests for Operations are managed by the Customer Function | | |
| Resources | 3 | 0 | 3 |
| Governance | 1 | 0 | 1 |
| Place | 7 | 0 | 7 |

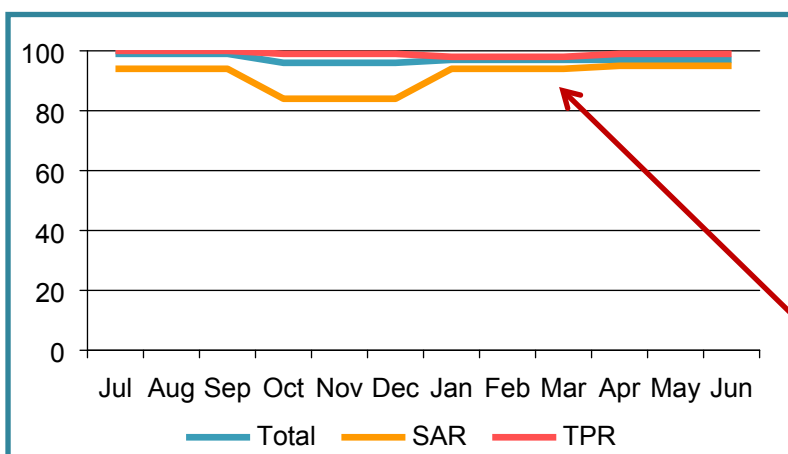
Fig. 5: Breakdown of requests received by Customer Function (Apr 2018 – Jun 2018)

| Service Area | Subject Access Request | Third Party Request | TOTAL |
|--|------------------------|---------------------|-------|
| Children's Social Work | 28 | 13 | 41 |
| Adults Social Work | 4 | 2 | 6 |
| Joint Children's and Adults Social Work | 0 | 5 | 5 |
| Education | 4 | 0 | 4 |
| Revenues & Benefits | 0 | 9 | 9 |
| Housing | 6 | 36 | 42 |
| Early Intervention and Community Empowerment | 0 | 62 | 62 |

Fig. 6: Corporate compliance with timescales for requests

| Type of Request | 12 months to June 2018 | 12 months to June 2017 |
|-------------------------|------------------------|------------------------|
| Subject Access Requests | 92% | 68% |
| Third Party Requests | 99% | 97% |
| Total compliance | 97% | 91% |

Fig. 7: Corporate compliance with timescales over the last 12 months



Timescales for responding

Until the 25th May the Council had 40 calendar days to provide the personal information requested in response to data protection requests. Since the 25th May (following GDPR being enacted), the timescale is now reduced to 30 days.

If a request involves a large and complex set of information, the timescale can be extended for a further 2 months, if the customer is notified of this within the first month.

Commentary on compliance

Compliance with timescales for SARs and TPRs has been consistent over the past 12 months with an increase of 5% overall on last year. Compliance rates have improved in each category.

The majority of Data Protection requests are TPRs which tend to be for limited information which can be delivered quickly. SARs for social care records often involve reviewing and redacting large and complex case files.

3.2 Data Protection Breaches and Complaints

Fig. 8: Annual breaches and data handling complaints

| Breaches | 12 months to June 2018 | 12 months to June 2017 |
|---------------------------------|------------------------|------------------------|
| Breaches | 61 | 35 |
| Self-Reports to the ICO | 1 | 0 |
| Data Handling Complaints | 4 | 0 |

Data Protection Breaches

All potential breaches should be reported in line with the Council's procedures. The action taken will depend on the nature of the breach.

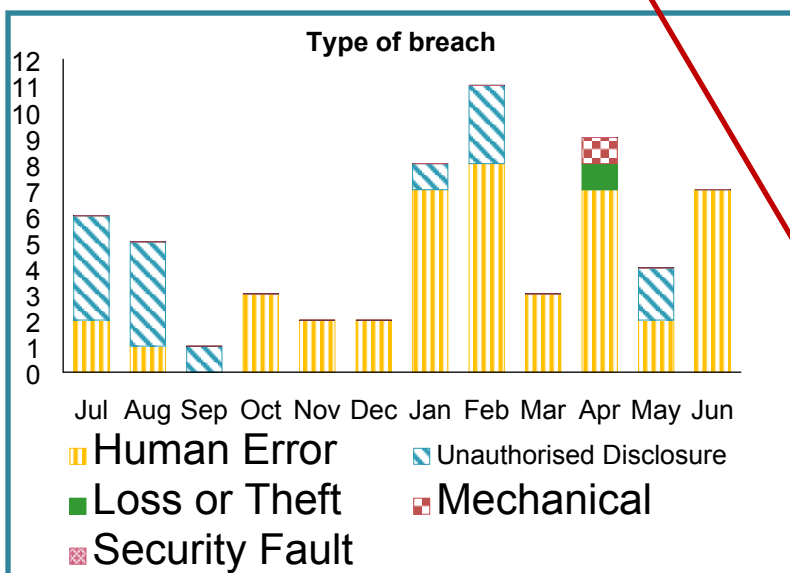
Self-Reportable Breaches

Where the nature of a breach poses significant actual or potential detriment to individuals the Council should self-report to the ICO.

Data Handling Complaints

Anyone who is unhappy with the way that the Council has handled their personal data can make a complaint to us. If they are unhappy with our response to their complaint they may escalate their complaint to the ICO.

Fig. 9: Breaches by type over the last 12 months



Commentary on number and type of breaches

There has been a significant increase in the number of breaches reported in the last 12 months. The increase has been concentrated in the last 2 quarters. This is likely due to increased awareness through a significant increase in GDPR training implemented during the year and the recognised need to report breaches quickly under the new Data Protection Act 2018.

Fig. 10: Breaches by Directorate Jul 2017 – Mar 2018

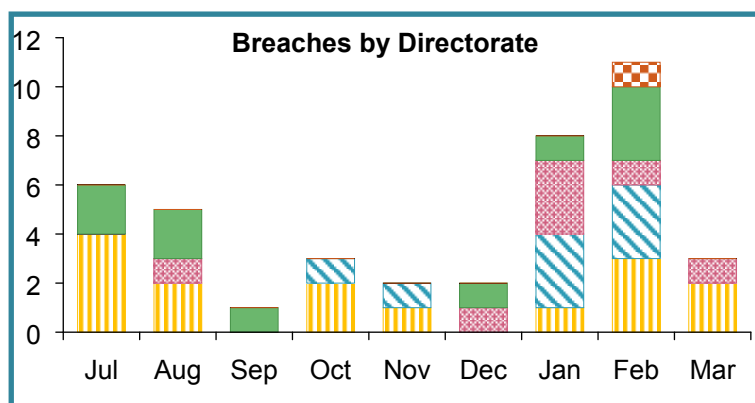
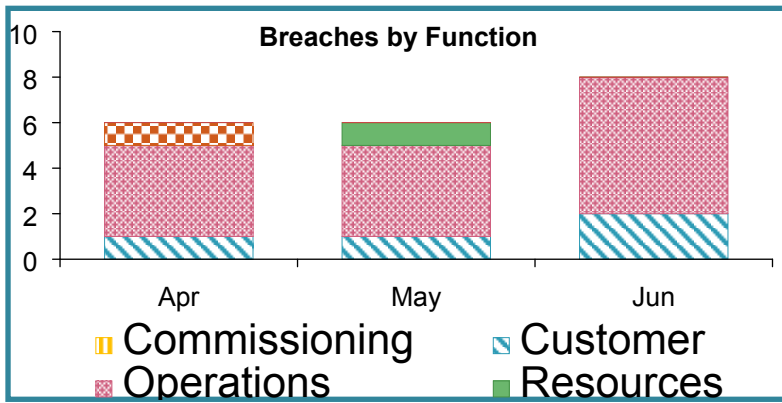


Fig. 11: Breaches by Function Apr 2018 – June 2018



Commentary on breaches by Function

Almost three quarters of reported breaches (14) originated in the Operations Function of the Council in Integrated Children & Family Services or Adult Social Care in the Health & Social Care Partnership.

Fig. 12: Breaches self-reported to the ICO this year

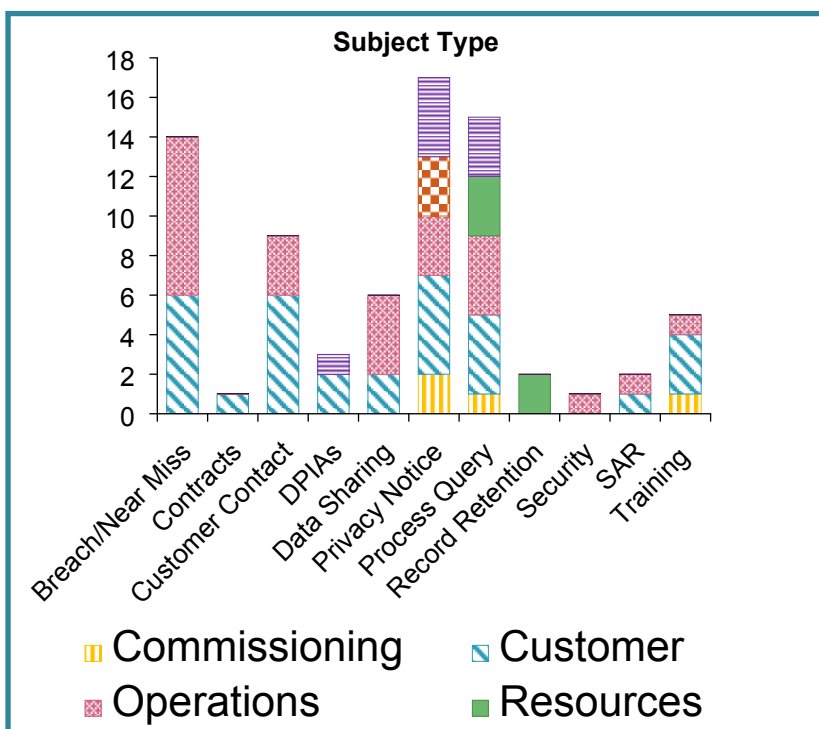
| When breach occurred | Breach Type | Breach Description | No. Of data subjects impacted | ICO Breach reporting compliance (72hrs) | Remedial Actions |
|----------------------|---------------|----------------------------|-------------------------------|---|---|
| June 2018 | Loss or Theft | Missing holdall | 1 | ✓ | <ul style="list-style-type: none"> i) The Council has pursued action with the third-party ii) The Service have revised their procedures and protocols for the secure transfer of items |
| July 2018 | Human Error | Misdirected P11D Tax Forms | 947 | ✓ | <ul style="list-style-type: none"> i) The Council has contacted all affected individuals to inform them of the breach and apologise iii) Revised procedures with additional quality assurance |

3.3 Data Protection Advice & Support

Fig. 13: Number of requests received (25th May - 30th June 2018)

| Number of requests received | 25 th May – end of June |
|---|------------------------------------|
| Internal enquiries | 75 |
| External enquiries (from the public or other organisations) | 15 |

Fig. 14: Breakdown of internal enquiries to the DPO by Subject Type and by Council Function, (25th May - 30th June 2018)



Data Protection Officer

Since the 25th May the Council has been required to have a statutory Data Protection Officer (DPO). The Council's DPO is Fraser Bell, Chief Officer, Governance.

Data Protection Queries and Complaints

Monitoring and responding to DPO enquiries has been delegated to officers in the Governance, Legal and Information and Data Governance Office

Commentary on internal DPO enquiries

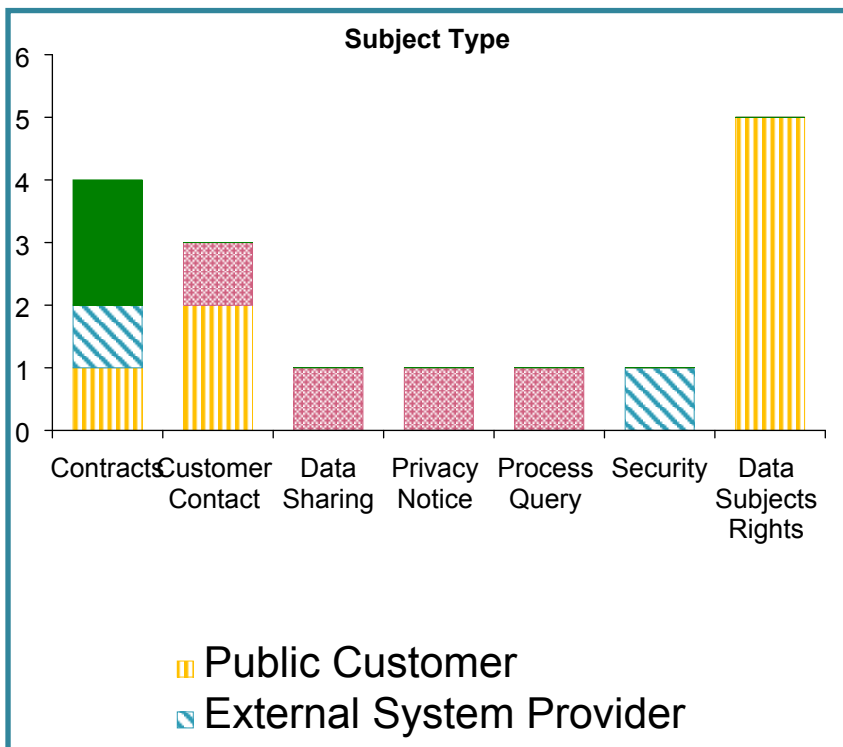
The highest number of enquiries this quarter related to supporting Information Asset Owners to draft and implement privacy notices to inform data subjects about how their data is being used under the 2018 Act.

Process queries from staff asking questions about practice under the new legislation were the second highest category of request, also aligned to bedding in changes required by GDPR.

Reports of data breaches or near misses were the third highest category of request. Breaches are outlined in more detail in the section above (Figs. 9 and 10).

New mandatory DP and IG training generated additional demand for more support, guidance and advice.

Fig. 15: Breakdown of external enquiries to the DPO by Subject Type (25th May - 30th June 2018)



Commentary on external DPO enquiries

The highest number of public enquiries received immediately after GDPR came into force related to Data Subject's rights under the 2018 Act.

Subject Access Requests or Third Party Requests received and passed onto the appropriate services are not counted in these statistics as they are counted in the section above on Data Protection Requests.

The Council also received a number of requests from other organisations asking for advice, guidance and support about (GDPR) Data Protection Act 2018 compliance.

3. 4 Information Governance Training

Over the past 12 months the Council's (GDPR Readiness) Data Protection Act 2018 Activities were built around the following key areas:

- Information & Data
- Systems & Processes
- People & Behaviour

Within the People & Behaviour area, a programme of reporting, guidance, training & briefing sessions, workshops and any additional targeted support required for services has been provided. This was targeted as follows:

Fig.16: Training sessions for Senior Managers (Information Asset Owners)

| Session Name | Attendees at sessions |
|-----------------------------------|--|
| Information Asset Owner Session 1 | Attended by 96% of the Council's Information Asset Owners, currently just over 100 in number |
| Information Asset Owner Session 2 | |
| Third Tier Network & ECMT | |

Commentary on training and guidance for Information Asset Owners

The Council's Information Asset Owners are third-tier managers who are responsible and accountable to the Council's Senior Information Risk Owner (SIRO) for the specific, defined information assets within their remit. Their role and responsibilities are set out the Council's Information Asset Owner Handbook, which includes required actions around readiness for changes to Data Protection Law.

A two-part training session on the Information Asset Owner Role and Changes to Data Protection Law and was delivered to Information Asset Owners from September 2017 – November 2017. These sessions had follow up actions for all Information Asset Owners to take in relation to their information assets in order to be ready for changes to data protection law. This was followed up with further sessions for staff within their services and with targeted intensive support to complete the required actions.

A further presentation on Changes to Data Protection Law was given was given to all the Council's Information Asset Owners and Chief Officers on 12 December 2018 to check in on progress with agreed actions.

Fig.17: Further training sessions by category of attendee

| Session | Sessions | Attendees at sessions |
|-----------------------------------|----------|-----------------------|
| Information Asset / Data Stewards | 7 | 55 |
| Elected Members | 5 | 30 |
| Open to all staff | 10 | 82 |

Commentary on further training and guidance for other categories of attendees

In addition to the formal training sessions, services were provided with a range of intensive support and guidance by the Council's Information Governance & Legal Teams through briefings at management teams, workshops and meetings and one-to one sessions to complete required readiness actions.

Fig.18: Training sessions for staff processing special category, high risk, personal data

| Function/Cluster | Sessions | Attendees at sessions |
|--|----------|-----------------------|
| Aberdeen City Health & Social Care Partnership | 10 | 320 |
| Children's Social Work | 11 | 257 |
| Revenues & Benefits | 2 | 87 |
| Communities & Housing | 4 | 113 |
| Customer Services | 11 | 58 |

Commentary on training for staff in high risk business areas

Sessions were delivered to high risk business areas. These sessions were designed to address the specific knowledge and understanding needs of the particular staff groups.

Business areas are deemed high risk if staff are likely to work with special category data and/or are front line staff working directly with customers.

Fig 19: Information Governance online training

| Function | % of workforce who have completed training, as 12 noon, 11 September 2018 |
|--|---|
| Adult Social Work (Aberdeen City Health & Social Care Partnership) | 47% |
| Commissioning | 78% |
| Customer | 83% |
| Governance | 96% |
| Operations | 34% |
| City Growth | 37% |
| Strategic Place Planning | 70% |
| Resources | 71% |

Commentary on mandatory information governance training

Mandatory training went live in July 2018. There has been a steady increase in uptake, due to the time of year and the amount of staff on annual.

Exception reporting will be provided to the leadership team on monthly basis to ensure compliance.

By the end of September all staff will have completed the mandatory training.

3.5 Freedom of Information (Scotland) Act 2002 & Environmental Information (Scotland) Regulations 2004

3.5.1 FOISA and EIR Information Requests

Fig 20: Annual number of requests received in the period

| Number of requests received | 12 months to June 2018 | 12 months to June 2017 |
|-----------------------------|------------------------|------------------------|
| Number of FOISA Requests | 1348 | 1335 |
| Number of EIR Requests | 636 | 466 |

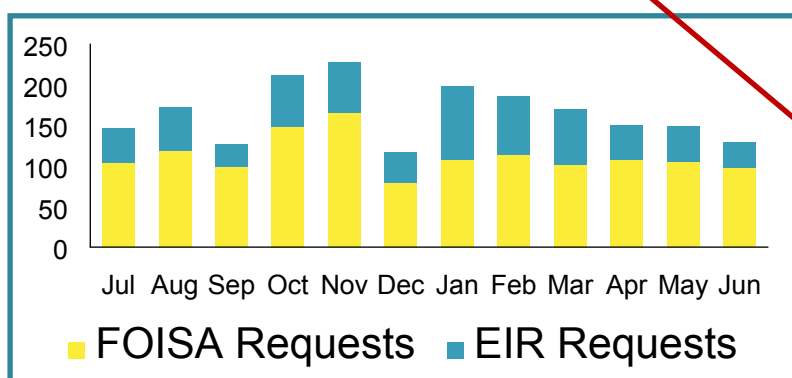
FOISA and the EIRs in brief

The Freedom of Information (Scotland) Act 2002 (FOISA) and the Environmental Information (Scotland) Regulations 2004 (EIR) give anyone the right to request information held by the Council, subject to certain exceptions.

Timescales for responding

The Council must respond to any request we receive within 20 working days.

Fig 21: Request numbers in the last 12 months



Commentary on request numbers

There has been a 10% increase in FOISA and EIR information requests as a whole over the past 12 months. This increase is related to greater awareness of staff in recognising FOISA and EIR requests which has resulted in better recording and reporting. The increase is also related to high profile news stories which generate public interest.

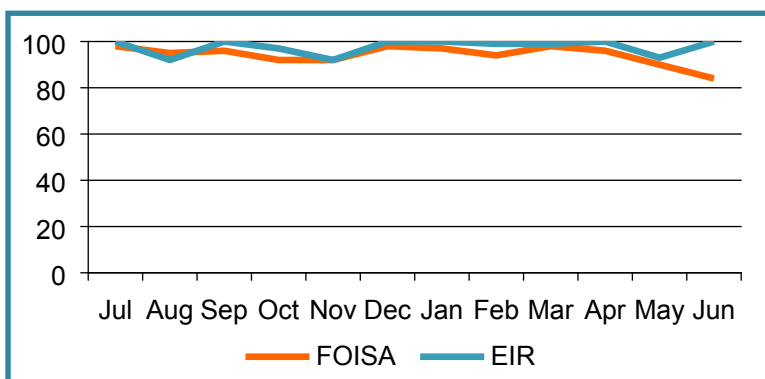
Fig 22: Compliance with timescales in the period

| Requests responded to within timescale | 12 months to June 2018 | 12 months to June 2017 |
|--|------------------------|------------------------|
| FOISA Requests | 94% | 93% |
| EIR Requests | 98% | 95% |

Commentary on compliance

Compliance rates for FOISA and EIR requests have increased this year, compared with last year, despite the increasing numbers received.

Fig 23: Compliance with timescales in the last 12 months (%)



3.5.2 FOISA and EIR Request Internal Reviews

Fig. 24: Internal Reviews received by type in the period

| Type of review received | 12 months to June 2018 | 12 months to June 2017 |
|-------------------------|------------------------|------------------------|
| No response received | 10 | 6 |
| Unhappy with response | 39 | 20 |

Fig.25: Internal Review Panel outcomes in the period

| Type of review outcome | 12 months to June 2018 | 12 months to June 2017 |
|--------------------------------|------------------------|------------------------|
| Response upheld | 32 | 14 |
| Response overturned or amended | 17 | 9 |

3.5.3 FOISA and EIR Request Appeals

Fig. 26: FOISA and EIR Appeals received and closed in the period

| No. of Appeals | 12 months to June 2018 | 12 months to June 2017 |
|----------------|------------------------|------------------------|
| Received | 3 | 8 |
| Closed | 4 | 7 |

Fig. 27: FOISA and EIR Appeal outcomes in the period

| Appeal Outcomes | 12 months to June 2018 | 12 months to June 2017 |
|-----------------------------------|------------------------|------------------------|
| Council response upheld | 3 | 3 |
| Council response partially upheld | 1 | 0 |
| Lateness | 0 | 1 |
| Council response overturned | 0 | 3 |

Internal Reviews in Brief

If the Council does not provide a response to a FOISA or EIR request within 20 working days, or if the requester is unhappy with the response we have given, they can ask the Council to review it.

Internal Review Panels

Where a requester is unhappy with our response, an internal review panel will decide whether to uphold the Council's response or to overturn or amend it.

Right to Appeal

Where a requester remains unhappy with a response to a FOISA or EIR request after an internal review, they have the right to appeal to the Scottish Information Commissioner for a decision.

Commentary on Appeals

The Council received less appeals this year than last year. Of the appeal outcomes in the period no responses have been overturned, three responses have been upheld and one was partially upheld.

3.6 Information Preservation: Historical Archive

Accessions

Fig. 28: Annual number of Accessions received (excluding non-City accessions)

| Number of City Accessions | 12 months to June 2018 | 12 months to June 2017 |
|---|------------------------|------------------------|
| Total | 272 | 308 |
| Received from internal departments | 262 | 283 |
| Aligned to retention schedule | 261 | 275 |
| Received in electronic form | 0 | 10 |

Fig. 29: Annual number of accessions received

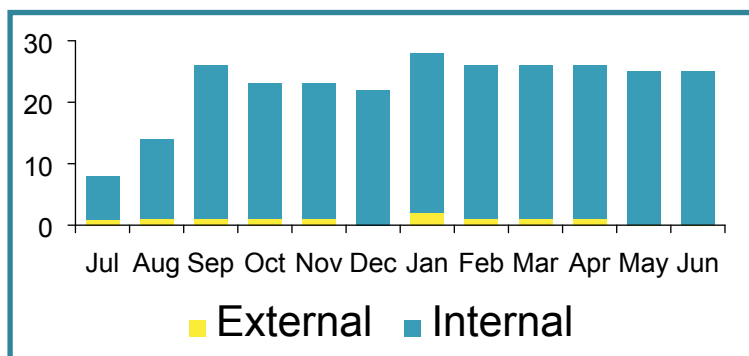


Fig. 30: Accessions received by Directorate

| Directorate | Records received (Y/N)? | Description | Total |
|---|-------------------------|---|-------|
| Aberdeen City Health and Social Care Partnership | N | | 0 |
| Communities, Housing & Infrastructure | Y | Plans and building warrants | 2 |
| Corporate Governance | Y | Council meeting agenda papers and minutes | 182 |
| Educations & Children's Services | Y | Schools admission registers, | 3 |

The Public Records (Scotland) Act, 2011 (PRSA)

The Public Records (Scotland) Act, 2011 (PRSA) requires the Council to make proper arrangements for its records, including the transfer of those records identified for permanent preservation to the Archives Service (Aberdeen City & Aberdeenshire Archive Service).

Transferring Records to Archives

The Council's Records Retention & Disposal Schedule (RR&DS) states that records must be offered to the Archives for review or transferred routinely to the Archives for permanent preservation.

Failure to do so has a range of consequences affecting the Council in areas such as business continuity, legislative compliance, and its reputation.

Accessions

Accessions are items and collections donated / transferred by external depositors (e.g. members of the public) and internal Council departments into the Archive collections for permanent preservation.

Commentary on Accessions

In the past year the vast majority of internal accessions have come from Democratic Services, with small numbers of accessions coming from Planning and Education. None of these deposits have been in electronic format.

| | | | |
|-------------------------------|---|---|----|
| | | school log book, leavers registers, daily registers | |
| Office of the Chief Executive | N | | 0 |
| Commissioning | N | | 0 |
| Customer | N | | 0 |
| Operations | N | | 0 |
| Resources | N | | 0 |
| Governance | Y | Council meeting agenda papers and minutes | 75 |
| Place | N | | 0 |

3.6.1 City Archive Enquiries (excluding Data Protection enquiries)

Fig. 31: Annual number of Enquiries received

| Number of Enquiries received | 12 months to June 2018 | 12 months to June 2017 |
|------------------------------|------------------------|-----------------------------|
| External Enquiries | 513 | 758 enquiries were received |
| Internal Enquiries | 136 | |
| Total | 649 | |

Archival Enquiries

The Archive Service supports the work of the Council and provides public access to the records it cares for.

As part of this service it answers internal enquiries and enquiries from the public.

Fig. 32: Internal Enquiries received by Directorate

| Directorate | 12 months to June 2018 | 12 months to June 2017 |
|--|------------------------|------------------------|
| Aberdeen City Health and Social Care Partnership | 0 | |
| Communities, Housing & Infrastructure | 9 | |
| Corporate Governance | 15 | |
| Educations & Children's Services | 7 | |
| Office of the Chief Executive | 2 | |

Commentary on Enquiries received

There has been little change in the number of enquiries in the last year.

| | | |
|----------------------|----|----------------|
| Commissioning | 0 | Not applicable |
| Customer | 5 | Not applicable |
| Operations | 18 | Not applicable |
| Resources | 0 | Not applicable |
| Governance | 8 | Not applicable |
| Place | 2 | Not applicable |

3.7 Information Security

3.7.1 Cyber Incidents

Fig. 33: Overview of cyber incidents in the period

| Incident Type | 12 months to June 2018 | 12 months to June 2017 |
|--|------------------------|------------------------|
| Internal Cyber Incident Attempts Prevented | 2 | 1 |
| Internal Cyber Incidents | 3 | 6 |
| External Cyber Incident Attempts Prevented | 40790746 | 18089194 |
| External Cyber Incidents | 12 | 5 |

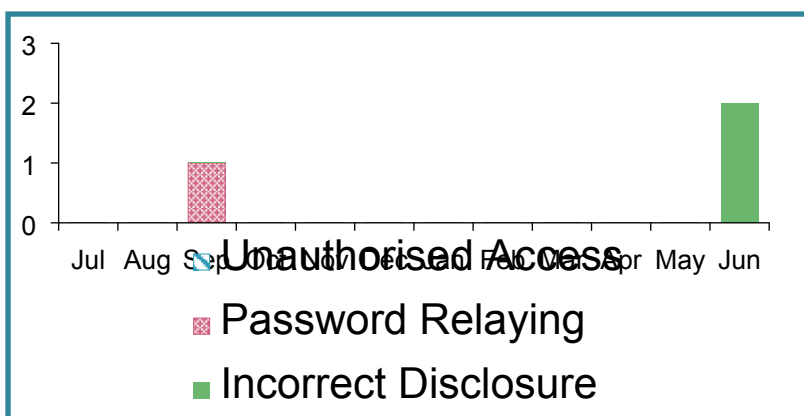
Information Security in brief

The Council is responsible for the integrity, confidentiality and availability of its information. The Council protects it from internal and external threats by using all available controls and ensuring that any incident which could cause damage to the Council's assets and reputation is prevented and/or minimised.

Internal Cyber Incidents

These are risks or threats to the Council's information software, infrastructure or computer network that originate from within the premises or organisation.

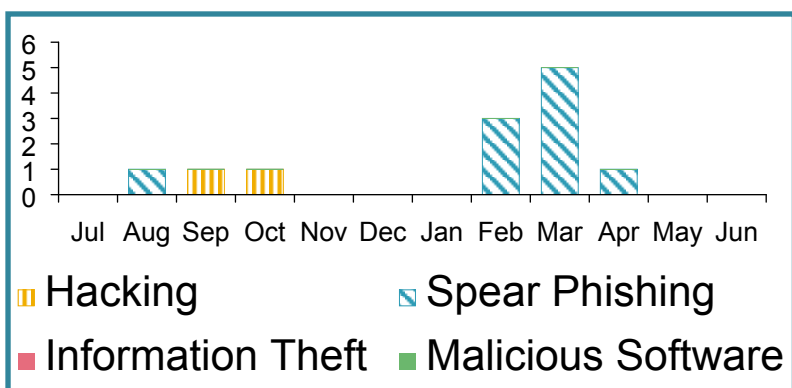
Fig. 34: Internal Cyber Incidents in the period



Commentary on Internal Cyber Incidents

In September an internal cyber incident occurred due to proper procedure not being followed for legitimate access to an employee's device (password relaying). There was no unauthorised access to information as a result of the incident. There were 2 instances in June in which emails were sent to internal employees disclosing information which should not have been shared.

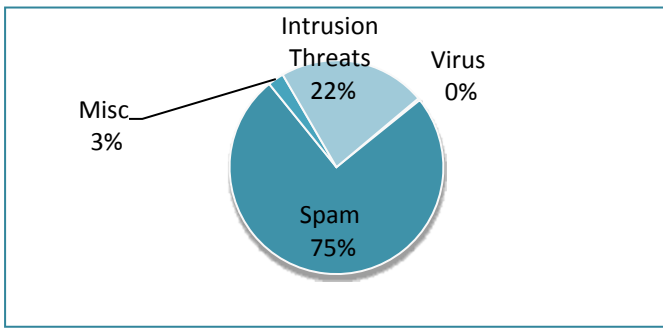
Fig. 35: External Cyber Incidents in the period



External Cyber Incidents

These are risks or threats to the Council's information software, infrastructure or computer network that originate from outside the premises or from the public (e.g. hackers)

Fig. 36: Breakdown of External Cyber Incident Attempts



3.7.2 Physical Incidents

Fig. 37: Physical Incidents in the period

| Incident Type | 12 months to June 2018 | 12 months to June 2017 |
|-----------------------------|------------------------|------------------------|
| Internal Physical Incidents | 153 | 121 |
| External Physical Incidents | 72 | 74 |

Fig. 38: Internal Physical Incidents by type in the period

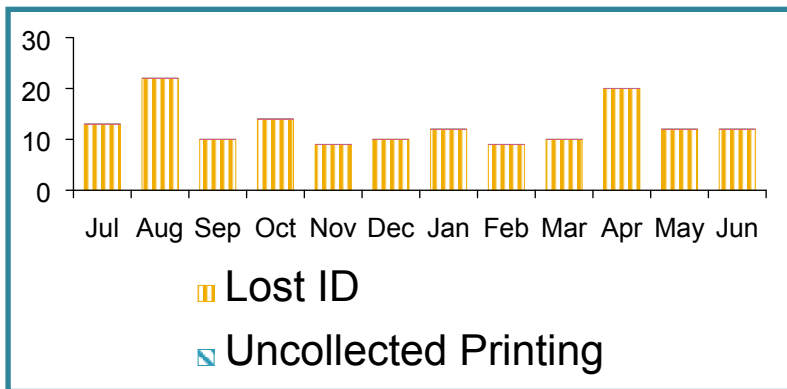
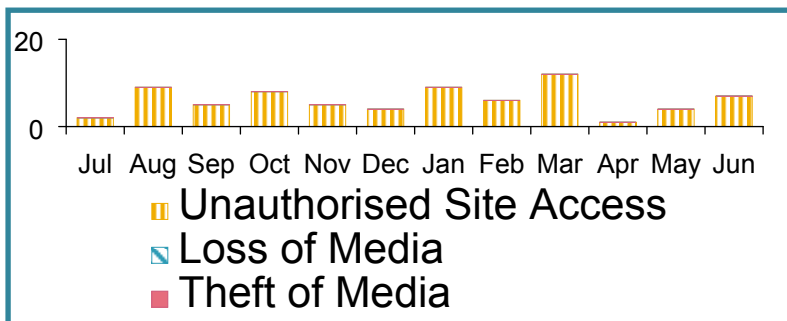


Fig 39: External Physical Incidents by type in the period



Commentary on External Cyber Incident Attempts and Incidents

The majority of external cyber incidents (10 out of 12) were successful phishing attempts. In each case the risks were mitigated.

The number of external cyber incident attempts rose by 125% in the past 12 months. 75% of these were Spam attempts.

Internal Physical Incidents

These are tangible and material risks or threats to the Council's information assets that originate from within the premises or organisation.

Commentary on Internal Physical Incidents

There has been an increase in the number of lost ID badges in the past 12 months. Lost badges are deactivated following notification.

External Physical Incidents

These are tangible and material risks or threats to the Council's information assets that originate from outside the premises or from the public.

Commentary on External Physical Incidents

Further information about these instances is collected via Health & Safety reporting.

This page is intentionally left blank

ABERDEEN CITY COUNCIL

| | |
|---------------------------|----------------------------|
| COMMITTEE | Audit, Risk and Scrutiny |
| DATE | 25 th September |
| REPORT TITLE | Corporate Risk Register |
| REPORT NUMBER | GOV/018/076 |
| CHIEF OFFICER | Fraser Bell |
| REPORT AUTHOR | Ronnie McKean |
| TERMS OF REFERENCE | 1.1 |

1. PURPOSE OF REPORT

To present the Corporate Risk Register in accordance with the Risk Management Framework.

2. RECOMMENDATION(S)

That the Committee:-

- 2.1 note the Corporate Risk Register set out in Appendix A;
- 2.2 note that the Corporate Risk Register will be further developed to correlate risks with organisational outcomes and that this will be completed as the Local Outcome Improvement Plan is refreshed; and
- 2.3 note the progress being made with finalising Cluster Risk Registers for all Chief Officer areas and the proposed timetable for reporting these to relevant committees as set out in Appendix B.

3. BACKGROUND

Corporate Risk Register

- 3.1 The Audit, Risk and Scrutiny Committee is responsible for overseeing risk management on behalf of the Council and for receiving assurance that the Corporate Management Team (CMT) are effectively identifying and managing risks. Assurance on the strength of the system of risk management is a key role for the Committee.
- 3.2 The Council has a Corporate Risk Register (CRR) which captures the risks which pose the most significant threat to the achievement of our organisational outcomes and have the potential to cause failure of service delivery.

- 3.3 This is scrutinised by CMT each month after being updated by risk managers and owners. The Risk Management Framework approved by the Audit, Risk and Scrutiny Committee in February 2018 states that the CRR should also be reported here annually. The CRR was last reported to the Committee in September 2017. An updated version is attached to the report at Appendix A.
- 3.4 Committee is asked to note that the risks contained in the register are those which CMT considers the most significant at the time of writing. Risks are also monitored and managed through “Cluster Risk Registers” and may be escalated to the CRR where required.
- 3.5 The level of CMT scrutiny of the CRR has led to a number of improvements to the CRR:
- Accuracy of content has been addressed to ensure that risk owners, risk managers, due dates and residual risk assessments are more accurate;
 - The control actions in place to manage a risk have been reviewed to ensure that these are “SMARTer” (Specific, Measurable, Assignable, Realistic and Time-measurable) and have the potential to be fully effective if implemented.
 - An index has been placed at the front of the document providing an “at a glance” overview of the corporate risks and how effectively we are managing these
 - Steps have been taken to start establishing each risk with the relevant theme within the Local Outcome Improvement Plan (LOIP) to ensure that as an organisation we are clear on how achievement of better outcomes as envisaged by the LOIP may be threatened and how we minimise and manage that risk through the CRR.
- 3.6 The LOIP is being refreshed with a view to the fully revised Plan being reported to the Community Planning Aberdeen Board on 28th February 2019 and the Strategic Commissioning Committee on 28th March 2019. Linkages between the organisational outcomes in the LOIP and corporate risks will be fed into future iterations of the Corporate Risk Register.

Cluster Risk Registers

- 3.7 The previous “Directorate” risk registers have been replaced with “Cluster” Risk Registers. These are listed in Appendix B as part of the intended timetable for reporting these to Committees. The Terms of Reference approved by Council in March 2018 state that committees shall have oversight of the relevant risk registers in each case.
- 3.8 To this end, Governance is working with Chief Officers and Directors to ensure that Cluster Risk Registers are updated and more specifically that they:
1. accurately and proportionately reflect the risks being managed within Cluster areas by Chief Officers;
 2. include SMART actions to ensure that risk controls are fully effective;
 3. reflect the reallocation of responsibilities within the revised organisational structure;
 4. link to organisational outcomes as set out in the LOIP and future refreshed version;

5. identify links between Clusters – both in terms of controls and impacts. For instance, it is feasible that a positive control action within one Cluster will have a negative impact on another; and
6. operate to set criteria for escalating risks to the CRR and de-escalating to Cluster level.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report. The report deals with the highest level of risk and this process serves to identify controls and assurances that finances are being properly managed.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report. The Corporate Risk Register serves to manage many risks with implications for the legal position and statutory responsibilities of the Council.

6. MANAGEMENT OF RISK

- 6.1 The report provides information on the Council’s system of risk management and the improvements designed to make the system robust and fit for the changing social, political and economic environment in which we exist. The system ensures that all risks attaching to the Council’s business and strategic priorities are identified and appropriately managed. Whilst the Corporate Risk Register records the most significant risks to the Council, the Committee is provided with assurance that from this there are effective controls identified. There are no risks arising from the recommendations in the report.

7. OUTCOMES

- 7.1 Each risk on the Corporate Risk Register is aligned to one or more of the themes within Local Outcome Improvement Plan. This will also be completed for the Cluster Risk Registers before they are reported to committees.

| Design Principles of Target Operating Model | |
|--|---|
| | Impact of Report |
| Organisational Design | The completion of Cluster Risk Registers aligned to the interim transitional structure supports the principles of organisational design. |
| Governance | Reporting to Committee on the Corporate Risk Register and Cluster Risk Registers allows members to scrutinise the system of risk management to help ensure its effectiveness. |
| Process Design | In reviewing our risk management processes, there is an opportunity to make sure that the risk to the Council is mitigated. |

| | |
|-----------------------------------|---|
| Technology | It is anticipated that risk registers will be updated using digital methods in the medium term. |
| Partnerships and Alliances | Risks to the delivery of organisational objectives can at times be related to arms-length external organisations. These will be reflected in the appropriate risk register(s). Furthermore, risk is overseen by the Assurance Hub which reports to the Audit, Risk and Scrutiny Committee on a regular basis. |

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|-------------------------|
| Equality & Human Rights Impact Assessment | Full EHRIA not required |
| Privacy Impact Assessment | Not required |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable |

9. BACKGROUND PAPERS

None

10. APPENDICES

Appendix A – Corporate Risk Register

Appendix B – Cluster Risk Registers – Committee Reporting Timetable

11. REPORT AUTHOR CONTACT DETAILS

Fraser Bell
 Chief Officer - Governance
frbell@aberdeencity.gov.uk
 Tel: 01224 522084

Corporate Risk Register

| Risk Code | Risk Title | Current Risk Score | Residual Risk Score | Function | Risk Owner | Risk Manager | LOIP theme(s) |
|-----------|--|--------------------|---------------------|---------------|----------------|-------------------|---------------------|
| Corp001 | Ensuring Financial Sustainability | 12 | 8 | Resources | Steve Whyte | Jonathan Belford | All |
| Corp002 | Non-compliance with health and safety legislation | 16 | 12 | Governance | Fraser Bell | Colin Leaver | All |
| Corp003 | Workforce of the Future | 12 | 8 | Resources | Steve Whyte | Morven Spalding | All |
| Corp004 | Risk of not adequately planning for and responding to emergencies (as defined by the Civil Contingencies Act 2004) which may affect Aberdeen City and/or an incident having a significant adverse effect on the operations of Aberdeen City Council. | 12 | 8 | Governance | Fraser Bell | Dave McIntosh | Prosperous Place |
| Corp005 | Risk that Council information is not governed and used in accordance with business need and legislative requirements. | 12 | 8 | Commissioning | Martin Murchie | Caroline Anderson | Enabling Technology |
| Corp006 | Cyber Security threats are not adequately mitigated | 12 | 8 | Customer | Andrew Howe | Norman Hogg | Enabling Technology |
| Corp007 | Poor performance by providers due to poor contract management | 12 | 9 | Commissioning | Craig Innes | Alison Watson | Prosperous Economy |

Risk Scoring Process

In order to apply an assessment rating (score) to a risk, the council impl

ements a 4x6 risk matrix.

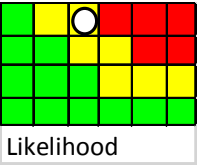
The 4 scale represents the impact of a risk and the 6 scale represents likelihood of a risk event occurring.

Impact Score

| | | | | | | | |
|---------------------|----------|----------|----------|-----------|-----------|-----------|-----------|
| Very Serious | 4 | 4 | 8 | 12 | 16 | 20 | 24 |
| Serious | 3 | 3 | 6 | 9 | 12 | 15 | 18 |
| Material | 2 | 2 | 4 | 6 | 8 | 10 | 12 |
| Negligible | 1 | 1 | 2 | 3 | 4 | 5 | 6 |
| Score | | 1 | 2 | 3 | 4 | 5 | 6 |

Likelihood

- Very High**
- High**
- Significant**
- Low**
- Very Low**
- Almost Impossible**

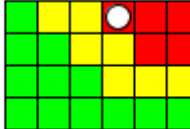
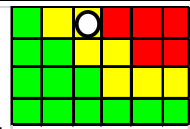
| | | | | |
|---|---|---|---------------------|---|
| Code | Corp001 | Ensuring Financial Sustainability | | |
| Definition | The Council must deliver significant savings over the next five years and beyond to ensure continued financial sustainability. A transformation portfolio has been established with programmes of work to align finite financial resources to desired outcomes. | | | |
| Potential Impact | Causes | Control Effectiveness | | Current Risk Assessment |
| | | Control | Control Assessment | |
| <ul style="list-style-type: none"> • Failure to set a balanced budget • Continued cost pressures from current ways of working and legacy systems • Required savings not achieved • Firefighting required in year to address emerging budget issues • Spend not aligned to achievement of desired outcomes • Customer and service user dissatisfaction • Reputational damage, including adverse impact on the Council's credit rating | <ul style="list-style-type: none"> • Failure to update financial data timeously • Failure of programme governance • Financial resource constraints • Staff not engaged in delivering the transformation programme • Staff not held accountable for budget overspends | Regular update of Medium Term Financial Plan to quantify budget gap | Partially Effective |  |
| | | Recognition of potential future liabilities | Partially Effective | |
| | | Programme planning and governance | Fully Effective | |
| | | Financial monitoring and reporting | Fully Effective | |
| | | Financial governance through the financial regulations | Fully Effective | |
| | | Accountability framework for financial resources | Partially Effective | |
| | | | | |
| | | | | Very serious |
| | | | | Low |
| Risk Owner | Steven Whyte | Risk Manager | Jonathan Belford | Residual Risk Assessment |

| | | | |
|--------------------|--|----------------|--------------|
| Latest Note | <p>This risk has evolved from that previously described as “Risk that Transformation does not deliver the agreed savings target” which focussed on the delivery of the 2018/19 savings and is now largely achieved.</p> <p>As the Council moves into the next phases of transformation, against a background of reducing resources and increasing demand, there is a clear need for focussed action to ensure future financial sustainability. The risk that those actions will not achieve this can never be fully negated as demand levels and available financial resources are variable.</p> | 30 August 2018 | |
| | | | Very serious |
| | | | Very Low |

Control Actions

| Action 1 | Progress | Original Due Date | Amended Due Date |
|---|---|-------------------|------------------|
| Medium Term Financial Plan (MTFP) & Recognition of Potential Future Liabilities | 80% | 30 September 2018 | |
| Description | <p>Defined timeline in place for regular update and reporting of the MTFP to inform the transformation programme of anticipated changes to financial resources, thereby allowing the programme to be adapted quickly to changing needs.</p> <p>This will include horizon scanning to identify potential future financial liabilities, with those that are certain and quantifiable included in the MTFP and where not, recognised as contingent liabilities.</p> | | |
| Update | <p>The update of the MTFP for the period 2019/20 – 2023/24 is well progressed and now in the review stage.</p> <p>Budget procedures are being developed which will include a timeline for regular update of the MTFP.</p> <p>Existing contingent liabilities for example, Scottish Child Abuse Enquiry, are disclosed in the Council’s Annual Accounts and whilst these are reviewed to ensure changing circumstances are reflected appropriately through the Council’s Quarterly Financial Performance reports, it is recognised that a formal process should be in place to capture these updates as well that for the identification of any new liabilities.</p> | | |
| Assigned To | Sandra Buthlay | | |

| Action 2 | Progress | Original Due Date | Amended Due Date |
|--------------------------|--|-------------------|------------------|
| Accountability Framework | 70% | 31 December 2019 | |
| Description | Further development of the accountability framework for financial resources through job profiles and the PR&D process. | | |
| Update | The existing PR&D process holds staff to account for all areas of work including financial management. It is recognised that the accountability framework can be further enhanced. The Core HR system includes a performance management tool which will facilitate this move with testing of this, to run parallel with the existing system, expected from March 2019. The review and update of job profiles is an action within the transformation portfolio. | | |
| Assigned To | Morven Spalding | | |

| | | | | |
|---|--|--|---------------------|---|
| Code | Corp002 | Non-compliance with health and safety legislation | | |
| Definition | The Council is required to safeguard its employees and members of the public which includes the effective implementation of and compliance with health and safety policies and procedures. | | | |
| Potential Impact | Causes | Control Effectiveness | | Current Risk Assessment |
| | | Control | Control Assessment | |
| <p>No effective management of health and safety leading to:</p> <ul style="list-style-type: none"> • Risks not identified or controlled; • Fatality or serious injury to employee or member of the public; • Prosecution for failings (criminal) - material breach of health and safety legislation; • Compensation claims (civil); • Enforcement action – cost recovery of regulator time; • Poor service delivery due to high absence levels; • Reputational damage; • Increased costs due to absence levels and agency costs • Physical assets being unavailable for service delivery • Impact on service delivery | <ul style="list-style-type: none"> •Lack of clarity on health and safety roles and responsibilities; •Lack of understanding of H&S management system •Lack of compliance with H&S management system •Lack of employee involvement and joint working with Trade Unions; •Identified actions not monitored to closed out; •Poor health and safety culture of organisation. | Health and Safety Policy in place which defines roles and responsibilities and arrangements. | Fully Effective |  <p>Impact</p> <p>Likelihood</p> |
| | | Establishment of Staff Governance Committee to oversee health and safety arrangements | Fully Effective | |
| | | Establishment of functional health and safety groups attended by Trades Unions and senior management | Fully Effective | |
| | | Corporate Health and Safety Assessment Audit Process | Fully Effective | |
| | | Competency of resource across the Council to fulfil legal requirements | Partially Effective | |
| | | Health and safety development programme in place | Partially Effective | |
| | | Assurance Framework | Partially Effective | |
| | | Health and Safety Improvement Planning | Partially Effective | |
| | | Culture Project – 21 st Century Public Service | Partially Effective | |
| | | | | |
| | | | Significant | |
| Risk Owner | Fraser Bell | Risk Manager | Colin Leaver | Residual Risk Assessment |
| Latest Note | Updated. | | 30 August 2018 |  <p>Impact</p> <p>Likelihood</p> |

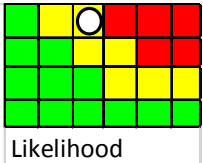
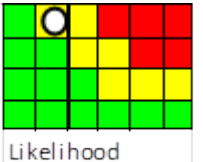
| | | | |
|--|--|--|--------------|
| | | | Very serious |
| | | | Low |

Control Actions

| Action 1 | | Progress | Original Due Date | Amended Due Date |
|---|---|----------|-------------------|------------------|
| Health and Safety Arrangements | | 50% | | 31-Dec-2019 |
| Description | A review of health and safety responsibilities across the organisation will be carried out to ensure that roles and responsibilities in respect of health and safety are clearly understood and are effective. | | | |
| Update | A corporate health and safety team is in place within the new Governance Function. Health and Safety roles across the Council to interface with this corporate team which will be the source of competent advice and guidance. Employees to be involved in decisions that affect their health and safety at work. Levels of function and cluster engagement in Health and Safety will be driven through implementation of the Corporate Health and Safety Policy and related health and safety group. | | | |
| Assigned To | Colin Leaver | | | |
| Action 2 | | Progress | Original Due Date | Amended Due Date |
| Health and safety skills and training and development | | 10% | 31-Mar-2018 | 31-Dec-2019 |
| Description | Identify exact Health and Safety skills and training needs for every employee detail in skills and training matrices from job profiles | | | |
| Update | Functions require to establish a skills and training matrix for all development. These should be included in job profiles (along with health surveillance requirements), as previously highlighted Health and Safety Improvement Plans. This will cover general health and safety and role specific training to ensure employee competence. This is linked to a mandatory training programme that is being developed by CMT to cover a range of topics. This includes but is not limited to data protection, IT security, health and safety. This will form part of the People Development Circle and related Management Development Programme which includes a cultural element (21 st Century Public Service). | | | |
| Assigned To | Dorothy Morrison | | | |
| Action 3 | | Progress | Original Due Date | Amended Due Date |
| Assurance Framework Review | | 10% | | 31-Dec-2019 |
| Description | A revised Assurance Framework will be delivered that will provide reliable evidence to underpin the assessment of the risk and control environment for the Annual Governance Statement. | | | |
| Update | This will include: <ul style="list-style-type: none"> • Strategy and Policy Framework to ensure all policies and strategies are within a single system, updated and compliance monitored; • Include electronic system for tracking actions to close, including health and safety • Health and Safety and other risk reporting via Workplace meetings, Health and Safety Groups, Staff Governance Committee, Audit, Risk and Scrutiny Committee and Public Protection Committee; | | | |

| | |
|--------------------|--|
| | <ul style="list-style-type: none"> • Effective proactive and reactive monitoring of health and safety performance, e.g. assurance via Functions and Corporate HS team; • Regular review of statistics and benchmarking organisations performance also against others to identify improvement areas; • Annual Governance Statement demonstrating assurance to Committee and auditors; and • Appointment to the post of Assurance Manager – resource to develop Assurance Framework. |
| Assigned To | Assurance Manager |

| Action 4 | Progress | Original Due Date | Amended Due Date |
|---|---|--------------------------|-------------------------|
| Health and Safety Improvement Planning | 25% | 31-Mar-2018 | 31-Mar-2019 |
| Description | Ensure H&S Improvement Planning supports strong H&S culture and improvement actions. | | |
| Update | Owing to limited information on previous performance the Corporate Health and Safety Improvement plan has been reviewed in line with the LOIP and measurable targets discussed with CMT. This requires further revision before presenting proposals to the Staff Governance Committee. Implementation will require a high level of engagement from the Functions and links between a Corporate Plan and Functional Plans to be established. | | |
| Assigned To | Colin Leaver | | |
| Action 5 | Progress | Original Due Date | Amended Due Date |
| Review of cyclical and statutory maintenance procedures and records | 25% | 01-Oct 2018 | 01-Oct 2018 |
| Description | Review all activities around cyclical maintenance and compliance. | | |
| Update | Information gathering progressing along with interviews with key officers and systems. Review of best practise elsewhere (including relevant performance measures) and review of relevant legislation and consistency with current procedure. | | |
| Assigned To | Stephen Booth | | |

| | | | | |
|--|--|--|---------------------|---|
| Code | Corp003 | Workforce of the future | | |
| Definition | The Council must ensure that it has a workforce that is the right size with the right skills, knowledge and behaviours it needs to maximise its contribution to the delivery of the Target Operating Model. | | | |
| Potential Impact | Causes | Control Effectiveness | | Current Risk Assessment |
| | | Control | Control Assessment | |
| <ul style="list-style-type: none"> • Inability to deliver BAU outcomes and Target Operating Model • Significant skills shortage • A workforce that can't adapt to new ways of working. • A workforce that does not have the competence to deliver outcomes. • Loss of business knowledge and competence as a result of VS/ER or resignations. • Workforce with the inability to change • Risks to recruitment for hard to fill posts from EU due to potential impacts of Brexit | <ul style="list-style-type: none"> • Lack of adequate workforce planning and succession planning, and training and development • Reliance on traditional notions of leadership - on command and control. • Staff not being properly performance managed and held to account for execution of tasks. • Absence of a young person's agenda in the Council • Staff apathy or resistance to change and transformation with no set deliverables for a change in culture • Absence of a knowledge capture culture. | Establishment Control Board maintaining oversight of recruitment and the Council's establishment list | Fully effective |  |
| | | Talent Management Programme in place to deliver next stages of Transformation including; Workforce Plan, Core HR System, Leadership and Management Capability Framework and Competency Framework | Partially effective | |
| | | Bring about culture change which is based on a "One Team" approach regardless of position in the organisation | Partially effective | |
| | | Cases for Change and Service Re-Design | Fully effective | |
| | | | | |
| | | | | Very serious |
| | | | | Low |
| Risk Owner | Steve Whyte | Risk Manager | Morven Spalding | Residual Risk Assessment |
| Latest Note | Updated. | | 30 August 2018 |  |
| | | | | Very Serious |
| | | | | Very Low |

Control Actions

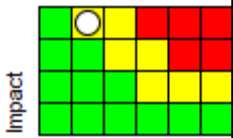
| Action 1 | | Progress | Original Due Date | Amended Due Date |
|-----------------------------|--|----------|-------------------|------------------|
| Talent Management Programme | | 30% | 31-July-2019 | |
| Description | <p>A programme of work is being implemented which will include</p> <ul style="list-style-type: none"> • A review of the workforce planning strategy to take into account transformation programme outcomes and to align the current and future workforce to the 21st Century Public Service. This will identify the types of skills required for recruitment and upskilling/reskilling purposes proactively. • Effective succession planning by which critical roles in the organisation will be identified to ensure that plans are in place for their successors eg head teachers, senior social workers etc. • Developing a Leadership and Management Capability Framework (linking to succession and workforce planning) to identify current gaps in the leadership and management of the organisation • Ensuring effective performance management is in place through delivery of the new CoreHR system (Human Capital Management System) to ensure accountability against set objectives. This will also include a competence framework, enabling streamlined development to ensure that skills gaps are met. • Current recruitment process and guidance will be updated to reflect the outcomes of the TOM and the type of staff we need for a future Council. The behavioural framework and values will be reviewed in conjunction to align to TOM outcomes. | | | |
| Update | The Talent Management Programme will introduce new processes, technology and understanding of a 21 st century public servant. This is a large programme of work and will completely change the way the former HR service advise and support the organisation. Due to this, old ways of working are being eradicated and all projects within this scope have commenced, some more developed than others at present. The delivery timeline is realistic one to reflect the scope of work involved. | | | |
| Assigned To | Morven Spalding | | | |

| Action 2 | | Progress | Original Due Date | Amended Due Date |
|--|--|----------|-------------------|------------------|
| Knowledge capture procedure established for employees leaving the organisation | | 70% | 31-Mar-2019 | |
| Description | Knowledge capture is in progress. Process needs to be implemented to ensure all staff leaving the Council have an exit interview, that opportunities for exiting staff to mentor/coach others prior to exit are enabled and the information is used to update process/procedures where applicable. | | | |
| Update | Project in final stage for completion. To be transferred to CoreHR (Human Capital Management/HCM) then cascaded throughout the organisation | | | |
| Assigned To | Martin Murchie | | | |

| Action 3 | | Progress | Original Due Date | Amended Due Date |
|--------------------|---|----------|-------------------|------------------|
| Visible Leadership | | 50% | 31-Mar-2021 | |
| Description | Programme of staff engagement in place and to be executed throughout the transition to full implementation of the TOM. | | | |
| Update | Meetings have been completed with the Directors to produce a core programme of activities and this has been issued to the Engagement Ambassadors for review and feedback. A steering group has been established within the Leadership Forum | | | |
| Assigned To | Dorothy Morrison | | | |

| Action 4 | | Progress | Original Due Date | Amended Due Date |
|---|---|----------|-------------------|------------------|
| 21 st Century Public Servant | | 10% | 31-Mar-2021 | |
| Description | Programme of work to move from a hierarchical culture to one of 'CLAN' nature whereby staff will be empowered and trusted to make decisions relating to their jobs, better take-up of smarter working and also driven by the digital enablement in the Council. | | | |
| Update | This project is being developed as part of the next stages of transformation. | | | |
| Assigned To | Martin Wyllie | | | |

| | | | | | |
|---|---|---|--|---------------------------------|--|
| Code | Corp004 | Risk of not adequately planning for and responding to emergencies (as defined by the Civil Contingencies Act 2004) which may affect Aberdeen City and/or an incident having a significant adverse effect on the operations of Aberdeen City Council. | | | |
| Definition | The Council must ensure that it puts in place adequate training, planning and testing for civil contingency events and other incidents so that it can respond to emergencies which may affect Aberdeen City and/or an incident having a significant adverse effect on the operations of the Council. | | | | |
| Potential Impact | Causes | Control Effectiveness | | Current Risk Assessment | |
| | | Control | Control Assessment | | |
| <p>The Council is unable to support or lead the response to an emergency affecting the city and/or is unable to deliver critical functions in relation to:</p> <ol style="list-style-type: none"> 1. Human welfare or the environment 2. The finances of the Council 3. The Council's statutory obligations 4. The Council's reputation 5. The Council's ability to respond to emergencies <p>(These impacts relate to both the Civil Contingencies Act 2004 and the Council's Business Continuity Planning)</p> | <ul style="list-style-type: none"> • Failure to review and test our civil contingencies capacity, capability, structures and policies and plans in terms of maintaining suitable levels of resilience. • Inadequate or untrained workforce • Governance or system failure • Absence of an Assurance Framework | Duty Emergency Response Coordinator (DERC) rota to ensure a Chief Officer is always available to contribute to the Council's response to emergencies. | Fully Effective | <p>Very serious</p> <p>Low</p> | |
| | | Governance structure in place to manage risks and test resilience | Partially Effective | | |
| | | Prevent and Prepare CONTEST priorities are embedded and reviewed continuously by priority owners | Fully Effective | | |
| | | Senior management review and direct actions to support the locally developed "Move to Critical Action Plan" | Fully Effective | | |
| | | Resilience training and development for key officers | Partially Effective | | |
| | | Monitoring of the preparedness of our ALEO's to support the council in responding to emergencies | Partially Effective | | |
| | | | | | |
| | | | | | |
| Risk Owner | Fraser Bell | Risk Manager | Emergency Planning and Resilience Lead | Residual Risk Assessment | |

| | | | |
|--------------------|----------|----------------|---|
| Latest Note | Updated. | 30 August 2018 |  <p>Impact</p> <p>Likelihood</p> <p>Very serious</p> <p>Very Low</p> |
|--------------------|----------|----------------|---|

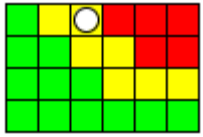
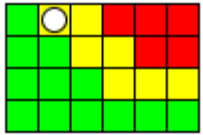
Control Actions

| Action 1 | Progress | Original Due Date | Amended Due Date |
|---|---|-------------------|------------------|
| Monitoring of effectiveness of ALEO resilience arrangements | 60% | 31-Dec-2017 | 30-Dec -2018 |
| Description | Require assurance from ALEOs in terms of resilience. | | |
| Update | <p>The Council has established an ALEO Strategic Partnership, this is an officer led forum meeting every 6 weeks. The forum is attended by Chief Officer, Finance and Chief Officer, Governance and is chaired by Chief Officer, Commercial and Procurement. ALEO Managing Directors are invited to attend. The forum has a remit covering which includes Strategic Planning and Horizon Scanning which includes resilience.</p> <p>There is a proposal for resilience to added to the remit of the ALEO Assurance hub when the remit of the Assurance Hub is reviewed by Audit Risk and Scrutiny Committee in December 2018.</p> | | |
| Assigned To | Emergency Planning and Resilience Lead | | |

| Action 2 | Progress | Original Due Date | Amended Due Date |
|---------------------|--|-------------------|------------------|
| Resilience Training | 70% | 31-Mar-2018 | 31-Oct-2018 |
| Description | Training and exercising schedule to be approved by the Organisational Resilience Group | | |
| Update | <p>All Chief Officers are on DERC rota and have received training if new to roles. In addition, events such as Operation Steeple – exercise testing the Local Resilience Partnership’s response to a major incident in the city centre – recently held with learning points being addressed by Council’s Organisational Resilience Group.</p> <p>Measurements to be put in place to ensure schedule is delivered and targeted roles have attended.</p> | | |
| Assigned To | Emergency Planning and Resilience Lead | | |

| Action 3 | | Progress | Original Due Date | Amended Due Date |
|--------------------|---|----------|-------------------|------------------|
| CONTEST Planning | | 75% | 31-Mar-2018 | 31-March-2019 |
| Description | Implement CONTEST priorities, particularly Prevent and Prepare (generic resilience planning). | | | |
| Update | <p>Over the two years a significant number of staff have been trained on Project Griffin / Argus. Single Points of Contact (SPOCs) are identified for PREVENT and PREPARE links heavily to the LRP plans. The Council participated in a pilot peer review of PREVENT Planning at the end of March 2018.</p> <p>Transfer of responsibility of CONTEST lead officer to Chief Officer Governance. Control therefore marked as partially effective until Chief Officer has reviewed arrangements against the review of the Council's Assurance Framework.</p> | | | |
| Assigned To | Emergency Planning and Resilience Lead | | | |

| Action 4 | | Progress | Original Due Date | Amended Due Date |
|--|--|----------|-------------------|------------------|
| Testing of Governance Structures and Reporting Systems | | 75% | | 31-Mar-2019 |
| Description | Governance arrangements are in place and systems are routinely tested to ensure fitness for purpose. | | | |
| Update | <p>Currently in place:</p> <ul style="list-style-type: none"> Local Resilience Partnership (LRP) meets regularly and considers and addresses risks and resilience gaps. Local Resilience Risk Register reviewed regularly by LRP to ensure all relevant risks are captured Local Resilience Partnership Working Group (LRPWG) manages a local risk register based on the Government Risk Register. The LRPWG and its sub-group develop and test these plans to provide control to these risks. Resilience self-assessment tool in place, managed by Organisational Resilience Group (ORG) ORG and LRP which meet requirements of the PREPARE strand of the Counter Terrorist Strategy (CONTEST) with the PREVENT aspect having a lead officer within the Council who attends the ORG. LRP also develops community resilience. <p>Control marked as partially effective until Chief Officer, Governance has reviewed the governance structure against the review of the Council's Assurance Framework.</p> | | | |
| Assigned To | Emergency Planning and Resilience Lead | | | |

| | | | | |
|---|--|--|---------------------|---|
| Code | Corp005 | Risk that Council information is not governed and used in accordance with business need and legislative requirements | | |
| Definition | Information governance protocols and processes must provide the appropriate framework to facilitate optimum information management to support decision making and resource allocation based on a Business Intelligence culture. | | | |
| Potential Impact | Causes | Control Effectiveness | | Current Risk Assessment |
| | | Control | Control Assessment | |
| <ul style="list-style-type: none"> Unlawful disclosure of sensitive information Individuals placed at risk of harm Prosecution –penalties imposed Council exposed to legal action Reputational damage Council finances jeopardised Business Intelligence effectiveness is compromised by underlying data quality issues Inadequate performance information Business efficiencies not achieved Inability to share services and information with partners Reduced capability to deliver customer facing services Service disruption | <ul style="list-style-type: none"> Under-skilled staff / lack of capability (can't) Non-compliance with information governance policy & procedure by individuals (won't) Privacy and data protection by default is not appropriately considered in the design of new processes and systems Lack of visibility and oversight of emerging information risks Inconsistent approach to information and data governance across the Council (absence of effective embedded information governance roles, systems and processes) | Information Governance Board led by SIRO provides robust corporate oversight of information assurance arrangements. | Partially Effective |  <p>Impact</p> <p>Likelihood</p> |
| | | Clear roles and responsibilities assigned and embedded for all staff for managing & governing information assets across the Council | Fully Effective | |
| | | Mandatory information governance training for all staff | Fully Effective | |
| | | Effective monitoring and reporting of corporate and information asset level information governance arrangements is in place. | Fully Effective | |
| | | Clear systems and processes in place for ensuring appropriate management, governance and use of information designed and implemented within BAU and change management processes. | Fully Effective | |
| | | Data Protection Officer directly influences information governance. | Fully Effective | |
| | | | | |
| | | | Very serious | |
| | | | Low | |
| Risk Owner | Martin Murchie | Risk Manager | Caroline Anderson | Residual Risk Assessment |
| Latest Note | Controls reviewed, revised and updated to reflect closure of GDPR readiness programme and transition to business as usual arrangements for new compliance environment. | | 30 August 2018 |  <p>Impact</p> <p>Likelihood</p> |
| | | | | Very serious |
| | | | | Very Low |

Control Actions

| Action 1 | | Progress | Original Due Date | Amended Due Date |
|------------------------------|--|----------|-------------------|------------------|
| Information Governance Board | | 25% | August 2018 | November 2018 |
| Description | Review the information governance group terms of Reference under the new SIRO and TOM function leads | | | |
| Update | Consolidate within newly agreed Enterprise Architecture governance and approvals model | | | |
| Assigned To | Caroline Anderson | | | |

| Action 2 | | Progress | Original Due Date | Amended Due Date |
|---|---|----------|-------------------|------------------|
| Information Asset Level Monitoring & Reporting Arrangements | | 70% | N/A | December 2018 |
| Description | System for assurance around the governance and use of all information assets | | | |
| Update | Framework established, training delivered, roles embedded. First round of regular assurance statements from Information Asset Owners October – November 2018. Resulting exceptions managed through BAU monitoring framework. Test and review assurance system for exceptions for control to be 100% . | | | |
| Assigned To | Caroline Anderson | | | |

| Action 3 | | Progress | Original Due Date | Amended Due Date |
|-------------------------|--|----------|-------------------|------------------|
| Data Protection Officer | | 50% | N/A | December 2018 |
| Description | Establishing new data protection officer post as part of structure redesign in order to meet new statutory obligation. | | | |
| Update | Job description and evaluation in place. Business case to be agreed. | | | |
| Assigned To | Caroline Anderson | | | |

| Code | Corp006 | Cyber Security threats are not adequately mitigated | | |
|--|--|---|---------------------|--------------------------------|
| Definition | Cyber Security threats must be mitigated to protect the Council, its essential functions and customer data | | | |
| Potential Impact | Causes | Control Effectiveness | | Current Risk Assessment |
| | | Control | Control Assessment | |
| <ul style="list-style-type: none"> • Service disruption • Council finances jeopardised • Inability to share services • Reduced capability to deliver customer facing services • Unlawful disclosure of sensitive information • Individuals placed at risk of harm • Prosecution –penalties imposed • Reputational damage | <ul style="list-style-type: none"> • Lack of oversight of Cyber Security threats. • Inconsistent approach to security across the Council. • Insider threats not identified. • Lack of capability and / or non-compliance by individuals • Human Error • Absence of adequate preventative measures to mitigate against known outsider cyber threats. • Continuous new and emerging cyber threats (so-called day zero attacks) • Absence of corporate protocols when acquiring or changing system solutions so that Cyber Resilience is not built in. • Absence of adequate preventative measures to mitigate insider threat including physical and system security. • Insider threat not properly managed through recruitment and line management | Recommended gateway and End Point tools in place. | Fully Effective | |
| | | Adequate use of anomaly reporting and behaviour analysis. | Not Effective | |
| | | Implementation of Protective Monitoring | Fully Effective | |
| | | Information Governance Board led by SIRO provides robust corporate oversight of information assurance arrangements. | Partially Effective | |
| | | Effective information management and security training and awareness programme for all staff. | Fully Effective | |
| | | Critical systems risk assessed and protected appropriately | Partially Effective | |
| | | Password security controls in place | Fully Effective | |
| | | Restricted access for key personnel to secure facilities | Partially Effective | |
| | | Fit for Purpose Identity Management System (IDM) | Partially Effective | |
| | | Robust Cyber Security incident management procedures. | Partially Effective | |
| | | Consolidation of IT and data related activities corporately within IT and Transformation Service. | Partially Effective | |
| | | Appropriately secured links to all third parties with whom we connect. | Fully Effective | |

| | | | | |
|--------------------|---|--|---------------------|---------------------------------|
| | <p>processes.</p> <ul style="list-style-type: none"> • Lack of appropriate 'tools' or inadequate use of tools to detect and prevent Cyber Threats. • Lack of resource to investigate events or deal with incidents. • Budgetary constraints. • Lack of appreciation around the threats of extension into the Cloud. • Lack of appreciation around the threats of extension of the Internet of Things. • Lack of appreciation around the threats introduced by BYOD. | <p>Sufficient staff or resource to investigate events of significance.</p> | Partially Effective | |
| | | <p>Budget in place to support protection.</p> | Not Effective | |
| | | <p>Continual assessment of new and emerging threats.</p> | Fully Effective | |
| | | <p>Annual IT Health Check performed</p> | Fully Effective | |
| | | | | Very serious |
| | | | | Low |
| Risk Owner | Andrew Howe | Risk Manager | Norman Hogg | Residual Risk Assessment |
| Latest Note | <p>Action 1: Review of our Network Management and Monitoring Systems is now underway.</p> <p>Action 3: 'Cyber Security Action Plan' continues and has moved from 67% to 85% complete. Our Cyber Essentials Plus assessment took place in July and the Council has achieved certification. A response has been sent back to a request by the Scottish Government progress on the Cyber Resilience Action Plan.</p> <p>Action 4: Now complete and can be removed.</p> | | 30 August 18 | |
| | | | | Very serious |
| | | | | Very Low |

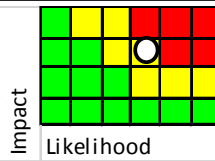
Control Actions

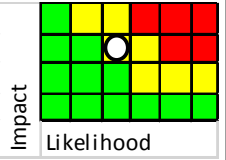
| Action 1 | | Progress | Original Due Date | Amended Due Date |
|--------------------|--|----------|-------------------|------------------|
| Service redesign1 | | 50% | 31-Mar-2018 | 30-Sep-2018 |
| Description | Investigate methods of, and tools to aid in, identifying and responding to indications of anomalous behaviour. | | | |
| Update | <p>Identity Access Management and 0365 projects are currently under way. Investigation of other tools such as Security Information and Event Management(SIEM), Cloud Access Security broker(CASB) and monitoring and alerting systems is required.</p> <p>Review of our Network Management and Monitoring Systems is now underway.</p> | | | |
| Assigned To | Norman Hogg | | | |

| Action 2 | | Progress | Original Due Date | Amended Due Date |
|--------------------|---|----------|-------------------|------------------|
| Service redesign2 | | 80% | 31-Mar-2018 | 30-Sep-2018 |
| Description | Identification and recording of Critical Business Systems and assurance that these are or will be included in department BCP plans. | | | |
| Update | <p>Audit report on major IT Business Systems was reported to Audit, Risk and Scrutiny Committee February 2018. We now have a dedicated resource allocated 2 days per week to move this to completion.</p> <p>Item 2.2.11 in the audit report has now been marked as complete by Audit due to sufficient action being taken.</p> <p>Work is ongoing although there is a risk that the amended due date may not be met.</p> | | | |
| Assigned To | Norman Hogg | | | |

| Action 3 | | Progress | Original Due Date | Amended Due Date |
|--------------------|--|----------|-------------------|------------------|
| System security1 | | 85% | 30-Jun-2018 | 31-Oct-2018 |
| Description | Cyber Resilience action plan | | | |
| Update | <p>Necessary information has been received from the Scottish Government and work has commenced. Pre-assessment being organised.</p> <p>Pre-assessment complete and we have been advised we would pass the official Cyber Resilience assessment (CE) and most likely the more advanced Cyber Essentials Plus assessment (CE+). It is in plan to be officially assessed against CE+ in June.</p> | | | |

| | |
|--------------------|---|
| | <p>Amended due date is so that we can complete implementation of the other aspects of the Cyber Resilience action plan.</p> <p>The Scottish Government have now issued their draft 'Supply Chain Cyber Security Policy' which is currently being reviewed by ICT Security and Procurement for comment by Monday 30th April.</p> <p>Extensive comments on the 'Supply Chain Cyber Security Policy' have been returned to the Scottish Government.</p> <p>The Cyber Essentials Plus assessment took place in July and the council have achieved both the Cyber Essentials and Cyber Essentials Plus certification.</p> |
| Assigned To | Norman Hogg |

| | | | | |
|---|---|---|---------------------|---|
| Code | Corp007 | Poor performance by providers due to poor contract management | | |
| Definition | There is a need to have effective contract management across the Council, undertaken by skilled staff working and working to a consistent and proportionate model. | | | |
| Potential Impact | Causes | Control Effectiveness | | Current Risk Assessment |
| | | Control | Control Assessment | |
| <ul style="list-style-type: none"> Services are not delivered in line with Council requirements and specifications. Savings targets not met/efficiencies not realised. Reputational damage. Disputes/Litigation. Inability to manage market/respond to urgent issues. Negative audit outcomes. Poor supplier relationship management. Poor performance by the provider. Difficulties in dealing with changes and issues arising throughout the contract. | <ul style="list-style-type: none"> Poor contract management skill levels. Officers not robustly or properly contract managing. Poor co-design of the specification initially. Lack of market management resulting in limited range of providers. Lack of clarity on who is responsible for contract management. Lack of awareness in the organisation of the importance of robust contract management. Dissipated contract management capacity across the Council. Absence of a properly maintained contracts register. Contract expectations not being monitored and managed. | Social Care Contracts and Commissioning Team has a contract management framework, including detailed contract monitoring procedures. | Fully Effective |  |
| | | ACC Procurement Regulations – Regulation 13.1 – 13.3 set requirements in relation to contract management. | Fully Effective | |
| | | Implementation of effective contract management procedures across the organisation clearly stating the need for proper contract administration, relationship management and review of contract performance. | Partially Effective | |
| | | Ensuring that contract managers have effective contract management skills and they have full training where pertinent on the Councils internal procurement regulations. | Partially Effective | |
| | | Clarity on who is the contract manager for a particular contract. | Partially Effective | |
| | | Bring together our contract management capability consistent with creating a commissioning Council. | Partially Effective | |
| | | Ensuring that consideration is given to how performance will be monitored e.g. outcomes and KPIs, as part of the co-development of specifications. | Partially Effective | |
| | | | | |
| Risk Owner | Craig Innes | Risk Manager | Alison Watson | Residual Risk Assessment |
| | | | | Serious |
| | | | | Significant |

| | | | | |
|--------------------|--|------------------|---|----------|
| Latest Note | | 7 September 2018 |  | |
| | | | | Serious |
| | | | | Very Low |

Control Actions

| Action 1 | Progress | Original Due Date | Amended Due Date |
|---|---|-------------------|------------------|
| To implement an effective contract management process across the Council. | 30% | | End Dec 18 |
| Description | Implementation of effective contract management process across the Council requiring proper contract administration, relationship management and review of contract performance ensuring that the service provided by the provider is in accordance with the agreed quality standards, KPIs/outcomes and finances. | | |
| Update | It is recognised that the current contract management process needs updating to reflect best practice. Accordingly, a "Think-Tank" is being set up to bring together key officers to look at how the Council can develop and implement an effective contract management process. A new Contract Management guide will be produced for Aberdeen City Council. This will be co-developed with existing contract managers from across the Council. Thereafter to be shared with Commissioning SMT and agreed by CMT. It is intended that the launch of a new Procurement Manual will take place by 30 September 2018 and will incorporate a contract management section. | | |
| Assigned To | Alison Watson | | |

| Action 2 | Progress | Original Due Date | Amended Due Date |
|---|---|-------------------|------------------|
| Developing our Contract Management Capability | 40% | | End Dec 18 |
| Description | Ensuring that contract managers have effective opportunities to learn and develop robust contract management skills. Identify key personnel and deliver contracts management OIL training as well as face-to-face sessions on contract management. | | |
| Update | <ul style="list-style-type: none"> E-learning and training packs to be developed. Training dates and programme require to be scheduled over the next 6 months. Training aligned to best practice guidance from Scotland Excel. The E-learning module is being prioritised. Discussions have taken place with Scotland Excel regarding provision of a training session for C&PSS and Service Contract Managers. | | |
| Assigned To | Sylvia Beswick | | |

| Action 3 | | Progress | Original Due Date | Amended Due Date |
|---|--|----------|-------------------|------------------|
| Bring together capacity and ensure identifying assigned contract managers | | 30% | | End Dec 18 |
| Description | Consolidate current contract management capability where appropriate and clarify who is the contract manager for a particular contract. | | | |
| Update | Using the Contract Register and information on expenditure, individuals will be identified and allocated to the management of specific contracts. Where appropriate it may benefit the Council if we consolidate current contract management capacity consistent with implementation of the TOM. This will also be addressed for new procurements within the Procurement Manual – in the strategy/planning phase, Service identifies lead officer and they then need to ensure compliance with the Manual actions and undertake the e-learning module. | | | |
| Assigned To | Craig Innes | | | |

| Action 4 | | Progress | Original Due Date | Amended Due Date |
|---|--|----------|-------------------|------------------|
| Detailed contract management plans prior to tendering | | 70% | | Ongoing |
| Description | Ensuring that contract management plans are drawn up in advance of going out to tender setting out how the obligations of all parties should be met and establishing the performance measures such as cost/value obtained, performance and customer satisfaction, delivering improvement outcomes. Performance measures selected and set out in the contract must offer clear and demonstrable evidence of the success (or otherwise) of the contract. Once chosen, the requirements underpinning the performance measures should be the primary focus for contract management. The specifications need to outline the performance framework around improving outcomes for the customer. | | | |
| Update | A requirement for a Business Case for expenditure above £50,000 (goods and services) and £250,000 (works) has recently been introduced. Part of the Business Case for each contract requires consideration to be given of performance measures which shall be monitored as part of the contract management for a contract. Further work will be undertaken with Services to address the importance of this in contract planning and to review the process after the September 18 cycle. | | | |
| Assigned To | Sylvia Beswick | | | |

This page is intentionally left blank

Cluster Risk Registers – Timetable for Committee Reporting

| Cluster Risk Register | Committee |
|--|--|
| Governance | City Growth and Resources Committee – 27 November 2018 |
| Strategic Place Planning | City Growth and Resources Committee – 27 November 2018 |
| City Growth | City Growth and Resources Committee – 27 November 2018 |
| Finance | City Growth and Resources Committee – 27 November 2018 |
| | |
| Commercial and Procurement | Strategic Commissioning Committee – 20 November 2018 |
| Business Intelligence and Performance | Strategic Commissioning Committee – 20 November 2018 |
| | |
| Customer Experience | Operational Delivery Committee – 6 November 2018 |
| External Communications | Operational Delivery Committee – 6 November 2018 |
| Digital and Technology | Operational Delivery Committee – 6 November 2018 |
| Early Intervention and Community Empowerment | Operational Delivery Committee – 6 November 2018 |
| Operations and Protective Services | Operational Delivery Committee – 6 November 2018 |
| | |
| Integrated Childrens' Services | Educational Operational Delivery Committee – 6 November 2018 |
| | |
| Capital | Capital Programme Committee – 14 November 2018 |
| Corporate Landlord | Capital Programme Committee – 14 November 2018 |
| | |

This page is intentionally left blank

ABERDEEN CITY COUNCIL

| | |
|---------------------------|-----------------------------|
| COMMITTEE | Audit, Risk & Scrutiny |
| DATE | 26 September 2018 |
| REPORT TITLE | RIPSA - Annual Report |
| REPORT NUMBER | GOV-18-073 |
| DIRECTOR | Chief Executive |
| CHIEF OFFICER | Fraser Bell - Chief Officer |
| REPORT AUTHOR | Jess Anderson |
| TERMS OF REFERENCE | 5.2 |

1. PURPOSE OF REPORT

- 1.1 It is a requirement, under paragraph 3.29 of the Scottish Government's Code of Practice for Covert Surveillance and Property interference, that elected members consider a statement on the Council's Regulation of Investigatory Powers (Scotland) Act 2000 (RIPSA) policy and statistical information on relevant activity on an annual basis.

2. RECOMMENDATION(S)

That the Committee: -

- 2.1 Note the update within the report and Protocol.

BACKGROUND

- 3.1 The Regulation of Investigatory Powers (Scotland) Act 2000 (RIPSA), gives the Council powers to conduct two types of covert surveillance:
1. Directed Surveillance; and
 2. the use of a Covert Human Intelligence Source (the use of an undercover officer).
- 3.2 The Council has a protocol in place which governs the use and management of covert surveillance. Further, all members of staff wishing to use RIPSA, are required to undertake training prior to being able to make an application under RIPSA.

- 3.3 Various Council services use RIPSAs as an investigatory tool. It is considered the “tool of last resort” in light of its intrusiveness into the privacy of the person(s) being surveyed. Council services such as Trading Standards, Environmental Health and Benefit Fraud are most likely to use RIPSAs.

APPLICATIONS FOR COVERT SURVEILLANCE

- 3.4 During the period September 2017 to the present, there have been three authorisations for covert applications. All three applications were for Directed Surveillance operations.
- 3.5 In the period from June 2018 until 13th September 2018, there has been one authorisation for Directed Surveillance, from Trading Standards. It was cancelled within the statutory three-month period. The surveillance was for Tobacco and Nicotine Vapour Products Test Purchasing. The authorisation was executed in accordance with the Council’s protocol on covert surveillance and RIPSAs and has also been audited by the Governance team- Legal Services as is normal practice.
- 3.6 Test purchases for underage sale of tobacco and nicotine products are part of an enforcement initiative promoted by the Scottish Government. One part of that enforcement activity is undertaking test purchases. This can either be a random check or as part of a planned operation after complaints have been made about the shop(s) targeted. A test purchase is the only way in which Trading Standards can ascertain whether the shop is selling age restricted goods or not, and thus proves necessary to continued education and enforcement with sellers of age restricted goods such as tobacco and nicotine.
- 3.7 The use of covert surveillance is restricted to certain legal purposes; crime prevention and detection, public health and public safety. The continued ability to use surveillance, in appropriate circumstances, for the investigation of offences such as the selling of age restricted goods is connected to the themes; Prosperous Place, Prosperous People and Prosperous Economy in the Local Outcome Improvement Plan (LOIP). The investigation and enforcement of regulatory laws (such as the sale of age restricted goods) by the Council, ensure that young people are protected, and communities can be assured that the Council is proactively enforcing its powers and making communities safe.
- 3.8 After an application for a covert surveillance operation is authorised by a senior officer, known as an Authorising Officer, it is sent through to the Chief Officer-Governance for logging and auditing. Members of the Governance Team within Legal Services then carry out an audit of the authorisation and raise any matters of good practice, policy or procedure with the Authorising Officer and the applicant. Officers within Legal services do not interfere with the authorisation as that responsibility lies with the Authorising Officer. This approach has been agreed and was supported by the then Surveillance Commissioner.
- 3.9 There have been no further applications for covert surveillance made or approved within this quarter.

POLICY

- 3.10 There have been minor changes to the Protocol and it still remains fit for purpose. A copy of the Protocol is attached in the Appendix for members to note. This will be uploaded to the Zone after the Committee meeting.
- 3.11 The Scottish Government have revised their Codes of Practice in respect of Directed Surveillance and the Use of a Covert Human Intelligence Source. The revised Codes do not affect the way in which the Council undertakes surveillance operations but merely provides further clarity around existing procedures. Training materials and guidance, the protocol and supplementary guidance has been updated to reflect this, where this relevant.
- 3.12 The Council was contacted recently by the Children's and Young People's Commissioner in respect of their concerns about using children in covert surveillance operations. They noted that whilst they understood that risk assessments are done for covert applications which require the use of a young person, they were concerned that the risk assessments perhaps did not go as far as to consider the rights of the young person, his/her welfare and whether the use of children for covert operations was in their best interests. The types of surveillance referred to by the Commissioner related to children (or juveniles) acting as a covert human intelligence sources (undercover). Whilst the Council's policy reflects the law on this area, any officer considering the use of a juvenile, is required to contact the Governance Team, Legal Services prior to completing an application form. Aberdeen City Council has not authorised the use of a juvenile in any CHIS operations since 2005, when the Governance Team took over the compliance arrangements of RIPSAs activity.

TRAINING

- 3.13 Training forms a large part of RIPSAs compliance and is something which all officers must have before they are permitted to carry out covert surveillance under RIPSAs. The Council's training regime is something which has been commended on by the Surveillance Commissioner on the last three inspections.
- 3.14 The mandatory course is run by solicitors in Governance, Legal Services and a senior Trading Standards officer. It consists of theory, practice and practical application of the rules and procedures around RIPSAs, with the aim that all attendees are equipped with the skills to apply for, and have granted, a covert surveillance application and that all attendees are trained to the same standard.
- 3.15 Two training dates have been set for September and October 2018 and invites have been sent out to officers requiring training. Attendance can be monitored, and a record of the training will be pulled through to each staff member's personnel record. There are approximately 20 officers who have been put forward for training.
- 3.16 This Quarter also sees two Authorising Officer's leave the Council. Contact has been made with the Chief Officer- Operations and Chief Officer -Early

Intervention and Community Empowerment, and nominations for 3 new Authorising Officers have been received. These officers will also require training on the role of the Authorising Officer and thereafter will be duly appointed by the Chief Officer- Governance, with their details being updated on the Zone.

4. FINANCIAL IMPLICATIONS

4.1 There are no financial implications arising from this report.

5. LEGAL IMPLICATIONS

5.1 The Scottish Government Code of Practice on Covert Surveillance sets an expectation that elected members review and monitor the use of RIPSA on a quarterly basis. The Code also reflects that elected members should set the Policy on an annual basis. This annual report brings together a review of all RIPSA activity throughout the last year and provides members an overview of the Council's compliance and updated Protocol. Regular scrutiny by members is also a matter which is taken into account by the Investigatory Powers Commissioner's Office when they carry out their inspections.

5.2 A review of the Council's RIPSA activity by elected members provides assurance that the Council's use of RIPSA is being used consistently and that the standards set by its policy remain fit for purpose, this is done by reporting to this Committee quarterly.

5.3 The management, knowledge and awareness of those involved with RIPSA activity was something which was commended by the Commissioner in his inspection in 2017. The reporting of RIPSA activity to Committee provides another level of scrutiny and assurance on the use of RIPSA.

6. MANAGEMENT OF RISK

| | Risk | Low (L), Medium (M), High (H) | Mitigation |
|------------------|---|-------------------------------|---|
| Financial | there are no financial risks arising from this report. | L | |
| Legal | Reporting on the use of RIPSA ensures that the Council continues to comply with the Code of Practice and that elected members continue to | L | Quarterly reporting on RIPSA activity and the related policy to members, mitigates the risks highlighted in this section. |

| | | | |
|---------------------|---|---|---|
| | provide a level of scrutiny on matters of policy. | | |
| Employee | There are no employee risks related to this report. | L | Appropriate and mandatory training arms staff with the correct skills to carry out surveillance and thus, there is little to no risk to staff . All requests for training are met. |
| Customer | Failure to report to and update Committee on RIPSAs activity means that it would undermine public confidence in the Council and how it operates. | L | |
| Environment | There are no environmental risks arising from this report. | L | |
| Technology | There are no technological risks arising from this report | L | |
| Reputational | Failure to not update Committee on RIPSAs activity would mean that the Council would be at risk of negative reputational damage when this is raised by the Surveillance Commissioner in their inspection. | L | External inspections on RIPSAs activity operate every 3-4 years. This provides external assurance to the Committee of the Council's compliance with RIPSAs. The Inspection Report is shared with Committee and any Action Plan created, endorsed and approved by Committee. |

7. OUTCOMES

| Local Outcome Improvement Plan Themes | |
|---------------------------------------|------------------|
| | Impact of Report |
| | |

| | |
|---------------------------|---|
| Prosperous Economy | This report does not link to this theme directly. The use of RIPSA activity by the Council as an investigatory tool may have an impact on the economy as a result of enforcement action taken by services such as Trading Standard, e.g. such as in enforcing the law around counterfeit goods. |
| Prosperous Place | Enforcement activity undertaken by the Council by using, where appropriate, its powers under RIPSA, may have an impact on this theme by tackling the selling of counterfeit goods. |

| Design Principles of Target Operating Model | |
|--|---|
| | Impact of Report |
| Governance | Reporting to this Committee on the Councils use of RIPSA ensures compliance with the Code of Practice and gives Committee assurances that the Council's use of RIPSA is being done according to its policy. |

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|---|
| Equality & Human Rights Impact Assessment | The purpose of this report is to update Committee on the Council's use of RIPSA. Minimal changes have been made to the Protocol, but not to the extent that it changes how officers implement or comply with the Protocol and therefore an EHIRA is not required. |
| Privacy Impact Assessment | The purpose of this report is to update Committee on the Council's use of RIPSA. As such, a Privacy Impact Assessment is not required. |
| Duty of Due Regard / Fairer Scotland Duty | There is no requirement to consider the Fairer Scotland Duty as this report does not seek approval for any Strategic decisions and is merely providing Committee with an update RIPSA activity. |

9. BACKGROUND PAPERS

None

10. APPENDICES (if applicable)

RIPSA Protocol

11. REPORT AUTHOR CONTACT DETAILS

Name: Jess Anderson

Title: Team Leader, Governance

Email Address: JeAnderson@aberdeencity.gov.uk

Tel: 01224 52 2553

This page is intentionally left blank

Aberdeen City Council

Corporate Protocol and Procedures on Covert Surveillance

Issue 3 (September 2018)

Contents

| | |
|--------------------|---|
| Section 1: | Introduction |
| Section 2: | Overview legislative position |
| Section 3: | Definitions |
| Section 4: | Key Principles |
| Section 5: | Training |
| Section 6: | Covert Human Intelligence Sources (CHIS) |
| Section 7: | Application Process |
| Section 8: | Authorising Officers |
| Section 9: | Authorising Process |
| Section 10: | Authorisation, Review and Cancellation |
| Section 11: | Monitoring and Quality Control |
| Section 12: | Oversight of Covert Surveillance Arrangements |
| Section 13: | Complaints |
| Section 14: | Further Information |

1. Introduction

- 1.1 This protocol provides an overview of the arrangements Aberdeen City Council has in place to manage occasions on which it is necessary for Officers to undertake covert surveillance, either via Directed Surveillance (DS) or through the use of a Covert Human Intelligence Source (CHIS).
- 1.2 This Protocol and Procedure document should be used in conjunction with the Scottish Government “Covert Surveillance and Property Interference Code of Practice”, the Scottish Government “Covert Human Intelligence Sources Code of Practice” and the Office of the Surveillance Commissioners (OSC) “Covert Surveillance and Property

Interference, August 2018". All three publications are available on the Covert Surveillance page of the Zone.

2. Overview of Legislative Position

- 2.1 There are a range of situations in which the Council's employees, in the course of their duties, have to carry out investigations and activities which, by their very nature are **covert**, i.e. they are concealed, secret or clandestine.
- 2.2 Under the Human Rights Act 1998 ('HRA 1998') it is unlawful for a public authority to act in a way which is incompatible with a European Convention on Human Rights ('ECHR') right.
- 2.3 In accordance with the HRA 1998, it is essential that covert investigations are compatible with Article 8 of ECHR which states that: "*everyone has the right to respect for his private and family life, his home and correspondence*".
- 2.4 The rights guaranteed in Article 8 can be interfered with if such action can be justified as being in accordance with the law and necessary in the interests of at least one of the following:
 - national security;
 - public safety;
 - the economic well-being of the country;
 - the prevention of disorder or crime;
 - the protection of health or morals; or
 - the protection of the rights and freedoms of others.
- 2.5 The Regulation of Investigatory Powers (Scotland) Act 2000 ("RIPSA") came into force on 29th September 2000 and is applicable in Scotland only. It provides a legal framework for covert surveillance by public authorities and an independent inspection regime to monitor these activities. RIPSA sets out a process for the authorisation of covert surveillance by designated officers, for the duration of that authorisation and for the review, termination or renewal of authorisations.
- 2.6 The primary purpose of RIPSA is to ensure compliance with Article 8 in relation to covert surveillance. As such, so long as local authority investigators, acting in the course of their duties, ensure that they obtain authorisation **and** that they act in accordance with that authorisation, any interference with Article 8 rights will be in accordance with the law and therefore the activities and evidence of investigating officers will be lawful.

3. Definitions

3.1 Surveillance includes:

- Monitoring, observing or listening to persons, their movements, their conversation or their other activities or communication.
- Recording anything that is monitored, observed or listened to in the course of surveillance.
- Surveillance by or with the assistance of a surveillance device

3.2 Surveillance can be overt or covert.

- **Overt:** Surveillance is overt where it is carried out in such a way that anyone subject to it is aware that the surveillance is taking place

Examples:

- CCTV cameras recording general scene since members of the public should have been aware of such use by placed notices
- City Wardens observations in the Community as their presence will be obvious due to their uniforms.

- **Covert:** Surveillance is covert where it is carried out in such a way that anyone subject to it is unaware that the surveillance is taking place.

Examples:

- External Agency requesting access to Council CCTV system to undertake a specific investigation
- Covert video recording of Trading Standards test purchasing
- Covert monitoring of Social Media Profile(s) of a client / customer

3.3 RIPSA only applies to **covert surveillance** – no authorisation is necessary for overt surveillance. Officers who are unsure if the surveillance they plan to conduct is overt or covert should seek advice from the Governance Team, Legal Services prior to undertaking the surveillance.

3.4 Covert Surveillance should only be undertaken by suitably trained or experienced employees and consideration must be given to employees Health & Safety at all times.

3.5 There are three types of covert surveillance, only two of which Aberdeen City Council can conduct:

- **Directed Surveillance (DS)**

- Surveillance which is covert but not intrusive and undertaken:

- For the purposes of a specific investigation or specific operation

and

- In such a manner as is likely to result in the obtaining of private information about any person.

Private information includes information relating to the person's private or family life, or personal relationships with others, including professional or business relationships.

- **Covert Human Intelligence Source (CHIS)** (See section 6 for further guidance)

- A CHIS establishes or maintains a false personal relationship with others to obtain or access information covertly

- Covers some 'undercover work' undertaken by local authorities where the officer (without disclosing his or her true identity) pursues an investigation by dealing with a particular individual gaining their confidence with a view to securing information

- May also apply to situations where a Council Officer receives information from someone who approaches them voluntarily on repeated occasions.

- **Intrusive Surveillance**

- Covert surveillance carried out in relation to anything taking place on any residential premises or in any private vehicle which involves the presence of an individual on the premises or in the vehicle or is carried out by means of a surveillance device.

- No provision within RIPSA for a local authority to conduct intrusive surveillance, only a Chief Constable can authorise such surveillance being undertaken.
- As such, Local Authority Officers **MUST NOT** engage in intrusive surveillance

4. Key Principles

4.1 In order to be lawful, covert surveillance must:

- Have a **lawful purpose** which directly relates to Aberdeen City Council's regulatory (core) functions and be in pursuance of one of the following:
 - For the purpose of preventing or detecting crime or the prevention of disorder
 - In the interests of public safety
 - For the purposes of protecting public health
 - For any other purpose prescribed in an order made by the Scottish Ministers.
- Be **necessary**
 - Covert surveillance can only be undertaken where there is no reasonable and effective alternative way of achieving the desired objectives.
 - Necessity must be viewed in all of the circumstances of the specific case
- Be **proportionate**
 - The use and extent of covert surveillance should not be excessive and should be proportionate to the significance of what is being investigated.
 - If the same information could be gathered by less infringement of a citizen's rights then the lesser path should be taken.

- In considering proportionality consideration should be given to the seriousness of the alleged behaviour / breach
- 4.2 In addition, surveillance should be planned in such a way as to avoid any confidential material, such as matters subject to legal privilege, confidential medical information or confidential journalistic material, from being obtained and applications where there is a significant risk of acquiring confidential material require to be authorised by the Chief Executive or, in her absence, the Director who is deputising for her as Head of Paid Service.

5. Training

- 5.1 Aberdeen City Council has a RISPA Training Policy. This identifies a process whereby each job role within the authority is tiered as applicable to the roles exposure to Covert Surveillance activities.
- 5.2 Any officer of the Council who wishes to make an application for authorisation for Covert Surveillance **MUST** have undertaken the Tier 1 training as detailed in this Training Policy prior to doing so.

6. Covert Human Intelligence Source (CHIS)

- 6.1 Where an employee establishes or maintains a relationship with a view to obtaining or accessing information covertly, a CHIS Authorisation is necessary. This includes situations where, without disclosing his or her true identity, an officer pursues an investigation by dealing with a particular individual over a prolonged period thereby gaining this confidence with a view to securing information.
- 6.2 In addition, a CHIS can be a person who supplies information to a Council employee on a purely voluntary basis where it has not been sought out by the authority. If the information being provided is recorded as potentially useful or actionable, the Council has a duty of care to the individual and, in order to manage this source appropriately, an authorisation may be necessary. In situations where the Council is receiving information from a voluntary source, particularly attention must be given to paragraphs 2,18; 2,19 -2.22 of the Scottish Government "Covert Human Intelligence Sources Code of Practices".
- 6.3 There are a number of groups to which special consideration must be given prior to their use as a CHIS:
- Juvenile: Juvenile source are those under the age of 18. The maximum duration of authorisation for juvenile sources is one month as opposed to the usual 12 month duration for adult sources. If you are considering the use of a Juvenile, please

contact the Governance Team, Legal Services, for advice prior to seeking an authorisation.

- **Vulnerable Individuals:** A vulnerable individual is a person who may be in need of community care services by reason of mental or other disability, age or illness **and** who is or may be unable to take care of himself, or be unable to protect himself from significant harm of exploitation. Only in the most exceptional of circumstances should vulnerable individual be authorised as a source.

Only the Chief Executive, or in her absence the Director deputising for her as Head of Paid Service, can authorise an application to authorise the use of juveniles or vulnerable individuals as a source.

6.4 Authorisation for the use of a Covert Human Intelligence Source (CHIS) can only be granted if sufficient arrangements are in place for handling the Source. Those arrangements that are required are:

- That a suitably training and / or experienced Officer is appointed as the Handler of the Source. The Handler is responsible for dealing with the CHIS on behalf of the Council; directing the day to day activities of the CHIS; recording information supplied by the CHIS and monitoring the CHIS's security and welfare.
- That a suitably senior Officer, normally the Handler's Line Manager, is appointed as the Controller of the Source. The Controller is responsible for the supervision of the Handler and for general oversight of the use of the CHIS.
- That the Authorising Officer is satisfied that suitable arrangements are in place for maintaining a record of the use made of the source including:
 - The identity of the Source and the identity used by the Source in the operation
 - The detail of any other relevant investigating authority involved
 - The means by which the Source is referred in each investigating authority
 - Any other significant information connected with the security and welfare of the source and confirmation these have been properly explained to and understood by the Source
 - The date when and the circumstances in which the Source was recruited

- The identities of the Handler, Controller and Authorising Officers and the period(s) in which these people have discharged their responsibilities
- All contacts / communications between the Source and the Handler
- Information obtained through the conduct on use of the Source and any dissemination of that information.

7. Application Process

- 7.1 Prior to any application being made, the applicant must contact the Team Leader, Governance, Legal Services (; Ext: 2553, or 3168) to request a Unique Application Reference Number which will apply to the application. This Number must be inserted on each page of the application form.
- 7.2 Before any specific covert surveillance is undertaken, the relevant officer requires to complete a “Directed Surveillance Application Form” or a “CHIS Application Form”, print and sign the application and submit it in hard copy to an Authorising Officer for consideration. These application forms can be downloaded from the RIPSA page on the Zone. No Covert Surveillance can be undertaken prior to a specific authorisation being granted.
- 7.3 The role of the Applicant is to present the facts to the Authorising Officer. Facts must include:
- The **issue** being investigated;
 - **Why** the investigation has to be covert;
 - **What** covert surveillance is requested and why;
 - **Where** and **When** the covert surveillance will take place;
 - **Who** the covert surveillance will focus on;
 - **Who** else may be affected by the covert surveillance;
 - **How** it is intended to conduct the covert surveillance.

Further, for an application for the authorisation of a use of a CHIS, the following additional information is also required:

- The **identity** of the CHIS, the Controller and the Handler.
- Details of the risk assessment undertaken on the **security** and **welfare** of using the source.

In addition, the completed Application Form must provide sufficient detail to allow the following points to be considered:

- Necessity
 - The application must state which of the four purposes outlined in paragraph 4.1 above apply.
 - In addition, specific detail of which legislative provision(s) apply, and/or which powers the Council is seeking to utilise, should be detailed, including the power delegated to that officer by their respective Director, as set out in the Powers Delegated to Officers which forms part of the Council's Scheme of Governance.
 - The application must detail why the application is necessary at the time it is made, it is not appropriate to seek authorisation for activities that may be necessary at some point in the future.

- Effectiveness
 - The application must detail how the covert surveillance will be undertaken and who will do it, the time period(s) and date(s) when it will be done, and the location. It can be useful to provide a map or illustration of the site in order to demonstrate to the Authorising Officer the sight lines and why the location chosen is suitable for the intended operation.

- Collateral Intrusion
 - The application must demonstrate that account has been taken of the likely nature and degree of intrusion into the privacy of persons other than the intended target of the investigation.
 - The application must detail what measures will be taken to avoid unnecessary intrusion into the lives of others. It is necessary that all reasonable practicable measures are implemented.

- Proportionality
 - The application should outline the following factors for the Authorising Officers consideration:
 - The balance of the size and scope of the operation against the gravity and extent of the perceived mischief
 - How and why the methods proposed will cause the least possible intrusion on the target and other people
 - That the covert surveillance activity proposed is the only reasonable way, having considered any other possible ways, of obtaining the desired result

Further guidance on proportionality is set out in a Guidance Note on Proportionality which is contained in Appendix One of this protocol and is also available on the Zone.

A guide on completing the application form is contained in Appendix Two of this protocol.

The entire application process is summarised in a flowchart in Appendix Three of this protocol.

- 7.4 Upon completion, the application form is passed to one of the Council's Authorising Officers.
- 7.5 The completion of the application form and subsequent retention is considered as processing personal data, and where relevant, special category personal data. RIPSAs requires the Council to keep records of its covert authorisations and therefore it is necessary that officers do that in accordance with this procedure. Officers should be aware that under the General Data Protection Regulation and the Data Protection Act 2018 the legal basis for processing is on the grounds that the processing is necessary for carrying out a legal obligation and/ or the performance of a task in the public interest.

8. Authorising Officers

- 8.1 An Authorising Officer is a person who is entitled to give an authorisation for covert surveillance in accordance with the applicable regulations. No other officer, with the exception of that outlined in paragraph 8.3 below, is able to authorise covert surveillance to take place. A current list of Authorising Officers is available on the Covert Surveillance pages on the Zone.
- 8.2 It is the responsibility of the Authorising Officer to assess and approve the necessity and proportionality of any proposed covert surveillance activity.
- 8.3 Aberdeen City Council's Authorising Officers are noted below. Authorising Officers are appointed by the Chief Officer- Governance and once trained, their contact details uploaded to the Zone.

| Name | Job Title | Contact Details |
|---------------|----------------------------|--|
| Wayne Connell | Revenue & Benefits Manager | E-mail: waynec@aberdeencity.gov.uk Ext: 6868 |

- 8.4 In addition, and as stated in paragraph 4.2 above, if there is a significant risk of confidential material (for example confidential medical "personal" information or confidential journalistic material) being acquired during the covert surveillance, the application requires to be

authorised by the Chief Executive or, in her absence, by the Director who is deputising for her as Head of Paid Service.

- 8.5 Where it is likely that the authorisation will obtain information which is subject to legal privilege, that authorisation must be authorised by the Chief Executive. An authorisation for Directed Surveillance in certain premises¹ used for legal consultations is Intrusive Surveillance. Local authorities are not permitted to conduct Intrusive Surveillance. Where it is likely that information which would be subject to legal privilege will be obtained, applicants should contact the Governance Team, Legal Services for advice BEFORE submitting the application to an Authorising Officer for authorisation.

9. Authorising Process

- 9.1 Authorising Officers should avoid authorising activities / operations for which they have responsibility wherever possible and should only do so in exceptional circumstances.
- 9.2 Prior to authorising the use of directed surveillance, Authorising Officers must satisfy themselves that:
- The application form has been completed correctly and that it addresses all the requirements of RIPSAs and the Code of Practice on Covert Surveillance and Property Interference and/or the Code of Practice on the Use of a Covert Human Intelligence Source.
 - That the application is for one of the lawful purposes set out in the Act
 - Whether all of the required considerations have been addressed adequately
- 9.3 Where there is insufficient evidence within the application to enable the Authorising Officer to adequately consider the use of directed surveillance or a CHIS, the Authorising Officer should be prepared to challenge the content of the application form and refuse or limit the extent of authorisation.
- 9.4 Authorising Officers must also consider the health and safety of the staff involved prior to giving authorisation, in line with current Council policies and procedures. For this purpose, when completing the application, a risk assessment must be carried out and recorded on the application form. The risk assessment must determine the risk to the source of the tasking proposed, the members of staff involved in the surveillance, the likely consequences should the role of the source

¹ Article 3(2) Regulation of Investigatory Powers (Modification of Authorisation Provisions) (Scotland) Order 2015

become known and the on-going security and welfare of the source both during the authorisation and following the cancellation of the authorisation.

9.5 Authorising Officers determine whether to approve or refuse the application for covert surveillance. If the application is approved, the Authorising Officer must detail:

- A description of the covert surveillance activity authorised
- Detail of the exact extent of the covert conduct authorised including the time period(s) in which it will take place and the location(s) where it will be conducted. The “5 W’s” – **Who, What, Where, When** and **How** – must be detailed clearly in the application.

This may not always accord with the full extent of the application and will depend on circumstances.

9.6 It is **essential** that all original paperwork be forwarded by Authorising Officers to the Governance Team, Legal Services who maintain the Central Register of all Directed Surveillance and CHIS Applications and Authorisations. All documents created under RIPSAs are highly confidential and shall be treated as such. All will be stored, retained and destroyed within the requirements of the Data Protection Act 2018 and any relevant retention policy of the Council.

9.7 Where it is in the overriding public interest to secure information by covert surveillance as a matter of urgency, when it would not be practicable to do anything other than act immediately, urgent authorisation can be granted verbally. Such authorisation can last for a maximum of 72 hours and must be recorded in writing as soon as reasonably practicable.

10. Authorisation Review and Cancellation

10.1 Each written authorisation for Directed Surveillance expires **3 months** after the date on which it was granted. A written authorisation for a CHIS expires **12 months** after the date on which it was granted. At any time before an authorisation expires, it can be **extended** for a further 3 month period, subject to an Authorising Officer agreeing that such an extension is necessary.

10.2 In addition, each authorised covert surveillance operation must be **reviewed** at intervals of not more than one month by the Authorising Officer who authorised the application. Any changes in circumstances must be considered. The review may lead to the authorisation being continued, the authorisation being varied or the authorisation being cancelled. Where it is not reasonably practicable for the same Authorising Officer to undertake the review (i.e they are out of the country, or have left employment with Aberdeen City Council), the review can be undertaken by another Authorising Officer.

- 10.3 The Authorising Officer who granted or last renewed the authorisation must **cancel** an authorisation if he/she is satisfied that the directed surveillance operation is no longer necessary or proportionate. The cancellation should occur as soon as possible. Where it is not reasonably practicable for the same Authorising Officer to undertake the cancellation (i.e they are out of the country, or have left employment with Aberdeen City Council), the cancellation can be made by another Authorising Officer.
- 10.4 All original review and cancellation paperwork must be forwarded by the Authorising Officer to the Governance Team, Legal Services for retention in the Central Register. As previously, documents within the central register are highly confidential and will be stored, retained and destroyed within the requirements of the Data Protection Act 2018 and any relevant retention policy of the Council.

11. Monitoring and Quality Control

- 11.1 Each Service or discrete location within a Service must maintain its own record of all applications made for authorisation, including instances where an application has been refused, renewals, reviews and cancellations. This record must be kept in a secure, locked location. Separate files should be maintained in respect of the authorisation of directed surveillance and the authorisation of covert human intelligence sources.
- 11.2 All original paperwork and operational practice will be reviewed by appropriate Officers as Applications are received by the Governance Team, Legal Services. The purpose of these reviews will be to identify any areas of procedural or policy weakness, good practice and to assess future training requirements. If necessary, Applicant Officers and Authorising Officers may be contacted as part of this review and learning points from each will be addressed via appropriately formatted briefings.

12. Oversight of Covert Surveillance Arrangements

- 12.1 The Scottish Government Code of Practice sets an expectation that elected members review and monitor the use of RIPSAs on a quarterly basis. The Code also reflects that elected members should set the Policy on an annual basis. The Council's Audit, Risk and Scrutiny Committee undertake this role and provides the Council with assurance that the use of RIPSAs is being used consistently and that the standards set by its policy remain fit for purpose.
- 12.2 The Investigatory Powers Commissioner (IPC) provides independent oversight of the use of powers contained within RIPSAs.

- 12.3 IPC conduct Inspection Visits to each public authority on a triannual basis during which a sample of applications for authorisation are reviewed by the Inspector in detail.

13. Complaints

- 13.1 The Regulation of Investigatory Powers Act 2000 (“the UK Act”) establishes an Independent Tribunal, called the Investigatory Powers Tribunal. This Tribunal has jurisdiction for authorisations granted under the Scottish Act.
- 13.2 The Tribunal is a court which investigates and determines complaints of unlawful use of covert techniques by public authorities which infringe on an individual’s right to privacy.

14. Further Information

- 14.1 Further information about the Council’s procedures for authorising Covert Surveillance can be accessed on the Zone-
http://thezone/cg/LegalServices/rm_covertsurveillance.asp

Also available on this page is:

- Scottish Government Covert Surveillance and Property Interference Code of Practice
 - Scottish Government Covert Human Intelligence Sources Code of Practice
 - Covert Surveillance and Property Interference- Revised Code of Practice, August 2018
- 14.2 Further advice on any aspect of Covert Surveillance procedures can be sought by any Service from Legal Services by contacting the Team Leader, Governance on 2553 or 3168.

APPENDIX ONE

Guidance Note on Proportionality

The term's 'necessity' and 'proportionality' are not defined within RIPSA, but are 'imported from the European Convention on Human Rights.

'Necessity' is a concept which guards against the arbitrary interference with a citizen's rights. There are three statutory grounds of 'necessity' inherent in section 6(3) of RIPSA, namely; the prevention and detection of crime or prevention of disorder, the interests of public safety and the protection of public health. In addition to this, the law requires the interference to be proportionate and in response to a pressing 'social need'.

'Proportionality' is a difficult concept to grasp but a paramount consideration for Officers who are responsible for completing and authorising Application forms for Directed Surveillance and the use of a Covert Human Intelligence Source or CHIS.

Proportionality-

An illustration of how the Court assesses the 'proportionality test' can be found on the case of *Peck v UK*. Footage of Peck carrying a large knife was captured on CCTV cameras in Brentwood High Street, shortly after his attempt to commit suicide. The CCTV operator (an employee of Brentwood County Council) contacted the Police who arrested Peck and detained him under Mental Health legislation. A few months later, stills from the CCTV footage were used in an advertising campaign to promote the CCTV system.

Further to this, footage of Peck was broadcast on national television. Although Peck's face had been masked in one of the broadcasts, the masking was held to be inadequate, as persons who knew Peck could easily identify him from the footage. Peck then made an application to the European Court of Human Rights on the grounds that his rights under Articles 8 (right to respect for private and family life) had been violated. Peck argued that it was the

disclosure of that footage to the public in a manner in which he could never have foreseen which gave rise to such an interference.

In considering whether the interference with his right to privacy was proportionate, the Court had regard to:

1. the failure of the Council to attempt to identify Peck and seek his consent to the disclosure of the footage,
2. the failure of the Council to have 'masked' the image of Peck or enter into a written agreement with the media organisations ensuring that this would be done appropriately,
3. the strong interest the Government has in detecting and preventing crime by use of a CCTV system, and
4. the purpose for publishing the footage.

The Court held that Peck was a victim of a serious interference with his right to privacy involving national and local media coverage. In addition, disclosures by the Council of the CCTV material in 'CCTV news' and to the 'Yellow Advertiser', Anglia television, and the BBC were not accompanied by sufficient safeguards to prevent disclosure inconsistent with the guarantees of respect for the Pecks's private life contained in Article 8. As such, the disclosure constituted a disproportionate and therefore unjustified interference with his private life and a violation of Article 8.

Officers should have in mind a wide range of factors when assessing whether an investigation is 'proportionate' to the achieved aim. Below is listed for information some considerations that should be taken into account. This list is not exclusive.

- Interests affected
Identify whose and what interests are affected. Have you considered the risks involved and prepared for them?
- Extent of interference

Must have regard to the extent of the interference, have less intrusive measures been exhausted first , can you consult with other agencies?

- Duration of the interference
Duration should not be excessive, consider planning, times and places of surveillance.
- Seriousness of the offence involved
Is surveillance excessive in light of the offence involved? Is there a pressing social need?
- Availability of less intrusive alternatives of investigation
Can the aim of the investigation be achieved without surveillance?
- Structured objectives
Operational implications of the investigation
- Absence of irrationality, arbitrariness and unfairness
Are you being unfair, have you made reasonable enquiries with the individual prior to considering surveillance, is what you wish to do relevant? Can you justify interfering with that person's human rights to achieve your aim?
- Relevant and sufficient reasons affected
Be clear with your decision making and evidence on the application form that you have considered the above.

Ultimately, a balance will be required to be struck between the needs of society and the rights of individuals.

APPENDIX TWO

Guide on completing the Application Form



Unique Reference Number* (*Filing Ref)

REGULATION OF INVESTIGATORY POWERS (SCOTLAND) ACT 2000 (RIP(S) ACT)

APPLICATION FOR AUTHORISATION TO CARRY OUT DIRECTED SURVEILLANCE

| | |
|--|--|
| Public Authority <i>(including full address)</i> | ABERDEEN CITY COUNCIL Town House Broad Street ABERDEEN AB10 1AQ |
|--|--|

Insert the unique reference number provided by the Team Leader, Governance. This should be inserted on every page.

Insert the section/department the applicant works in.

This should be the investigating officer's full name.

| | |
|---|-----------------------------|
| Name of Applicant | Unit/Branch/Division |
| Full Address | |
| Contact Details | |
| Investigation/Operation Name (if applicable) | |

This should be the full postal address.

All known contact details should be provided. Include the dialling code, extension numbers and email address.

An operation or investigation name or reference number must be included. This must be something that officers can link to the record/ file within their office that corresponds with the complaint, allegation or investigation.

Details of application:

1. Give rank or position of authorising officer in accordance with The Regulation of Investigatory Powers (Prescription of Offices, Ranks and Positions) (Scotland) Order 2000, No 343; The Regulation of Investigatory Powers (Prescription of Offices, Ranks and Positions) (Scotland) Amendment Order 2001, No. 87; and The Regulation of Investigatory Powers (Prescription of Offices, Ranks and Positions) (Scotland) Amendment (No. 2) Order 2003, No. 50 ¹

It is a statutory requirement that certain officers are granted powers to authorise surveillance. In ACC this is the Director, Head of Service or Third Tier officer, where appropriate. The full job details of the authorised officer must be inserted here including their level in ACC. For up to date information, see the Zone.

Why are you investigating this subject matter, what piece of legislation empowers you to undertake an investigation and enforce that particular law/ offence?

2. Describe the conduct to be authorised and purpose of the investigation or operation.

3. Identify which grounds the directed surveillance is necessary under section 6(3) of RIP(S) Act. *delete as inapplicable*

- For the purpose of preventing or detecting crime or of preventing disorder;
- In the interests of public safety;
- For the purpose of protecting public health.

One of the grounds must be selected and the other non relevant grounds deleted. If you select the first ground, you will be required to detail what alleged crime/ offence has been committed. If you cannot satisfy a ground you should not continue with the application.

¹ For Local authorities: The exact position of the authorising officer should be given. For example, Head of rather than officer responsible for the management of an investigation.

4. Explain why directed surveillance is necessary in this particular case.

[Empty box for section 4]

You are required to explain why a covert operation will obtain the information you want

5. Explain why the directed surveillance is proportionate to what it seeks to achieve (why is the intrusion outweighed by the need for surveillance in operational terms or can the evidence be obtained by any other means?)

[Empty box for section 5]

Expanding on what you've put in 4. above, be clear about what efforts you've made to ascertain the information prior to this application e.g. house visits, written communication. Is what you are intending on doing excessive, is there a less intrusive way to get the information/ intelligence required? Have previous attempts of ascertaining the information failed?

6. Describe the nature of the surveillance to be authorised, including any premises or vehicles involved (e.g. camera, binoculars, video recorder) that may be used.

[Empty box for section 6]

You should include in this section whether surveillance is static, on foot, in a vehicle or a residence. Also what the surveillance involves; cameras, video, photographs, visual monitoring equipment, notebooks etc, whether a corroborating officer will be undertaking the surveillance; the times and location of the surveillance e.g the postal address. If you have a map of the area you are carrying out the surveillance in, mark this up and attach this to the application form.

7. Describe the investigation or operation to be carried out. The identities, where known, of those to be subject of the directed surveillance.

Name:
Address:
D.O.B:
Other information as appropriate:

Where this information is known please ensure you insert it. If you have a description of the subject of surveillance then this should also be included. If you do not know the details of the subject, clarify why these details aren't known.

8. Explanation of the information which it is desired to obtain as a result of the directed surveillance.

You should include here what you want the surveillance to provide. This can be an expansion or repetition of 2.

9. Details of risk assessment on the security and welfare of those carrying out the directed surveillance.

Either include a copy of a risk assessment or detail what the risks are, how you have planned to minimise them and what exit strategy you have employed. Always have regard to the type of location someone is being tasked to observe/visit.

10. Collateral intrusion.

THE USE OF DIRECT SURVEILLANCE WITHIN THE PUBLIC DOMAIN WILL LEAD TO COLLATERAL INTRUSION OF OTHERS NOT ENGAGED IN SUSPECTED ILLEGAL OR CRIMINAL ACTIVITY. PERSONS WHO HAVE LEGITIMATE ACCESS TO AREAS WHICH ARE SUBJECT TO COVERT SURVEILLANCE MAY BE SUBJECT TO COLLATERAL INTRUSION. ALL REASONABLE EFFORTS MUST BE MADE TO MINIMISE COLLATERAL INTRUSION. THIS WILL INCLUDE:

- UTILISATION OF TRAINED SURVEILLANCE OPERATIVES WITH APPROPRIATE KNOWLEDGE AND EXPERTISE
- FOCUSING OF SURVEILLANCE ON THE SUBJECTS OF AUTHORISATION
- DAILY BRIEFING AND DEBRIEFING OF AND TO LINE MANAGERS
- CONSTANT REVIEW AND ASSESSMENT OF OPERATIONAL TACTICS.

INDICATE THE EXTENT OF ANY POTENTIAL FOR COLLATERAL INTRUSION ON PERSONS OTHER THAN THOSE TARGETED: (INCLUDING DETAILS IN THE BOX BELOW OF PLANS TO MINIMISE COLLATERAL INTRUSION)

In this section you need to be clear as to the potential for collateral intrusion. If others may also be surveyed, you need to identify how you will minimise this risk, if possible and what steps you'll take to record your observations.

Unique Reference Number* (*Filing Ref)

11. Confidential Information

INDICATE THE LIKELIHOOD OF ACQUIRING ANY CONFIDENTIAL INFORMATION:

[Empty text box for confidential information details]

Confidential information is information which is subject to legal professional privilege (communications between a professional legal adviser and their client), personal information (such as information relating to someone's physical or mental health e.g. medical records) and journalistic material, e.g. the source of information. Any investigation/ operation which is likely to obtain confidential information should be authorised by the Chief Executive.

12. Anticipated Start

Date:

Time:

13. Applicant's Details

Name (print)

Tel No:

Grade/Rank

Date:

Signature

This section is to be completed by the Applicant

14. Confirmation of urgent authorisation: details of why application is urgent.

[Empty text box for urgent authorisation details]

15. Authorising Officer's comments explaining why in his view the directed surveillance is necessary and proportionate. This box must be completed.

[Empty text box for Authorising Officer's comments]

In this section the Authorising Officer needs to expand on why the surveillance is required, and why having regard to all the circumstances, it should be authorised.

An urgent authorisation may be authorised if an officer was out on official duty but not working under an authorisation and the authorising officer was of the view that the time taken to authorise the surveillance would be likely to endanger life or jeopardise the investigation or operation for which the authorisation was being sought. Details of the time, date and reason for granting an urgent authorisation should be completed by the Authorising Officer who sanctioned it.

| | |
|--|--|
| Unique Reference Number* (*Filing Ref) | |
|--|--|

16. Authorising Officer's Statement

I, [insert name], hereby authorise the following directed surveillance investigation/operation []. This authorisation will cease to have effect at the end of the period of three months commencing on the date of authorisation, unless renewed in writing (see separate form for renewals).

This authorisation will be reviewed frequently (see below) to assess the need for the authorisation to continue.

| | | | |
|----------------------|--|--------------------|--|
| Name (Print): | | Grade/Rank: | |
| Signature: | | Date: | |
| | | Time: | |

| | |
|--|--|
| Date of first review: | |
| Date of subsequent reviews of this authorisation: | |

In this section the Authorising Officer should explain in his/her own words What is being authorised, Why the surveillance is necessary, whom the surveillance will be directed against, Where and When it will take place, what surveillance activity/ equipment will be used and How is it to be achieved.

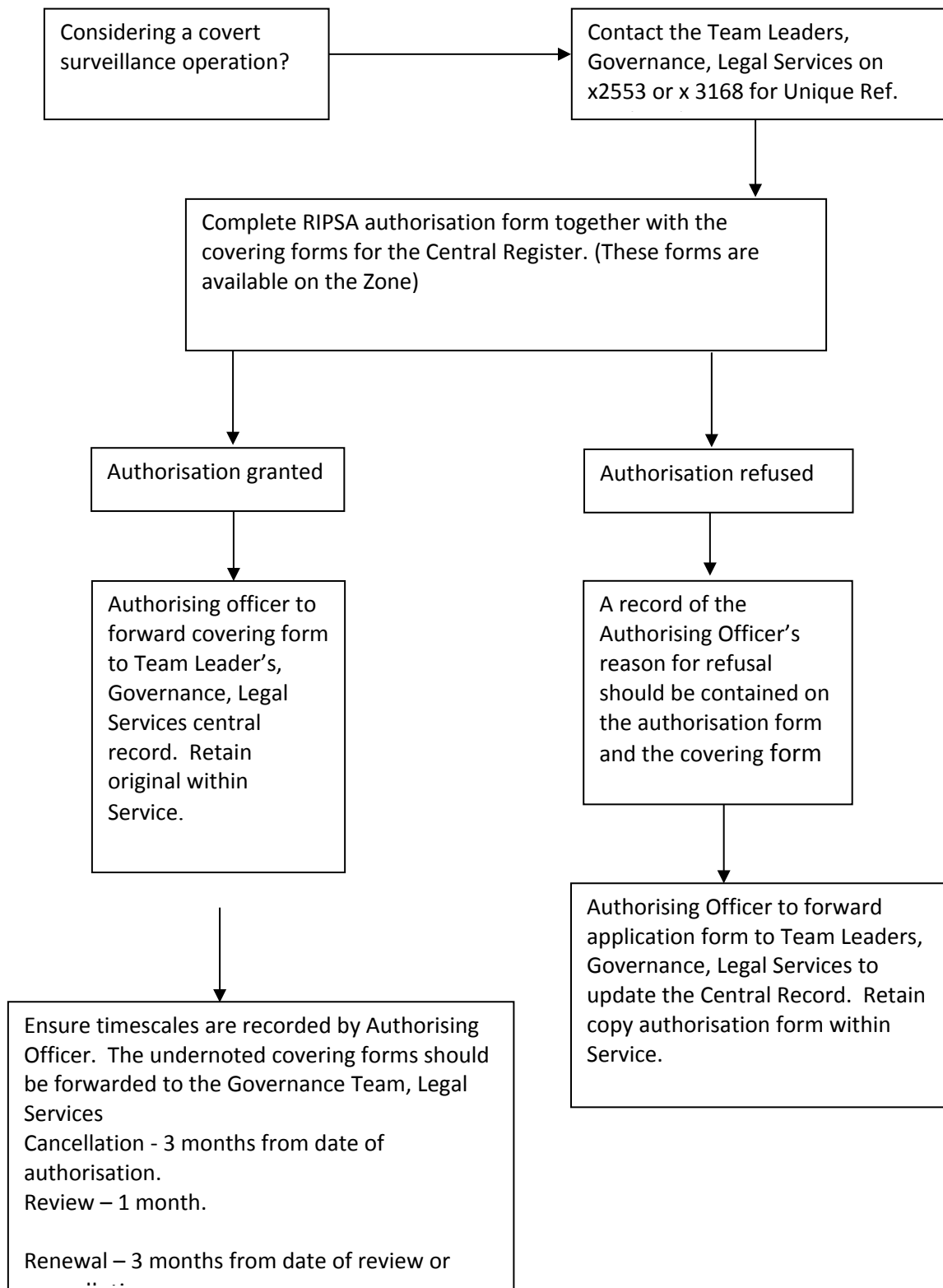
16. Confidential Information Authorisation.

| | | | |
|---------------------|--|-------------------|--|
| Name (Print) | | Grade/Rank | |
| Signature | | Date | |

This section should be completed by the Chief Executive and should set out why it's necessary and proportionate to obtain confidential information having regard to the particular investigation.

APPENDIX THREE

RIPSA Authorisation Process



REMEMBER - it's the AUTHORISING OFFICER'S responsibility to ensure that the surveillance operation is cancelled, renewed and reviewed timeously.

APPENDIX TWO – RIPSA TRAINING POLICY

Aberdeen City Council

Regulation of Investigatory Powers (Scotland) Act (“RIPSA”)

Training Policy – Version 1 (August 2015)

Introduction

This policy outlines the training that will be provided across Aberdeen City Council in connection with powers under RIPSA to conduct Covert Surveillance in certain, limited circumstances.

The aim of this policy is to ensure that, across the organisation a high level of awareness of the restraints of undertaken covert surveillance exists and, where necessary, training of a suitably detailed nature is delivered in order that Officers are familiar with the legal and procedural requirements relating to Covert Surveillance. A further aim of the Training Policy is to ensure that those Officers who undertake Directed Surveillance and Covert Human Intelligence Source (CHIS) applications and those Officers appointed as Authorising Officers for such applications receive regular opportunities to refresh and update their knowledge and skills in this area.

Classification of Job Roles

For the purposes of identifying RIPSA training requirements, all job roles within Aberdeen City Council will be classified into one of four tiers. This classification is undertaken using a simple review as detailed in the flowchart in Appendix One:

| Tier | Description | Example Job Roles |
|-------------|--|---|
| Tier 0 | RIPSA Authorising Officers (including the Chief Executive and Directors who, in the absence of the Chief Executive deputise as the Head of Paid Service, Chief Officer-Governance) Officers within Legal Services with responsibility for oversight of RIPSA. | Solicitors Legal Team Leaders |
| Tier 1 | Job Roles held by Officers who do or will prepare applications for consideration by a RIPSA Authorising Officer. | Trading Standards Officers Environmental Health Officers Fraud Officers Service Manager – Community Safety |
| Tier 2 | Job Roles identified as those which have an Investigative or Enforcement function. | Anti-Social Behaviour Investigation Officers City Wardens Social Workers Licensing Standards Officers Human Resources Advisers / Investigatory Officers |
| Tier 3 | All other job roles. | |

Training Requirements

Tier 0 Roles: Officers identified in Tier 0 roles must attend RIPSAs Authorising Training as soon as possible following their appointment. No Officer in Tier 0 will be permitted to Authorise or Review an Application for Covert Surveillance prior to having attended this training.

Officers should receive refresher training every 2 – 3 years and receive Update Bulletins, including practice improvement notes developed from previous applications, on at least one occasion per year.

Tier 1 Roles: Officers identified in Tier 1 roles must attend RIPSAs in Practice Training as soon as possible following their appointment. No Officer in Tier 1 will be permitted to make a Directed Surveillance or CHIS Application prior to having attending this training.

Officers in Tier 1 should attend refresher training every 2 -3 years and will receive Information Bulletin updates as appropriate.

Tier 2 Roles: Officers identified in Tier 2 roles will be invited to attend a training session which also focuses on information sharing. Managers of these staff are required to alert Personal Development or the Governance team that training is required for any new member of staff falling into any one of the roles within this Tier. Officers will be reminded, via a rolling campaign of Information Posters and Zone banners, of the importance of considering whether covert surveillance of individuals is being undertaken and of appropriate steps being taken to regulate such activity prior to it being undertaken. In addition, an article about Covert Surveillance will be published within the Service specific newsletter / briefing for each service in which Tier 2 Officers are identified.

If any Officer identified as being in Tier 2 requires to make an application for authorising of Directed Surveillance or CHIS, they will require to complete the RIPSAs in Practice Training detailed in Tier 1 above prior to doing so.

Tier 3 Roles: Officers in Tier 3 will be exposed to the rolling campaign of Information Posters and Zone banners which will seek to raise

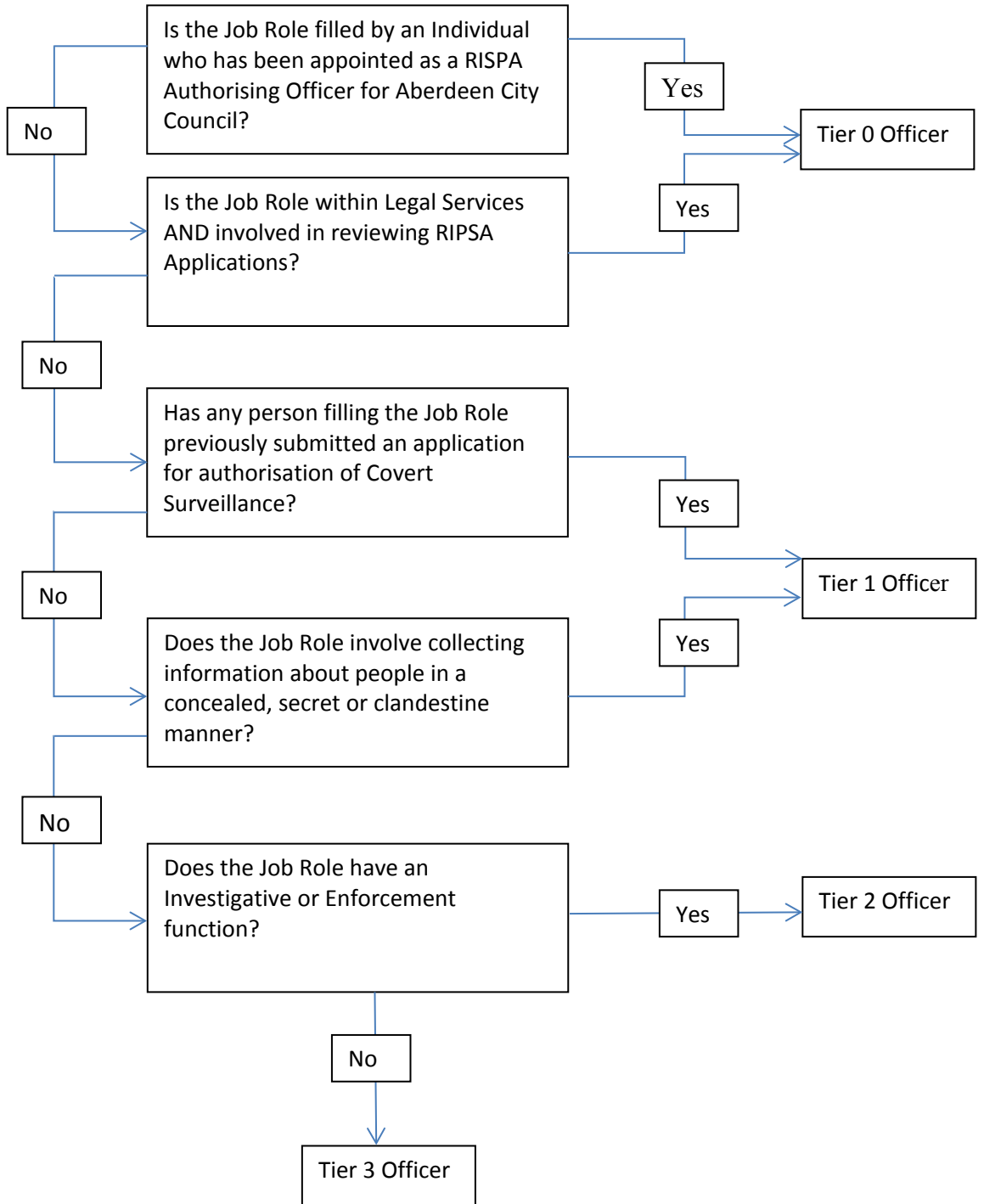
awareness of Covert Surveillance and the need for such activity to be properly authorised prior to taking place.

Any Officer in Tier 3 who recognises that they may partake in Covert Surveillance as part of their job role will be required to complete the RIPSA in Practice Training outlined in Tier 1 above as soon as possible following this recognition.

Review

This training policy will be kept under review by Officers in Legal Services and will be subject to a formal review not more than three years following implementation.

Appendix One



ABERDEEN CITY COUNCIL

| | |
|---------------------------|--------------------------|
| COMMITTEE | Audit, Risk and Scrutiny |
| DATE | 25 September 2018 |
| REPORT TITLE | ALEO Assurance Hub |
| REPORT NUMBER | GOV-18-075 |
| CHIEF OFFICER | Fraser Bell |
| REPORT AUTHOR | Iain Robertson |
| TERMS OF REFERENCE | Remit - 1.2 |

1. PURPOSE OF REPORT

To provide assurance on the risk management, financial management and governance arrangements of Arm's Length External Organisations (ALEOs) within the ALEO Assurance Hub's terms of reference.

2. RECOMMENDATIONS

That the Committee:-

- 2.1 Notes the level of assurance provided by each ALEO on risk management, financial management and governance; and
- 2.2 Notes that Assurance Hub officers and ALEO Service Leads will discuss any outstanding issues identified in the appendices and identified at the Audit, Risk and Scrutiny Committee with ALEO representatives, with a view to improving the assessment ratings at the next Hub meeting.

3. BACKGROUND

- 3.1 The report provides an overview of the ALEO Assurance Hub's third cycle of scrutiny following the Committee's endorsement of an oversight approach which balanced the Council's need for assurance with an ALEO's right to govern itself as an independent entity.
- 3.2 The Hub continues to adopt a proportionate and risk based approach and receives assurance from ALEOs through exception reporting which allows it to assess the level of ALEO risk to the Council. The reporting is based on the degree of assurance provided on each ALEO's financial management; risk management and governance arrangements.

- 3.3 The Hub met on 26 July 2018 with ALEO Service Leads in attendance as advisors to the Hub. An open invitation continues to be extended to Internal and External Audit to observe proceedings and receive documentation. From the next meeting onwards, it is intended that the Governance Assurance Manager will become Chairperson of the Hub.
- 3.4 Following the Committee's meeting on 8 May 2018, the ALEO Strategic Partnership has worked with ALEOs to strengthen their governance arrangements in a number of key areas. This has included the provision of business continuity plan templates and briefings on the recently published Audit Scotland report on ALEOs and possible implications for the Council and its ALEOs.
- 3.5 The Hub has also addressed the specific resolutions made by this Committee on 8 May 2018.
- 3.5.1 The Hub followed up on the steps ALEOs had taken to comply with the General Data Protection Regulation (GDPR) which came into effect on 25 May 2018. To ensure that robust assurance could be provided to the Committee, the Hub tasked officers from the Legal Governance Team to assess the comprehensiveness of ALEO responses. The Hub's assessment of each ALEO has been attached as **Appendices A – E**.
- 3.5.2 With regards to gender equality and Bon Accord Care's (BAC) recruitment of a new Managing Director, on 6 July 2018 the Council's Urgent Business Committee authorised BAC to lead the recruitment process, on the conditions that a Council Director and Co-Leader be represented on the appointment panel and delegated authority be provided to the Chief Officer Governance, following consultation with the Director of Resources to approve the appointment made by the appointment panel. The recruitment process will be required to adhere to the provisions of the Equality Act 2010.
- 3.5.3 With regards to BAC's adoption of a Scheme of Delegation, BAC have now confirmed their intention to prepare a Scheme of Delegation and present this to the Board for approval in September 2018. The Council have provided BAC with templates and guidance to support the scheme's development.
- 3.5.4 With regards to the recruitment process for Aberdeen Heat and Power's (AHP) new Chief Executive Officer (CEO), AHP confirmed that they had made an appointment following a competitive recruitment process with the new CEO taking up post on 11 June 2018 to allow a two-month handover period with the outgoing CEO.
- 3.6 Legal officers within Commercial and Procurement Services continue to review ALEO Service Level Agreements which aim to give effect to the ALEO Assurance Framework.
- 3.7 The Assurance Hub is next scheduled to meet on 13 December 2018 and will report to the Audit, Risk and Scrutiny Committee on 14 February 2019.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from this report.
- 4.2 The role of the Hub is to ensure that ALEOs provide assurance that risks, including financial ones are identified and managed. One of the Hub's primary functions is to ensure that the Council is able to follow the public pound as outlined in Accounts Commission guidance.

5. LEGAL IMPLICATIONS

- 5.1 A review of ALEO service level agreements is currently being undertaken by Commercial and Procurement Services. The introduction of the Assurance Hub will be taken into consideration during this review.
- 5.2 The Hub will help identify any projects and/or initiatives that could influence investment decisions of bond holders or the Council's credit rating and ensure that the appropriate governance is put in place. This adds to the Council's existing bond governance arrangements.

6. MANAGEMENT OF RISK

| | Risk | Low (L), Medium (M), High (H) | Mitigation |
|------------------|--|-------------------------------|--|
| Financial | Financial Failure of ALEOs impacting on the Council and its credit rating. | (L) | ALEOs report financial performance and governance to their boards and present their annual accounts for scrutiny by an external auditor. One of the Hub's key functions is to provide assurance to Committee on the financial management of Council ALEOs. |
| Legal | ALEO service level agreements are not up to date and ALEOs are not delivering on Council outcomes. | (L) | Commercial and Procurement Services are currently reviewing ALEO service level agreements to ensure they remain robust and fit for purpose. The Strategic Commissioning Committee will have oversight of how ALEOs are |

| | | | |
|---------------------|--|-----|---|
| | GDPR Compliance | | <p>achieving Council outcomes and complying with the terms of their service level agreements.</p> <p>The Legal Governance Team provide support and advice to the Hub on the steps ALEOs are taking on GDPR compliance in order for the Hub to provide assurance to Committee on ALEOs' management of this risk.</p> |
| Employee | No direct risks arising from the report's recommendations. | | |
| Customer | No direct risks arising from the report's recommendations. | | |
| Environment | No direct risks arising from the report's recommendations. | | |
| Technology | GDPR Compliance. | (M) | <p>Each ALEO has demonstrated awareness of GDPR and have reported implementation plans to their Boards for scrutiny and approval.</p> <p>The Hub will continue to seek assurance on the policies, processes and systems ALEOs put in place to comply with GDPR due to its complexity and ongoing nature.</p> |
| Reputational | ALEO corporate governance or service delivery failure has a negative impact on the Council's reputation. | (M) | <p>The Council shares a significant amount of data with ALEOs and a breach or failure to comply with GDPR by an ALEO may have a reputational impact on the Council. The Hub will continue its oversight of ALEOs approach to data</p> |

| | | | |
|--|--|--|---|
| | | | protection and seek assurance that data audits are taking place; policies, procedures and systems are being reviewed and staff training is being delivered. |
|--|--|--|---|

7. OUTCOMES

| Design Principles of Target Operating Model | |
|--|---|
| | Impact of Report |
| Governance | The Hub supports the principles outlined in the Accounts Commission’s “Following the Public Pound” guidance by providing oversight of ALEOs to receive assurance on the robustness of their governance arrangements. |
| Partnerships and Alliances | The Hub is one component of the wider ALEO Assurance Framework and complements the work of the ALEO Strategic Partnership. The Partnership offers ALEO access to senior Council officers and provides a forum to discuss strategic planning, business planning and horizon scanning; with a view to strengthen links between the Council and its partner ALEOs. |

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|--|
| Equality & Human Rights Impact Assessment | Sections 1,6 and 8 of the EHRIA have been completed and sent to the Equalities Team. |
| Privacy Impact Assessment | Not required |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable |

9. BACKGROUND PAPERS

CG/17/073 - ALEO Operating Model - reported to Audit, Risk and Scrutiny Committee, 27 June 2017

CG/17/108 - ALEO Assurance Hub Terms of Reference - reported to Audit, Risk and Scrutiny Committee, 26 September 2017; and

CG/18/004 - ALEO Assurance – reported to Audit, Risk and Scrutiny Committee, 8 May 2018.

10. APPENDICES

Appendix A – Assurance on Aberdeen Sports Village

Appendix B - Assurance on Bon Accord Care

Appendix C - Assurance on Sport Aberdeen

Appendix D - Assurance on Aberdeen Heat and Power

Appendix E - Assurance on Aberdeen Performing Arts

11. REPORT AUTHOR CONTACT DETAILS

Iain Robertson

Committee Services Officer

iairobertson@aberdeencity.gov.uk

01224 522869

Aberdeen Sports Village (ASV)

| | |
|-----------------------------|---|
| Sector | Sport and Leisure |
| Level of ACC Control | Joint Venture with the University of Aberdeen |
| ACC Funding 2018-19 | £919,200 |
| Function | Commissioning |

The Hub requested assurance in the following areas:-**1. Governance****1.1 Assurance on General Data Protection Regulation (GDPR) compliance – Aberdeen Sports Village (ASV) provided an update on the steps they had taken to comply with GDPR;-**

- ASV have worked closely with the University of Aberdeen's Data Protection Officer (DPO) to ensure they were GDPR compliant. ASV have now appointed their own independent DPO who commenced their duties on the week commencing 25 June 2018;
- ASV intend to centrally collate any data protection issues and breaches where they can be shared with the DPO and senior management team. The DPO will be responsible for keeping the Board informed of data protection matters and is scheduled to brief the Board at its meeting in December 2018;
- Data audits have been conducted to map the data that ASV processes and holds. ASV advised of their intention to instruct its DPO to review these areas again;
- ASV's electronic storage of data is governed by the University of Aberdeen's IT policies and all information resides in the University's servers. Paper storage within the Sports Centre is locked in cabinets, although the organisation aims to adopt a paper-light approach and move towards electronic formats wherever possible;
- Introductory training sessions have been held with the Performance Management Team and email communication sent to all staff regarding GDPR compliance and what it means for the organisation. ASV plan to work with the new DPO to set some further guidance and training for staff;

- GDPR has been identified as a key risk on ASV's risk register and assessed as medium risk;
- ASV's GDPR implementation action plan continues to be updated as a working document to ensure ongoing compliance; and
- ASV have updated its Privacy Policy which has now been uploaded onto its external website for information purposes.

1.2 GDPR Assessment - The Hub received legal advice on the steps ASV had taken to become GDPR compliant and was advised that ASV had made good progress since last reporting to the Hub in March, particularly in relation to the appointment and work of its Data Protection Officer; the completion of data audits; and the treatment of its GDPR implementation plan as a living document that would be monitored and updated on an ongoing basis. Over the course of the next scrutiny period, the Hub agreed to request additional assurance from ASV on (1) the sharing arrangements in place between ASV and the University of Aberdeen that enable ASV to store its electronic data on the University's IT servers; (2) the rollout of its training programme to non-senior staff; and (3) the development of processes to handle data breaches.

Overall, based on the assurance provided, ASV's GDPR arrangements were assessed as **Low-Medium Risk**. This is an improvement from the Medium risk rating reported to Committee in May 2018 to reflect its increased level of assurance that ASV had taken appropriate steps to be GDPR compliant. The Hub also recognised that GDPR compliance remains an ongoing issue and accordingly, the level of risk will be reviewed by the Hub on a regular basis.

2. Risk Management

2.1 Assurance on risk controls (mitigation) – ASV provided a copy of its risk register as at 15 June 2018. The highest risk to ASV following mitigation was a reduction in funding from its partners.

2.2 Assurance on Business Continuity Planning – ASV informed the Hub that a draft Business Continuity Plan had been prepared and was currently being developed in consultation with the Council's Emergency Planning Manager. ASV confirmed that the final Business Continuity Plan would be presented to the Hub's next meeting.

2.3 Risk Management Assessment - The Hub agreed that the formatting of the risk register was appropriate, and the Hub took reasonable assurance from ASV's identification of risk and the controls they had put in place to manage and mitigate risk.

In terms of business continuity planning, the Hub had expected to receive ASV's Business Continuity Plan during this cycle but was advised that the plan required further development and would be submitted ahead of the Hub's next meeting following consultation with the Council's Emergency Planning Manager. Although the Hub took comfort in the steps ASV were taking to develop a comprehensive Business Continuity Plan, it agreed to increase the level of risk for risk management from Low Risk reported to Committee in May 2018, to **Medium Risk** as it placed great importance on ALEOs having robust business continuity plans in place to manage and mitigate risk. The Hub noted that this risk rating would be reviewed following receipt of ASV's Business Continuity Plan.

3. Financial Management

3.1 Assurance on Management Trading Accounts – ASV provided copies of its management trading accounts and a financial report that was presented to the Board on 15 June 2018 which outlined the budget position as at 30 April 2018.

3.2 Assurance on Financial Regulations Review – ASV advised that a review of its financial procedures would now take place following the Year-End audit to enable the two-person Finance team to focus on urgent priorities such as GDPR compliance. They added that no significant issues with their existing financial regulations had been identified to date. In terms of the development of a Scheme of Delegation, this would be considered as part of the financial regulations review which would be presented to the Board before the end of the calendar year. ASV added that each of its four senior managers had the same financial authority level which ensured purchase orders could be approved timeously regardless of periods of absence by any one member of senior staff. ASV added that any expenditure in excess of £50,000 required the preparation of a business case for Board approval.

3.3.1 Assurance on Financial Reporting to the Board – In response to the Hub's recommendation to insert a financial implications section into their Board report template, ASV noted that reports which require business cases or justifications that financial considerations are now routinely included. ASV quoted two examples of such reports.

- 3.3.2 Assurance on Management Financial Reporting** – ASV explained that individual budget holders receive management accounts which compare their monthly performance against budget. Budget holders will then meet with senior managers to discuss and agree any actions that are required to be taken. The Senior Management Team (SMT) also review consolidated management accounts on a monthly basis, with requests and actions reported back to individual budget holders. To provide additional assurance, ASV appended its consolidated management accounts from April 2018 which had been reviewed by SMT.
- 3.4 Assurance on Financial Planning** – In response to the Hub’s inquiry into whether ASV had developed financial projections for the next five years, ASV advised that in light of ongoing funding reductions from shareholders which account for 30% of total funding, ASV requested a longer-term projection from its partners on funding to enable them to develop a longer-term financial plan. ASV explained that due to the current financial climate, neither partner could provide assurances on future funding levels beyond the upcoming financial year and as a result, the Board determined that producing financial projections for the next two-five years would be very challenging due to the lack of information and uncertainty around future funding levels.
- 3.5 Assurance on Internal Audit** – ASV appended a report on its three-year internal audit programme which had been presented to the Board on 23 March 2018. The report proposed a number of business areas that would be audited during 2018-19 and noted that 12 in-house staff would carry out these audits as they had been accredited through the Quest (Continuous improvement organisation for leisure providers) qualification process. ASV also provided a minute extract for the aforementioned item which demonstrated that the Board had thoroughly discussed the internal audit programme and thereafter instructed the senior management team to narrow the range of areas internal audit would cover during 2018-19, and instead focus on compliance with quality or operational standards levied by various external bodies who provide certification to ASV and ensure that internal auditors were independent of the service area being audited.
- 3.6 Assurance on External Audit** – ASV advised that its financial Year-End fell on 31 July 2018 to align with the University of Aberdeen’s academic year. KPMG (External Audit) were due to begin their interim audit on the week commencing 2 July 2018 with the final audit due to begin on the week commencing 3 September 2018. Following completion of the audit, External Audit will present reports to management and the Board and thereafter ASV will aim to submit signed financial statements to Companies House and the Office of the Scottish Charity Regulator (OSCR) following the Board meeting in December 2018.

3.7 Financial Management Assessment – The Hub welcomed that ASV had been managing its accounts within budget and accepted ASV’s rationale for delaying the review of its financial regulations and Scheme of Delegation until after External Audit had audited its annual accounts. The Hub noted ASV’s response towards medium-term financial planning and acknowledged that this exercise would be challenging without multi-year financial commitments from its two shareholders. However, the Hub also recognised that this was a position a number of organisations found themselves in, including the Council. As such, the Hub recommended that ASV explore the possibility of developing a medium-term financial strategy that was based on realistic budget assumptions and took account of risk.

Overall, based on the assurance provided, ASV’s financial management was assessed as **Low Risk** as they had provided good quality documentation in terms of its accounts, financial reports and internal audit programme. The level of risk remains unchanged from when the Hub last reported to Committee in May 2018.

4 Overall Assessment – The Hub welcomed the steps ASV had taken in relation to GDPR compliance and assessed its financial reporting and governance to be robust, notwithstanding the Hub’s recommendation to consider the development of a medium-term financial plan which would provide additional assurance. The Hub looks forward to receiving ASV’s business continuity plan at its next meeting as this would provide reasonable assurance on ASV’s approach towards risk management. The Hub also noted that following the decision of the Council’s Urgent Business Committee on 6 July 2018 the ASV Board now has a full complement of Members and that ASV’s annual Business Plan would be presented to the next meeting of the Strategic Commissioning Committee on 13 September 2018.

Taking ASV’s full submission into account, the Hub assessed ASV’s governance arrangements to be **Low-Medium Risk** to the Council. The risk rating remains unchanged since the Hub last reported to Committee on 8 May 2018.

| Assurance Standard - September 2018 | Risk Rating |
|---|--------------------|
| Unambiguous responses demonstrating clear understanding and comprehensive ability to fulfil ACC requirements, giving full detail as how these are achieved. | Very Low |
| Responses provide evidence of good understanding and compliance although limited detail provided for some areas | Low |
| Responses provide some indication of understanding and compliance | Medium |
| Minimal or poor responses providing little evidence of understanding or compliance. | High |
| Nil or inadequate responses with little or no understanding of requirement or evidence of compliance. | Very High |

Bon Accord Care (BAC)

| | |
|-----------------------------|---|
| Sector | Health and Social Care |
| Level of ACC Control | The Council is the sole shareholder of both Bon Accord Care Ltd and Bon Accord Support Services Ltd |
| ACC Funding 2018-19 | £26.75m |
| Service | Aberdeen City Health and Social Care Partnership |

The Hub requested assurance in the following areas:-

1. Governance

1.1 Assurance on General Data Protection Regulation (GDPR) compliance –
Bon Accord Care (BAC) have taken a number of steps to ensure compliance with GDPR:-

- BAC provided a copy of its GDPR Action Plan which is owned by its Data Protection Officer and outlined the requirements; action points; responsible officer(s); target dates; and actions taken;
- BAC provided a copy of its revised Data Protection Policy which had been approved by the Board on 1 May 2018 and would be reviewed every three years, or as and when required;
- BAC confirmed that they had appointed its Quality and Compliance Manager as its Data Protection Officer;
- BAC advised that a data audit had been undertaken and a data register was being developed based on the Information Commissioner Office’s template. This would ask officers to record the purpose of processing information; data retention times and the legal basis for processing data, amongst other considerations;
- A review of policies, procedures and systems was ongoing, and a flow chart had been drafted for managers to disseminate key information to staff to provide instruction on the procedure to follow in the event of a data breach. Data Protection issues had also been added to monthly management compliance reports to cover data breaches and follow up actions;

- BAC noted that Board members had received training on GDPR in December 2017 and the Learning and Development Team had been sourcing an update to its current E-Learning provision to incorporate GDPR and confirmed that completion of this course would be mandatory for all staff; and
- BAC advised that GDPR compliance was a material risk on its risk register which was overseen by the Risk Management Committee. They added that the Board would formally review the GDPR risk rating at its meeting in September 2018.

1.2 GDPR Assessment - The Hub received legal advice on the steps BAC had taken to become GDPR compliant and was advised that BAC had made good progress since last reporting to the Hub in March 2018 in terms of data mapping; updating policies and procedures; and rolling out training for Board members and staff. The Hub particularly welcomed BAC's intention to source E-Learning software to enhance its GDPR training programme.

The Hub assessed BAC's GDPR arrangements to be **Low-Medium Risk**. This is an improvement from the Medium risk rating reported to Committee in May 2018 and reflected the Hub's increased level of assurance that BAC had taken appropriate steps to be GDPR compliant. The Hub also recognised that GDPR compliance remains an ongoing issue, particularly for BAC which processes and stores significant volumes of special category data and accordingly, the level of risk will continue to be reviewed by the Hub on a regular basis.

1.3 Assurance on Succession Planning – The previous Managing Director of BAC has been appointed the new Chief Officer of the Aberdeen City Integration Joint Board (IJB) and left BAC on 31 August 2018. Following this announcement, the Council and BAC agreed a recruitment and selection process to appoint the new Managing Director in which recruitment costs will be met by BAC. The Council has directed BAC to identify a recruitment consultant to support the advertising campaign; conduct executive searches and organise the assessment centre.

It is anticipated that key stakeholders will be involved in the process such as the Council and IJB; and the appointments panel would include both a Council Co-Leader and a Council Director. It is anticipated that a new Managing Director will take up post in November 2018, in the meantime, BAC's Finance Director has been appointed as interim Managing Director to cover the intervening period.

1.4 Succession Planning Assessment – The Hub noted the interim arrangements put in place and the decision of the Council’s Urgent Business Committee on 6 July 2018 to direct BAC to follow a recruitment process set by the Council. This provided the Hub with reasonable assurance as the Council had significant recent experience in the field of executive recruitment and therefore assessed succession planning to be **Low Risk** at present to the Council. As this issue was ongoing, the Hub agreed to review this rating at its next meeting, by which time the recruitment process will have concluded and an appointment may have been made.

2. Risk Management

2.1 Assurance on risk controls (mitigation) – BAC presented its risk register as at June 2018. The highest risk to the organisation following mitigation was GDPR compliance which had been assessed as a material risk.

2.2 Assurance on business continuity planning – BAC provided information on an in-house table top exercise held on 5 July 2018 to test the effectiveness of its Business Continuity Plan. The exercise also aimed to test the effectiveness of the whole system approach across the company and identify areas for improvement. Twenty-four senior managers, representing Business Support; Enhanced Services; and the four locality areas took part in an exercise which was facilitated by the Managing Director. BAC advised that the exercise was successful, and a number of learning points had been identified. They added that a de-brief report would be presented to the Board’s next meeting.

2.3 Risk Management Assessment - The Hub agreed that the formatting of the risk register was appropriate, and it took reasonable assurance from BAC’s identification of risk. The Hub recommended that the controls to mitigate GDPR risk could be expanded to also include (1) the development of a GDPR action plan; (2) the completion of a data audit; (3) the formal appointment of a Data Protection Officer; and (4) the sourcing of E-Learning to strengthen staff training and awareness of GDPR. Ahead of its next scrutiny period, the Hub also agreed to request further information on the process BAC’s Risk Management Committee adopted when reviewing its risk register.

In terms of business continuity planning, the Hub noted that BAC had a comprehensive Business Continuity Plan in place and Members were satisfied with the arrangements Management had developed to test whether the Plan remained fit for purpose and if staff had capacity to manage the organisation through an emergency or critical event. The Hub was advised that a formal de-brief on the learning outcomes of the testing exercise would be reported to

the Board in August and the Hub agreed to request the de-brief report ahead of its next meeting to provide further assurance to Committee.

Overall, based on the assurance provided, BAC's risk management approach was assessed as **Low Risk**. The risk rating remains unchanged since the Hub's last report to Committee in May 2018.

3 Financial Management

3.1 Assurance on Management Trading Accounts – BAC appended a financial report presented to the Board in May 2018 and included management trading accounts as at 30 April 2018.

3.2 Assurance on Scheme of Delegation – BAC have agreed to develop a formal Scheme of Delegation and planned to submit a draft scheme to the Board on 20 July 2018 for consideration and review before a final scheme is presented to the Board for approval in November 2018. BAC advised that the scheme would be made available prior to the Hub's next meeting to provide assurance to the Audit, Risk and Scrutiny Committee.

3.3 Assurance on financial reporting process for Managers – The Hub examined BAC's financial reporting to the Board during its previous cycle and on this occasion asked BAC to provide assurance on the financial process for managers. BAC appended copies of its corporate finance policy and financial monitoring policy and provided examples of financial reports prepared by and for managers.

3.4 Assurance on Internal Audit – BAC provided its Internal Audit schedule which covered (1) Corporate Services; (2) Care and Residential Facilities by area; (3) Enhanced Services; and (4) ISO 9001 Quality Management Systems. BAC also provided a number of completed service audits covering a range of organisational areas, in which the Hub assessed a sample of these including the Head Office Administration Team audit and the Learning and Development audit.

3.5 Assurance on External Audit – BAC provided letters of representation from its external auditor, Johnston Carmichael LLP dated 12 June 2018 which confirmed that they had identified no material misstatements and made no audit recommendations for either Bon Accord Care or Bon Accord Support Services.

3.6 Financial Management Assessment – The Hub welcomed that BAC had been managing its accounts within budget and was advised that the company had recorded a surplus at Year End. The Hub received significant assurance from BAC’s External Auditors who had audited its annual accounts and issued a clean audit certificate. The Hub noted that BAC had accepted Hub recommendations to include a Financial Implications section within its Board report template which was appended to its submission; and to adopt a formal Scheme of Delegation. The Hub agreed to request the Scheme of Delegation ahead of its next meeting to provide further assurance to Committee. The Hub also found BAC’s Internal Audit arrangements to be robust as they were ISO9001 accredited and agreed to request Board reports on how Management would close off audit recommendations ahead of its next meeting.

Overall, based on the assurance provided, BAC’s financial management was assessed as **Low Risk**. The risk rating remains unchanged from when the Hub last reported to Committee in May 2018.

4 Overall Assessment - The Hub welcomed steps BAC had taken to become GDPR compliant but also recognised the significant volume of special category data BAC processed which meant that the level of overall risk would remain slightly elevated. The Hub received reasonable assurance on BAC’s succession planning; management of risk and financial management, though these areas would require follow up inquiries during the Hub’s next scrutiny period.

The Hub was advised by BAC’s Service Lead that the Council’s review of BAC’s contract was nearing completion and that the revised contract would (1) take into account changes to the health and social care landscape since the establishment of BAC in 2013; (2) propose a holistic review of its organisational structure; (3) be more outcome focussed; and (4) incorporate best practice and recommendations made by Audit Scotland in its recent report on ALEOs. The Hub also noted that BAC’s annual Business Plan would be presented to the next meeting of the Strategic Commissioning Committee on 13 September 2018.

Overall, based on the assurance provided, the Hub assessed BAC to be **Low-Medium Risk** to the Council. The risk rating remains unchanged since the Hub’s last report to Committee on 8 May 2018.

| Assurance Standard – September 2018 | Risk Rating |
|---|--------------------|
| Unambiguous responses demonstrating clear understanding and comprehensive ability to fulfil ACC requirements, giving full detail as how these are achieved. | Very Low |
| Responses provide evidence of good understanding and compliance although limited detail provided for some areas | Low |
| Responses provide some indication of understanding and compliance | Medium |
| Minimal or poor responses providing little evidence of understanding or compliance. | High |
| Nil or inadequate responses with little or no understanding of requirement or evidence of compliance. | Very High |

Sport Aberdeen (SA)

| | |
|-----------------------------|-------------------------------|
| Sector | Sport and Leisure |
| Level of ACC Control | Council is the sole guarantor |
| ACC Funding 2018-19 | £5,353,082 |
| Function | Commissioning |

The Hub requested assurance in the following areas:-**1. Governance****1.1 Assurance on General Data Protection Regulation (GDPR) compliance –**
Sport Aberdeen (SA) appended a copy of its revised Data Protection Policy and provided an update on the steps it had taken to comply with GDPR.

- The revised Data Protection Policy was approved by the SA Board on 27 June 2018 to take account of GDPR requirements. The policy will be reviewed by the Board at least annually or as and when required;
- A Data Protection Breach procedure is currently being developed;
- SA have appointed their Director of Business Development as its Data Protection Officer (DPO). To provide additional assurance to the SA Board, six monthly external audits of GDPR policies and procedures have been built into the 2018-19 base budget;
- As the DPO is a member of the senior management team, they will be responsible for keeping the Managing Director and Board informed of any data protection issues and risks that arise. SA noted that GDPR is also a regular item for discussion at senior management team meetings;
- SA have prepared a data map following an audit of the data it processes and holds in line with the Information Commissioner Office's template. They explained that the data map had been used to underpin the development of new privacy notices covering staff, customers and Board Directors;
- SA have reviewed policies and procedures relating to data protection including:-

- (1) Updated ICT policy;
 - (2) Updated privacy notices;
 - (3) Updated retention schedules, in accordance with the Scottish Archives Schedules for Public Authorities;
 - (4) New marketing consent procedure;
 - (5) New subject access request procedure;
 - (6) New right to be forgotten procedure; and
 - (7) New data protection breach procedure in development.
- SA have continued to rollout training for staff including (1) the use of a company-wide GDPR training module which will be incorporated into the induction programme; (2) the provision of refresher training for extended leadership team; and (3) the delivery of three workshop sessions for staff during June 2018 focussing on GDPR; and
 - SA confirmed that GDPR was listed on its strategic risk register and assessed as a risk that required urgent action to remove or mitigate.

1.2 GDPR Assessment - The Hub received legal advice on the steps SA had taken to become GDPR compliant and was advised that SA had made good progress since last reporting to the Hub in March 2018 in terms of :-

- data mapping;
- reviewing its policies and procedures;
- rolling out an extensive staff training programme, including the provision of external training for key data protection staff; and
- treatment of the GDPR action plan as a living document that would be monitored and updated on an ongoing basis.

Over the course of the next scrutiny period, the Hub agreed to request additional assurance from SA on the development of procedures to handle personal data breaches.

Overall, based on the assurance provided, SA's GDPR arrangements were assessed as **Low-Medium Risk**. This is an improvement from the Medium risk rating reported to Committee in May 2018 to reflect the Hub's increased level of assurance on the steps SA had taken to be GDPR compliant. The Hub also recognised that GDPR compliance remains an ongoing issue and accordingly, the level of risk will be reviewed by the Hub on a regular basis.

1.3 Assurance on Adventure Aberdeen's transfer to Sport Aberdeen – SA provided an update on the transfer of Adventure Aberdeen (AA) into SA and advised:-

- All AA staff had received corporate inductions over the course of two days which had been facilitated by Human Resources and service managers;
- The TUPE process was now complete;
- Budgets had been transferred from the Council to SA and specific cost centres had been incorporated into the wider company budget;
- Asset transfer of leases and licenses from the Council to SA were still outstanding and building condition assessments were being reviewed by the Council; and
- The condition of the Cromdale Outdoor Centre had been identified as a risk due to the significant investment needed to ensure it remains fit for purpose for users and staff.

1.4 Assurance on Garthdee Alpine Sports' merger with Sport Aberdeen - SA provided an update on the incorporation of Garthdee Alpine Sports (GAS) into SA and advised:-

- The TUPE process is anticipated to be completed by the end of September 2018 thereafter GAS staff will become employees of SA;
- GAS budgets and reserves will transfer to SA following OCSR approval of GAS being wound up as a charity. This is projected to take place by mid-September 2018 following submission of the application to OSCR on 4 July 2018;
- No significant Barclay Review implications are anticipated by SA as GAS are currently in receipt of non-domestic rates relief;
- The provision of a Snowsports and Adventurous Activity Sub-Committee of the main Sport Aberdeen Board has been considered by both SA and GAS as potentially useful. Draft terms of reference have been prepared and once the transfer process is complete the SA Board will determine whether it should be formed. The success and speed of the integration of Adventure Aberdeen into all aspects of SA business, including its

governance structure, has given cause to review whether this additional committee is necessary; and

- SA have recognised the complexity and scale of the merger process and have jointly commissioned external consultancy with GAS to support the process of due diligence, including; (1) to formally dissolve GAS as a registered charity; (2) to undertake a comprehensive business review accessing financial, staffing and operational structures and performance data, and (3) to support the TUPE process and service integration of GAS towards SA.

1.5 Assessment on the integration of Adventure Aberdeen and Garthdee Alpine Sports into Sport Aberdeen - The Hub received legal advice that the Council would need to approve a change request to SA's Commissioning Framework Agreement to take account of SA's incorporation of GAS and AA. The Hub noted that the AA merger was complete, whilst most of the significant milestones for GAS had been achieved, though there were still outstanding issues to be resolved between SA and the Council on the transfer of leases, licenses and budgets to SA.

The Hub assessed the integration of AA and GAS into SA to be **Low Risk** to the Council. The level of risk has slightly reduced from the Low-Medium Risk reported to Committee in May 2018. This was based on the receipt of reasonable assurance that due process on the mergers was being followed; professional consultancy support had been commissioned; and the integration process was nearing completion.

2. Risk Management

2.1 Assurance on risk controls (mitigation) – SA provided a copy of its risk register as at 22 February 2018. The possible implications of the Barclay Review in terms of recommendations on receipt of business rate relief remained SA's biggest risk.

2.2 Assurance on Business Continuity Planning – SA provided a copy of an assurance review of its Business Continuity Plan conducted by its Internal Auditor. The review was carried out during the week commencing 11 December 2017 and concluded that *reasonable assurance* could be provided on SA's business continuity planning and controls were well designed and operating effectively to mitigate risk. *Reasonable assurance* was the second highest level of assurance that could be provided following the auditor's

assessment framework. The review recommended that SA should strengthen the testing and review of its Business Continuity Plan and expand the rollout of training to staff.

- 2.3 Risk Management Assessment** - The Hub agreed that the formatting of the risk register was appropriate, and the Hub took reasonable assurance from SA's identification of risk and the controls they had put in place to manage and mitigate risk.

In terms of business continuity planning, the Hub endorsed SA's approach to direct its Internal Auditor to review its approach towards business continuity planning, and the Hub was satisfied that Internal Audit had made no Priority 1 recommendations, and that Priority 2 recommendations relating to staff training and Business Continuity Plan testing would be addressed through a dedicated Action Plan to ensure continuous improvement.

Therefore, the Hub assessed SA's management of risk to be **Low Risk**. The level of risk has slightly increased from the Very Low Risk reported to Committee on 23 November 2017 as the decision to approve the integration of AA and GAS into SA was subsequently taken by the Finance, Policy and Resources Committee on 6 December 2017 and the ongoing integration process is the primary driver behind the increase in the level of risk to the Council.

3. Financial Management

- 3.1 Assurance on Management Trading Accounts** – SA provided copies of its management trading accounts and a financial report that was presented to the Board on 27 June 2018 which outlined the budget position as at 31 May 2018.
- 3.2 Assurance on Financial Planning** – SA provided a copy of its three-year Business Plan 2018-19 – 2020-21. They advised that a reduction in core grant funding from the Council had been identified within the Business Plan as a future challenge and highlighted that a new target had been set to secure 10,000 Get Active memberships to provide a key source of income and safeguard the delivery of services during future years.
- 3.3 Assurance on Internal Audit** – SA confirmed that a number of reports had been presented to the Board during 2017-18 by its internal auditor as part of a rolling three-year audit assessment programme. They outlined that audits had been conducted in the following business areas:-

- Assurance review of Programme Management and Partnerships;

- Assurance of Staff Performance Reviews and Training and Development;
- Assurance Review of Cash Handling and Banking; and
- Assurance Review of Business Continuity.

3.4 Assurance on External Audit – SA advised that External Audit had just completed the audit of its annual accounts for 2017-18 and the statutory management letter was currently being prepared.

3.5 Financial Management Assessment - The Hub welcomed that SA had been managing its accounts within budget and found its Internal Audit reports to be robust. The Hub accepted SA's rationale for delaying the review of its Business Plan until after the mergers with AA and GAS had been finalised and agreed to request GAS' 2016-17 annual accounts and 2017-18 accounts, if available ahead of its next meeting to enable the Hub to gain a greater understanding of the financial implications for SA moving forward.

Overall, based on the assurance provided, SA's financial management was assessed as **Very Low Risk**. This is an improvement from the Low Risk rating last reported to Committee in November 2017. This rating is based on the Hub's level of assurance that SA are (1) operating within budget; (2) have developed reasonable assumptions to inform future financial planning; and (3) have prepared key financial documents and procedures to mitigate risk to the Council. The Hub is further assured through the provision of independent sources of assurance from Internal and External Audit on SA's financial management.

4. Overall Assessment – The Hub welcomed the steps SA had taken to become GDPR compliant and the progress made towards completing the integration of AA and GAS into SA. The Hub also assessed SA's management of risk and financial management to be no higher than low risk to the Council at the present time. The Hub noted that a report on the *Best Way Forward for Sport in Aberdeen* and SA's annual Business Plan would be presented to the next meeting of the Strategic Commissioning Committee on 13 September 2018.

Overall, based on the assurance provided, SA's governance arrangements were assessed as **Low Risk** to the Council. This is a slight improvement from the Low-Medium Risk reported to Committee on 8 May 2018 and is reflective of the Hub's increased level of assurance on SA's management of the integration process and the steps it had taken to become GDPR compliant. The Hub also placed significant weight on the receipt of independent sources of assurance from Internal and External Auditors which provided additional

comfort on SA's approach towards business continuity planning and GDPR compliance.

| Assurance Standard - September 2018 | Risk Rating |
|---|--------------------|
| Unambiguous responses demonstrating clear understanding and comprehensive ability to fulfil ACC requirements, giving full detail as how these are achieved. | Very Low |
| Responses provide evidence of good understanding and compliance although limited detail provided for some areas | Low |
| Responses provide some indication of understanding and compliance | Medium |
| Minimal or poor responses providing little evidence of understanding or compliance. | High |
| Nil or inadequate responses with little or no understanding of requirement or evidence of compliance. | Very High |

This page is intentionally left blank

Aberdeen Heat and Power (AHP)

| | |
|-----------------------------|--|
| Sector | Combined Heat and Power |
| Level of ACC Control | The Council is the sole guarantor of the company |
| ACC Funding 2018-19 | AHP receives grant funding on a project by project basis |
| Function | Commissioning |

The Hub requested assurance in the following areas:-

1. Governance

1.1 Assurance on General Data Protection Regulation (GDPR) compliance –
Aberdeen Heat and Power (AHP) advised that the Policy and Operations Sub Group and the Board had been working on GDPR compliance and had taken a number of steps to comply with the new regulations:-

- AHP administrative staff had attended a GDPR awareness session on 16 January 2018 delivered by the Aberdeen and Grampian Chamber of Commerce. The information learned at this session has informed AHP's approach towards data protection;
- Training is being rolled out to all staff within the company who handle data;
- A data audit has been carried out to map all data held by the organisation. The conclusion of the audit was that all information held by AHP was business critical and the company was required to hold this information on a secure basis. AHP have also developed an action plan to record the type of data it holds; the risk of loss (in terms of likelihood and impact); and what action needs to be taken;
- AHP have updated all relevant policies, procedures and systems to take account of GDPR, including IT security measures and are developing a data usage code of practice, with expectations on how third parties should handle AHP data; and
- GDPR compliance has been added to the risk register and following mitigation has been assessed as a low risk to the organisation.

- 1.2 GDPR Assessment** - The Hub received legal advice that AHP had demonstrated awareness of the steps they needed to take to become GDPR compliant, including knowledge of the Information Commissioner Office's 12 step plan. However, AHP's response focussed on the preparation of plans rather than implementation of them. Pending further assurance, particularly a revised Data Protection policy, the Hub agreed to maintain a **High Risk** rating which it last reported to Committee in May 2018.
- 1.3 Assurance on Succession Planning** – AHP informed the Hub during its previous submission that its Chief Executive Officer (CEO) would leave the organisation on 10 August 2018 and a recruitment process was underway to identify his successor, they also advised that a new Project Manager post had been created. AHP confirmed that both posts had now been filled following a competitive recruitment process and the new CEO had taken up post on 11 June 2018 which allowed for a two-month handover period before the current CEO retired on 10 August 2018. AHP explained that new staff would be provided with induction and hands on training to enable them to fulfil the requirements of their respective posts.
- 1.4 Succession Planning Assessment** – The Hub noted that the assurance provided by AHP was in response to the Hub's initial inquiry on succession planning, following which a Medium Risk rating was reported to Committee in May 2018. The Hub assessed succession planning as Medium Risk due to the risk of recruitment failure owing to challenging local job market conditions and the specialist heat and power sector which AHP operated in. The Hub welcomed that AHP had recruited a new CEO and Project Manager and endorsed the two-month handover period as good practice. The Hub agreed that successful completion of the recruitment process had also demonstrated the robustness of AHP's Succession Plan. Based on this assurance, AHP's succession planning was assessed as **Low Risk**. This is an improvement from the Medium Risk previously reported to Committee in May 2018.

2 Risk Management

- 2.1 Assurance on risk controls (mitigation)** – AHP presented its risk register as at June 2018. The highest risk to the organisation following mitigation was Damage to Underground Piping which had been assessed as medium risk.
- 2.2 Risk Management Assessment** - The Hub agreed that the formatting of the risk register was appropriate, and the Hub took reasonable assurance from AHP's identification of risk. The Hub noted that the controls AHP had developed around succession planning had mitigated risk to the organisation

as AHP had successfully recruited a new Chief Executive Officer and a two-month handover period had taken place between June – August 2018.

The Hub further noted that AHP had scored GDPR compliance to be low risk to the organisation, whilst the Hub had assessed GDPR to be high risk for AHP. The Hub was mindful that AHP, as a small organisation processed lower volumes of data than other ALEOs and AHP had assessed risk in proportion to the size of the organisation. However, the Hub agreed to request additional information ahead of its next meeting on the controls AHP had put in place to manage and mitigate GDPR risk to provide reasonable assurance to Committee.

Overall, based on the assurance provided, AHP's risk management approach was assessed as **Low-Medium Risk**. This is a slight increase from the Low Risk last reported to Committee in May 2018.

3 Financial Management

3.1 Assurance on Management Trading Accounts – AHP provided a copy of its management trading accounts as at 30 April 2018.

3.2 Assurance on Scheme of Delegation – AHP explained that as a small company almost all expenditure was approved directly by the Board. All other significant decisions or expenditure would be approved by the Policy and Operations Sub Group.

3.3 Assurance on the financial reporting process – AHP advised that Management had taken account of the Hub's recommendation to develop a Board report template which would cover financial implications and risk. AHP explained that this proposal has been discussed by the Board, though no decision on adoption had yet been taken.

3.4 Assurance on Financial Planning – AHP provided a copy of its budgets for 2018-19 and 2019-20 following a request from the Hub at its previous meeting in March 2018. These budget assumptions would now be added to the company's five-year Business Plan 2015-2020.

3.5 Assurance on Internal Audit – AHP provided copies of the three internal audit reports that were presented to the Board during 2017-18 which covered (1) Procurement and Tendering Procedures; (2) Staff Succession Planning and Recruitment; and (3) Security and Safety at Energy Centres. AHP also appended its internal audit plan for 2018-19 which included audits of AHP's

approach towards (1) GDPR; (2) Business Continuity Planning; and (3) Staff Induction Training.

- 3.6 Assurance on External Audit** – AHP advised that External Audit had recently conducted an annual financial audit in which no notable issues had been identified and no improvement actions had been recommended. The final accounts were due to be approved by the Board in August 2018.
- 3.7 Financial Management Assessment** – The Hub noted that AHP had generated lower than expected income in the year to date and agreed to request further information on whether this could be attributed to less demand for heat and power due to increasing temperatures during Spring and Summer. The Hub also agreed to follow up on how AHP calculated financial assumptions within its Business Plan which budgeted for higher electricity prices.

The Hub took great assurance that External Audit had issued AHP with a clean audit certificate for its Year-End accounts and was satisfied with the formatting and content of Internal Audit reports which were proportionate to the size of the organisation. The Hub agreed that it would continue to recommend the development of a Scheme of Delegation and insertion of a Financial Implications section within the Board report template as examples of good practice and resolved to follow up on these inquiries ahead of its next meeting to provide reasonable assurance to Committee.

Overall, based on the assurance provided, AHP's financial management was assessed as **Low-Medium Risk**. The level of risk has remained unchanged since the Hub last reported to Committee in May 2018.

- 4 Overall Assessment** - The Hub agreed to request additional assurance ahead of its next meeting on GDPR compliance and the steps AHP planned to take to enhance its financial reporting process through the adoption of a Scheme of Delegation and the inclusion of a Financial Implications section within its Board report template. However, the Hub also welcomed that AHP had received a clean audit certificate from External Audit and was satisfied with the effectiveness of its Succession Plan and its successful recruitment process. Overall, based on the assurance provided, the Hub assessed AHP to be **Low-Medium Risk** to the Council. This is a slight improvement from the Medium Risk rating which had been reported to Committee on 8 May 2018.

| Assurance Standard – September 2018 | Risk Rating |
|---|--------------------|
| Unambiguous responses demonstrating clear understanding and comprehensive ability to fulfil ACC requirements, giving full detail as how these are achieved. | Very Low |
| Responses provide evidence of good understanding and compliance although limited detail provided for some areas | Low |
| Responses provide some indication of understanding and compliance | Medium |
| Minimal or poor responses providing little evidence of understanding or compliance. | High |
| Nil or inadequate responses with little or no understanding of requirement or evidence of compliance. | Very High |

This page is intentionally left blank

Aberdeen Performing Arts (APA)

| | |
|-----------------------------|---|
| Sector | Arts, Theatre and Culture |
| Level of ACC Control | The Council is one of 13 subscriber guarantors of the company |
| ACC Funding 2018-19 | £975,000 |
| Function | Commissioning |

The Hub requested assurance in the following areas:-**1. Governance****1.1 Assurance on General Data Protection Regulation (GDPR) compliance –**

Aberdeen Performing Arts (APA) provided an update on the steps they had taken to comply with GDPR;-

- APA has updated its Data Protection Policy in line with the requirements of GDPR which they presented to the Hub to provide further assurance. They added that the revised Data Protection Policy had been approved by the Board on 21 May 2018 and it was their intention to review the policy every two years, or as and when required;
- GDPR compliance has been added to the Strategic Risk Register and assessed as low risk following mitigation;
- APA appointed its Head of Business Transformation as its Data Protection Officer (DPO). The DPO is responsible for keeping the senior management team and the Board informed of any issues and risks relating to data protection;
- APA carried out an audit of the data it processed and held in early 2017 and established a working group, led by the Head of Business Transformation to support this process;
- All relevant data protection and information security policies, procedures and processes were reviewed prior to GDPR coming into effect on 25 May 2018. New processes were also developed to manage subject access requests and data breaches;

- APA has completed, or is in the process of implementing a number of technical solutions to improve the processing and security of data in line with GDPR requirements;
- APA has placed GDPR as a core consideration of any procurement process, to include a Data Protection Impact Assessment where necessary;
- APA continue to work with cultural partners to understand the impact of GDPR on an ongoing basis. They are also exploring the possibility of commissioning an external agency later in 2018 to conduct a comprehensive assessment of the steps they had taken to become GDPR compliant; and
- Senior Managers have attended a number of developmental workshops on GDPR, including sessions delivered by Aberdeen City Council and the Information Commissioners Office. APA staff continue to receive training from the Data Protection Officer and the Board have been briefed on GDPR. APA also highlighted that two of its Board members specialise in data protection and lead on GDPR compliance for Robert Gordon University and the University of Aberdeen respectfully.

1.2 GDPR Assessment - The Hub received legal advice on the steps APA had taken to become GDPR compliant and was advised that APA had made good progress since last reporting to the Hub in March 2018 in terms of (1) reviewing policies and procedures and creating new data protection processes; (2) the rollout of staff training, with key data protection staff receiving specialist, external support; and (3) the Hub particularly welcomed the degree of planning, stretching back to the beginning of 2017 that APA had done to enable them to be ready for the introduction of GDPR. Over the course of the next scrutiny period, the Hub agreed to request an update from APA on how many staff had received GDPR training and how the new policies and procedures were working in practice.

Overall, based on the assurance provided, APA's GDPR arrangements were assessed as **Low-Medium Risk**. This is an improvement from the Medium risk rating reported to Committee in May 2018 to reflect its increased level of assurance that APA had taken appropriate steps to be GDPR compliant. The Hub also recognised that GDPR compliance remains an ongoing issue and accordingly, the level of risk will be reviewed by the Hub on a regular basis.

2. Risk Management

- 2.1 Assurance on risk controls (mitigation)** – APA provided copies of its Strategic Risk Register and Music Hall Risk Register as at April 2018. The highest risk to APA on its Strategic Risk Register following mitigation was the cost of making loan repayments to the Council for the Music Hall project which was assessed as high risk. The highest risks on the Music Hall Risk Register were (1) Failure to reach funding targets; (2) Delay to project delivery; and (3) Project completed over budget.
- 2.2 Assurance on Business Continuity Planning** – APA provided a copy of its Business Continuity Plan as at May 2018 which was owned by its Head of Business Transformation.
- 2.3 Risk Management Assessment** - The Hub agreed that the formatting of both the Strategic and Music Hall Risk Registers were appropriate, and the Hub took reasonable assurance from APA’s identification of risk and the controls they had put in place to manage and mitigate risk. The Hub also noted that APA had added GDPR compliance to its Strategic Risk Register following the Hub’s recommendation to do so in May 2018. The Hub welcomed APA’s provision of its Business Continuity Plan and noted that it had been prepared in consultation with external support and had been approved by the Board in May 2018. The Hub assessed APA’s Business Continuity Plan to be comprehensive and therefore reduced the level of risk to **Low Risk** from the Medium Risk reported to Committee in May 2018.

3. Financial Management

- 3.1 Assurance on Management Trading Accounts** – APA provided copies of its management trading accounts which outlined the budget position as at 31 May 2018.
- 3.2 Assurance on Financial Regulations Review** – APA confirmed their intention to present a review of its financial regulations to the Board’s next meeting in August 2018 alongside a proposal to adopt a formal Scheme of Delegated Powers.
- 3.3 Assurance on Financial Reporting to the Board** – The Hub asked APA to consider the adoption of a revised Board report template which would include a Financial Implications section to inform Board decision making. In response, APA advised that the Board was satisfied with its current report template and explained that all decisions and implications, including financial ones were

discussed in full and recorded in Board minutes. APA appended a copy of a recent financial report to the Board which detailed the assumptions made; identification of risk; and provided a narrative of key issues, alongside proposals and recommendations. To provide further comfort to the Hub, APA offered to add a statement to every Board minute that *“Financial implications of all decisions made at this meeting were discussed and understood”*.

- 3.4 Assurance on Internal Audit** – APA advised that the next internal audit will focus on Payroll and HR systems which is scheduled for October 2018. APA provided an overview of the internal audit reporting process, in which the Finance, Audit and Property Sub-committee would approve the internal audit programme and thereafter receive audit reports, as well as confirmation that agreed recommendations had been implemented.
- 3.5 Assurance on External Audit** – APA explained that Management had met with External Audit on 5 July 2018 regarding its annual accounts and were advised that no recommendations had been made and there were no outstanding improvement actions. APA confirmed that they had been issued with a clean audit. APA provided a copy of a report prepared by its external auditor for the year ending 31 March 2018 to provide further assurance to the Hub. They added that this report would be submitted to its Finance, Audit and Property Sub-Committee on 30 July 2018 and thereafter to its Annual General Meeting on 20 August 2018.
- 3.6 Financial Management Assessment** - The Hub welcomed that APA had been managing its accounts within budget and took great assurance that External Audit had issued a clean audit on its annual accounts. The Hub also welcomed the Board’s intention to review APA’s financial regulations in August 2018 alongside a proposal to adopt a formal Scheme of Delegation.

The Hub noted that the APA Board was satisfied with its existing Board report template which did not include a financial implications section to inform decision making. The Hub recognised that decision making in this area rested with the APA Board but would continue to make the case that implementation would adhere to best practice and provide additional assurance to the Council on financial governance. Whilst the Hub appreciated APA’s offer to provide a statement of comfort within Board minutes on its consideration of financial implications, the Hub requested that if a dedicated Financial Implication sections would not be added to the Board report template then a statement of comfort within Board minutes should read *“Financial implications of all decisions made at this meeting were included in the reports and were discussed and understood by the Board”*.

Overall however, APA provided good quality financial documentation and the Hub assessed APA's financial management to be **Low Risk**. The rating remains unchanged since the Hub's last report to Committee in May 2018.

- 4 Overall Assessment** – The Hub welcomed a number of positive developments in the level of assurance provided by APA during this review period. The Hub received reasonable assurance on (1) the steps APA had taken to be GDPR compliant, including the addition of GDPR compliance on to its Strategic Risk Register; (2) the provision of a comprehensive Business Continuity Plan; and (3) the issue of a clean audit on its annual accounts by External Audit. Over the course of the next scrutiny period, the Hub will continue to follow up on a number of areas where additional assurance could be provided and best practice adhered to. The Hub also noted that APA's annual Business Plan would be presented to the next meeting of the Strategic Commissioning Committee on 13 September 2018.

Overall, based on the assurance provided the Hub assessed APA's governance arrangements to be **Low Risk** to the Council. This rating is an improvement from the Low-Medium Risk rating reported to Committee on 8 May 2018.

| Assurance Standard - September 2018 | Risk Rating |
|---|--------------------|
| Unambiguous responses demonstrating clear understanding and comprehensive ability to fulfil ACC requirements, giving full detail as how these are achieved. | Very Low |
| Responses provide evidence of good understanding and compliance although limited detail provided for some areas | Low |
| Responses provide some indication of understanding and compliance | Medium |
| Minimal or poor responses providing little evidence of understanding or compliance. | High |
| Nil or inadequate responses with little or no understanding of requirement or evidence of compliance. | Very High |

This page is intentionally left blank

ABERDEEN CITY COUNCIL

| | |
|---------------------------|--|
| COMMITTEE | Operational Delivery Committee Audit, Risk and Scrutiny Committee |
| DATE | Operational Delivery Committee 06 September 2018 Audit, Risk and Scrutiny Committee 25 September 2018 |
| REPORT TITLE | Fleet and Transport MOT Issues – FTA Audit |
| REPORT NUMBER | OPE/18/127 |
| DIRECTOR | Rob Polkinghorne |
| CHIEF OFFICER | Mark Reilly |
| REPORT AUTHOR | William Whyte |
| TERMS OF REFERENCE | Terms of Ref Committee 1 (1) Terms of Ref Committee 2 (6.2) |

1. PURPOSE OF REPORT

The report provides members with information as requested from a previous report OPE/18/024 8th May 2018 MOT issues, where the Chief Operating Officer was to report back to members on the results from a Freight Transport Association (FTA) Audit and the associated Corporate Investigation enquiry.

2. RECOMMENDATION(S)

That the Committee: 1 Operational Delivery

- 2.1 Acknowledge the update to address the matters raised in the FTA Audit report and endorse forwarding the report to Audit Risk and Scrutiny Committee and be advised of the continuing Corporate Investigation enquiry.

That the Committee: 2 Audit Risk and Scrutiny

- 2.1 Acknowledged the steps taken to address the matters raised in the FTA Audit report and be advised of the continuing Corporate Investigation enquiry.

3. BACKGROUND

- 3.1 A report to Audit Risk and Scrutiny Committee OPE/18/024 8th May 2018 regarding MOT issues was presented to Members and referred to an independent report commissioned and to be undertaken by the FTA.
- 3.2 The FTA report is based on an audit format known to the Traffic Commissioner and the terms of reference are detailed in the report, see Appendix 1 page 5. An on-site audit was undertaken at the Aberdeen City Council Fleet Services Kittybrewster site, on 30th April 2018, details are contained within this report.

The audit made **21** recommendations which are categorised by priority ratings and completion target date.

Of these 21 points of issue, 4 were essential, 11 Important, 6 desirable with recommended time scales for completion - 10 within 1 month and 11 items that should be reviewed every 3 months.

| Priority Rating | Completion Target Date | | |
|------------------|------------------------|------------|-----------------------|
| | 1 Month | 1-2 Months | Review every 3 Months |
| Essential | 3 | 0 | 1 |
| Important | 6 | 0 | 5 |
| Desirable | 1 | 0 | 5 |
| TOTAL | 10 | 0 | 11 |

The audit findings are itemised in the relevant section with accompanying comments and, where applicable, recommendations for action. All action items have been further summarised in an action plan, for use as a working document (see Appendix 2 attached).

It was pleasing to note that on page 1 of the report it was stated Aberdeen City Council takes its compliance with its Operator Licence very seriously and the Fleet Services department is committed to ensuring that the Council is fulfilling its legal obligations and operating to best practice standards.

Much of the current practice within the Fleet Services department reflects a professional, conscientious and largely compliant approach, including some elements that certainly incorporate 'best practice'.

The report also raised that the planning of future inspections and visibility to such essential elements as MOT 'due dates' is significantly hampered by the performance of the Tranman system. The report made a recommendation in respect of the current situation regarding the Tranman system. During the audit, vehicle records were checked and no concerns raised.

4. FINANCIAL IMPLICATIONS

4.1 Additional training for 4 mechanics in vehicle inspection technique £1810 which was completed in June 2018 and funded from within training budget.

4.2 Additional report made by Tacho-data for Working Time Directive £1200 per year which was implemented in June 2018 and funded via historical special measures direction.

5. LEGAL IMPLICATIONS

5.1 This may impact on Fleet should the Traffic Commissioner decide to carry out an unannounced fleet and spot checks at numerous locations resulting in potential sanctions to the Council's Operator Licence. Where required vehicle's must operate with a valid MOT, completion of the action plan will assist to ensure the council complies with its legal obligations.

6. MANAGEMENT OF RISK

| | Risk | Low (L), Medium (M), High (H) | Mitigation |
|--------------------|--|--|---|
| Financial | Potential legal costs and fines. | (M) | Situation rectified immediately. |
| Legal | Failure to comply with statutory duties. | (H) | Situation rectified immediately. |
| Employee | Vehicles operated without a valid mot certificate. | (M) | Situation rectified immediately. And regular safety checks continued. |
| Customer | Could impact on services to deliver their duties on behalf of the Council. | (L) | Situation rectified immediately. And regular safety checks continued. |
| Environment | No significant risk. | | |
| Technology | Continued lack of confidence and fitness for purpose with existing Fleet Management System. Excessive cost and resource to render | (H) | Provision of more suitable Fleet Management System. |

| | | | |
|---------------------|--|-----|---|
| | product more suitable for use. | | |
| Reputational | Council failing to operate vehicles without MOT. | (M) | Matter rectified immediately, and steps taken to ensure lessons learned and improvements to process identified. |

7. OUTCOMES

| Local Outcome Improvement Plan Themes | |
|--|---|
| | Impact of Report |
| Enabling Technology | Endorse the recommendation made by the FTA regarding the current Fleet Management system. |

| Design Principles of Target Operating Model | |
|--|---|
| | Impact of Report |
| Customer Service Design | No Impact. |
| Organisational Design | No Impact. |
| Governance | No Impact. |
| Workforce | No Impact. |
| Process Design | No Impact. |
| Technology | Endorse the recommendation made by the FTA regarding the current Fleet Management system. |

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|----------------|
| Equality & Human Rights Impact Assessment | Not Necessary |

| | |
|--|-----------------|
| Privacy Impact Assessment | No |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable. |

9. BACKGROUND PAPERS

Report OPE/18/024

10. APPENDICES (if applicable)

Appendix 1 FTA Audit Report

Appendix 2 FTA Action Plan

11. REPORT AUTHOR CONTACT DETAILS

Name: William Whyte
Title: Fleet Services Manager
Email: wilwhyte@aberdeencity.gov.uk
Tel: 01224 489312

This page is intentionally left blank

FTA Consultancy Report

Private and confidential



Be Connected • Be Compliant • Be Confident

PRIVATE AND CONFIDENTIAL

FTA Consultancy

Operator Licence Compliance Audit Report

For

Aberdeen City Council

April 2018

Report prepared by:
Alan Granger
Associate Consultant
Freight Transport Association

**FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018**

1.0 EXECUTIVE SUMMARY

This report is based on the agreed audit requirements as detailed in the proposal dated March 2018 and subsequent agreement for FTA to undertake an audit in respect of Operator Licence Compliance. An on-site audit was undertaken at the Aberdeen City Council Fleet Services Kittybrewster site, on 30th April 2018, with details contained within this report.

1.1 Audit Summary

The audit has resulted in a total of **21** recommendations categorised by Priority Ratings and Completion Target Date as follows:

| Priority Rating | Completion Target Date | | |
|-----------------|------------------------|----------|-----------|
| | A | B | C |
| 1 | 3 | 0 | 1 |
| 2 | 6 | 0 | 5 |
| 3 | 1 | 0 | 5 |
| TOTAL | 10 | 0 | 11 |

1.2 General Comments

Aberdeen City Council (*hereafter referred to as 'the Council'*) takes its compliance with its Operator Licence very seriously and it is clear that the Fleet Services department is committed to ensuring that the Council is fulfilling its legal obligations and operating to best practice standards.

Much of the current practice within the Fleet Services department reflects a professional, conscientious and largely compliant approach, including some elements that certainly incorporate 'best practice'.

However, it is apparent that whilst the Fleet Services department has clearly defined responsibility for the administration, maintenance and operational standards of the vehicle fleet, together with the administration of LGV driving activity, other Departments within the Council have direct responsibility for the management of their staff involved in driving activity, including those driving Council operated LGV vehicles.

The risk (from a compliance perspective) is that this results in a 'disconnect' between the Fleet Services department and LGV Drivers employed by the other Council Departments.

FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT Aberdeen City Council, Aberdeen, AB25 3RF – April 2018

This disconnect places a greater than normal onus on both transport management and the other Departments to mutually support one another's compliance regime, so as to be confident that the Council can demonstrate the integrity and completeness of both its operational mechanisms and associated record keeping systems. It should be noted that the Council must be able to demonstrate that its named Transport Managers have 'effective and continuous control' of its LGV transport activities.

The Council has undoubtedly taken steps to increase the training and consequent professional transport compliance standards within the Council, by such actions as delivering 'Operator Licence Awareness Training' and 'Train the Trainer' training to responsible Department Supervisors. The challenge is to maintain the momentum of these actions and ensure that raised awareness of the need to achieve compliance is understood by all LGV driving staff employed by the Council.

The planning of future inspections and visibility to such essential elements as MOT 'due dates' is significantly hampered by the lack of confidence that Fleet management have in the performance of the Tranman system. The multi layered 'belt and braces' solution that has been developed is cumbersome, time consuming and requires additional resource to support it. A recommendation has been made in respect of the current situation.

The Auditor concluded that a largely compliant and suitably robust transport management regime is currently in place, albeit that it is still being let down by spasmodic occurrences of non-compliance, which given recent history have the potential to lead to adverse consequences for both the Council and its staff.

A number of compliance areas require further attention and the most significant items ("1A" items) are listed below in the order arising within the report (further detail within the main body of the report):

- The Council should satisfy itself that the Tacho-Data system is providing accurate WTD reports, by driver, of average and maximum weekly hours worked during relevant reference periods, to ensure that effective analysis and reporting of working time is facilitated.
- Inspection frequencies must be adhered to at all times. DVSA is now putting emphasis on ensuring that inspections are undertaken at the required frequency. Good practice requires that inspections are undertaken by the due date and it is an absolute requirement that they are undertaken within the relevant ISO week (Monday to Sunday).
- The Council should ensure that 'No Smoking' signs are fitted in all vehicles and that staff do not smoke in the vehicles.

**FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018**

Application of the recommendations in this audit will enable the Council to be confident about its compliance standards. Essential recommendations are listed earlier in this section. It should not be assumed, however, that the other recommendations are unimportant. Operator compliance is based on a framework of management controls and actions and the recommendations within this report should be seen in this light.

FTA wishes to thank Mr Mark Reilly (Head of Service), Mr Willie Whyte (Fleet Services Manager), and Mr Martin Watt (Acting Fleet Compliance Manager), who assisted the consultant during the audit process and who provided all the relevant transport documentation necessary to complete the audit. Additional supporting information was sourced by Mr Watt from the Roads and Waste Departments and this has been utilised within the preparation of this report. The time constraints surrounding the Audit are such that the Council should take account of any variations within processes applying to transport operations within other Departments, when considering this report and its recommendations.

NOTES - The audit findings are itemised by audit section with accompanying comments and, where applicable, recommendations for action. All action items are further summarised in an action plan, for use as a working document (see Appendix 1 attached).

FTA provides a detailed recommended action programme. These are given priority ratings as follows:

| | | |
|----------------------|----------------------|----------------------|
| 1 = Essential | 2 = Important | 3 = Desirable |
|----------------------|----------------------|----------------------|

In addition, each recommendation has been given a timetable date for completion as follows which reflects a combination of the practicality of completion and the urgency of the recommendation.

| |
|---|
| A = Action within 1 month |
| B = Action within 1 - 2 months |
| C = Ongoing, but with review at least every 3 months |

The ratings assessments are the recommendations of the FTA Consultant and these are subject to confirmation by the client’s management. In the absence of any specific comment(s) to a particular section, then the current arrangements in place can be deemed to be satisfactory.

For the sake of brevity it should be noted that all assertions contained within this report are accepted and reported as fact based upon information viewed by, or statements made to the Auditor by employees of the Council. The constraints of the Audit process are such that not all assertions can be corroborated.

2.0 BACKGROUND TO THE AUDIT

FTA is advised that Aberdeen City Council operates a fleet of vehicles serving the needs of the residents and businesses of Aberdeen. The Council has recently re-structured and the management team are keen to understand their current position in relation to compliance with their Operator Licence.

Following a Public Inquiry held before the Scottish Traffic Commissioner in December 2014, the Council's Operator Licence (serial number OM0021187) currently authorises the operation of 111 vehicles and 4 trailers from 7 operating centres within the Aberdeen City area.

Vehicle inspection and maintenance is undertaken by both internal and external workshops.

Major features of the LGV driving activities are that:

- Dependant on the nature of the Department (Waste, Roads, Grounds, etc) drivers will either be employed specifically to drive, or alternatively undertake spasmodic driving duties during each working day, where driving may be incidental to their main tasks
- The reporting structure is such that Fleet Services management is separated from the direct day to day front line superTacho-Data of staff involved in driving LGV's
- All LGV driving (whether covered by EU or GB Domestic rules) is recorded by use of tachographs
- All Council staff (approximately 165) involved in driving LGV vehicles are DCPC qualified, whatever their activity and irrespective of whether they may qualify as being exempt from DCPC qualification

The Council requested that FTA undertake a full Operator Licence Compliance Audit to identify any shortcomings in respect of transport compliance and to recommend best practice where appropriate, the subject of this report.

It was noted that the Council is not currently the subject of any instruction from the Office of the Traffic Commissioner to undertake an audit, nor has it been called to attend a Public Inquiry since that which took place in December 2014. Please note that this report primarily focuses on current practice, therefore taking account of the changes in management, processes and controls that have occurred since the Public Inquiry.

3.0 TERMS OF REFERENCE

Audit scope – Using the FTA audit format known to the Traffic Commissioners, to undertake a compliance and management control audit and procedures review at the site resulting in a report and action programme for the site detailing any steps required to ensure legal compliance with the requirements of ‘O’ Licence operation.

The compliance and management control audit will involve the following:

- Establish whether the areas at present covered by the procedures fully reflect current legislation
- Identify any aspects of the present procedures that need updating
- Conduct an audit of the Council’s compliance with these procedures
- Produce a report and action plan as a result of the audit.

The areas to be covered in the audit are:

Management of Compliance

- Investigation as to the extent to which the Operator Licence responsibilities are managed at the various Council locations by the relevant managers
- Is the manager or senior person able to demonstrate “Continuous and Effective Control” of Operator Licence legal compliance?
- Systems for reporting and monitoring compliance

Management controls of the Operator License including:

- Operator Licence procedures:
 - Arrangements for ensuring compliance with Operator Licence requirements
 - Arrangements for complying with any special undertakings that may apply
 - Applying for variations or additions to licences
- Keeping records for Operator Licence purposes

Management and enforcement of drivers' hours and records

- Compliance with the requirements of the Working Time and Agency Workers Directives
- Arrangements for EU tachograph and/or GB Domestic worksheet records analysis including:
 - Procedures for following up driver infringements
 - Action taken to avoid recurrences of infringements
- Compliance with activity timescales – e.g. Downloading/Return of Tachographs
- Record keeping

Vehicle maintenance and inspection arrangements

- Routine Service inspections, planning and execution
- MOT Checks
- Drivers' daily walk round checks
- Driver defect reporting arrangements including rectification of defects reported
- Record keeping

Procedures in the Event of a Collision

- Driver and management procedures including:
 - Action at the scene of an accident
 - Reporting procedures
 - Accident repairs
- Accident records including:
 - Insurance Council details
 - Investigations and follow up action in respect of poor driver performance

**FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018**

- Claims against the Council/council/organisation
- Prosecutions and summons

Arrangements for Hiring of Vehicles

- Management and control including:
 - Arranging hire of a vehicle
 - Checks and documentation on taking delivery of a hired vehicle
 - Returning a hired vehicle

Driver Training

- Arrangements for training new drivers
- Refresher training for existing drivers
- Driver CPC training and DQC card management

Goods Vehicles Management

- Driving licences
- Loading/unloading and overloading of vehicles
- Offences, investigations and follow up action in respect of:
 - Prohibition notices
 - Road traffic offences
 - Fixed penalties
- General items including:
 - Authorised use of vehicles
 - Vehicle taxation
 - Vehicle notices

4.0 ITEMISED AUDIT FEEDBACK

In this section of the report the summary comment in the box marked “**Arrangements**” refers to the system that is in place for enabling the Council to comply with its legal obligations. The box marked “**Compliance with Arrangements**” indicates the extent to which the arrangements that the Council has put in place are being observed.

4.1 Management of Compliance

The extent to which the Operator’s Licence responsibilities of the management of the location are understood, how continuous and effective control is maintained and systems for reporting and monitoring compliance

| | |
|-------------------------------------|---------------------|
| Arrangements | Satisfactory |
| Compliance with arrangements | Satisfactory |

As the Council is operating under the scope of a Standard National Operator Licence, it is required to employ at least one Management CPC qualified Transport Manager, who is named on the Operator Licence. In the case of Aberdeen City Council there are two named Transport Managers, these being Mr Mark Reilly (Head of Service) and Mr Willie Whyte (Fleet Services Manager).

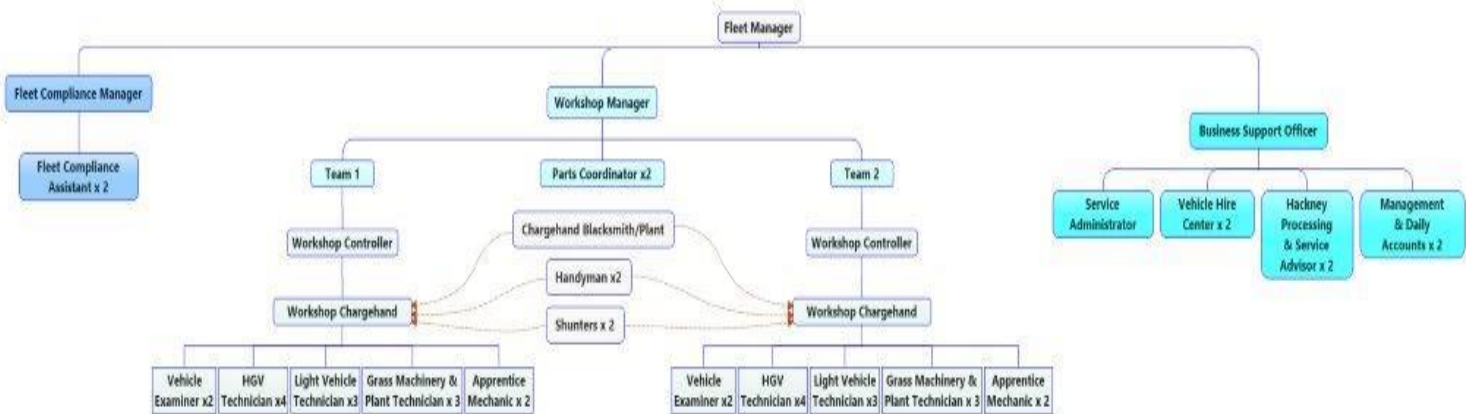
Mr Reilly has in excess of 30 years transport management experience within the waste sector, within both the public and private sector. He advised that he has held a Management CPC qualification since 1981 and has been in his current post since September 2014. He is a Fellow of the Chartered Institute of Logistics and Transport.

Mr Whyte (who reports to Mr Reilly) has been in post since March 2016 and has in excess of 40 years relevant transport industry experience, including periods as a vehicle engineer with the FTA, work within the bus sector, the industrial crane sector and working within the local authority sector within Scotland, this culminating in his current appointment with the Council. He is the holder of a Management CPC qualification, the Auditor viewing his CPC Certificate, issued by the RSA in 1982.

Mr Reilly reports to Mr Rob Polkinghome, who is Director of Operations for the Council, thus demonstrating a clear link between the professional management of transport and senior management of the organisation.

**FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018**

The structure reporting to Mr Reilly (Head of Service), in respect of his Fleet and transport responsibilities, is set out below. Please note this is the 2016 structure, which is currently under review.



From an administration and compliance perspective Mr Whyte is supported by Mr Martin Watt (Acting Fleet Compliance Manager), who has been in post since August 2015. He has a background within the RAF and the oil industry, is a DCPC qualified LGV Driver and a RoSPA qualified Driver Assessor (one of four employed by the Council).

It was noted that Mr Watt is scheduled to attend an FTA Transport Manager’s course in May 2018, this demonstrating continuous professional development (CPD) of key staff within the Fleet department.

Mr Watt’s primary responsibilities are the monitoring of driver records, driving data, reviewing analysis and infringements generated via the Tacho-Data system, and liaising with Supervisors within the various Council Departments to ensure that driving records and outputs are dealt with appropriately. This has recently included (process just commenced) an internal audit of transport compliance issues within each Department, this intended to be undertaken at 6 monthly intervals in the future.

A feature of Council activities is that the named Transport Managers and their team do not directly allocate or authorise work to drivers (this is scheduled and managed by other Departmental Management and Supervisors) and therefore it could be argued that there is an operational disconnect between the Transport Manager’s ability to exercise ‘effective and continuous control’ over the driving activity undertaken by Council staff, at the time of issuing work instructions to driving staff.

FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT Aberdeen City Council, Aberdeen, AB25 3RF – April 2018

However, the use in all LGV vehicles of tachographs to collect driving data, allied to the comprehensive analysis of records undertaken via the Tacho-Data system (in use since 2015) does demonstrate that effective management review of driver activity is subsequently taking place, provided that Departmental Supervisors follow through with an effective progression and conclusion of any driver infringements identified.

The Auditor was advised that the Fleet Manager and his team keep up to date with compliance issues through the Council membership of the FTA, associated weekly updates, review of FTA Vision, attendance at FTA regional meetings, use of the FTA MAC, together with updates from DVSA, viewing the GOV.UK Traffic Commissioners website and the reading of Trade Press. The Transport Management team are also contributors to and participants within the APSE (Association of Public Service Excellence) benchmarking scheme.

The Auditor was advised that a monthly meeting is held between senior Fleet Service Management and the Heads of Department of each department 'customer' (Roads, Waste and Grounds) to review performance and compliance issues.

Additionally, a 'Performance and Compliance – Update' report is submitted quarterly to the Council Health and Safety Committee, the Auditor viewing a copy of the report dated 06/02/18. The content of this report includes data relating to:

- Training and Development
- Recruitment
- Infrastructure
- Driver Licence Checks
- Internal Audits
- Gatehouse Checks - audit of first use (FUVC) checks
- Accidents and Incidents

All the above are relevant to reporting and more importantly progressing a compliant Transport Management regime, together with providing evidence of upward reporting to senior Council Managers.

As advised to the Auditor, the Council are to be commended for initiating and recently delivering a course in Operator Licence Awareness Training, "OLAT" to approximately "5 to 7" Department Supervisors, this further demonstrating continuous professional development (CPD) of key staff involved in supervising front line transport activity. It was additionally reported that one to one training of Department Supervisors had been provided by Fleet Services in how to undertake Drivers Daily Walk Around Checks ("FUVC" checks).

**FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018**

The Auditor viewed an OCRS Score Report for March 2018.

The OCRS score for March 2018:

| | |
|----------------|-------|
| Roadworthiness | Green |
| Traffic | Green |

The Auditor also viewed a copy of a Vehicle Test History (VT010 document) Report for the period 01/04/17 to 31/03/18 (details being shown within section 4.4 of this report), and a Vehicle Encounter Report (RTE005), both dated 11/04/18.

No Roadside Encounters were recorded during the above date range.

The Auditor was advised that the OCRS report and other reports detailed above are reviewed every month by the Fleet Manager.

The Council primarily communicates its requirements to its drivers by the issue of a 'Guidance Handbook for Drivers of Light and Heavy Goods Vehicles' which does specify specific elements applying to LGV Drivers. This is backed up by LGV driver focused training such as DCPC modules and Toolbox Talks.

On the basis of the intended organisational structure chart the Auditor was satisfied that there would be enough resource to effectively manage the Transport Management Service, relative to its scale. However, it is understood that there are a number of vacancies yet to be filled.

Recommendations:

The Council may wish to consider inviting selected Supervisory Management of the departments to attend the monthly Fleet Department Meeting. This would assist in raising awareness of the importance of compliance issues amongst a wider audience and also assist the Council in demonstrating that it has a professionally trained operational structure that is effectively and continuously in control of all its LGV driving operations.

Priority Rating: 3C

FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT Aberdeen City Council, Aberdeen, AB25 3RF – April 2018

4.2 Management Controls of the Operator Licence

Operator Licence procedures including arrangements for ensuring compliance with Operator Licence requirements, for complying with any special undertakings that may apply and for applying for variations or additions to licences.

| | |
|-------------------------------------|-----------------------------------|
| Arrangements | Minor Improvement Required |
| Compliance with arrangements | Satisfactory |

The Auditor was readily provided with relevant paperwork relating to the Council's Operator Licence (Standard National, OM0021187), copy dated 13/04/17, which has been in force since 11/10/95.

The Auditor also viewed the Operator Licence summary document (public excerpt shown below).

OM0021187

ABERDEEN CITY COUNCIL

Licence details (OM0021187)

| | |
|--------------------|---|
| Business type | Other (e.g. public authority, charity, trust, university) |
| Trading names | |
| Responsible people | |
| Licence type | Standard National |
| Licence status | Valid |
| Continuation date | 31 Mar 2021 |
| Traffic area | Scotland |

Contact details

| | |
|---------|--|
| Address | CONTRACTING SERVICES DEPARTMENT, 38 POWIS TERRACE, KITTYBREWSTER, ABERDEEN, AB25 3RF, GB |
|---------|--|

Operating centres

| Operating centre | Vehicles | Trailers |
|---|----------|----------|
| CRAIGSHAW DRIVE, WEST TULLOS INDUSTRIAL ESTATE, ABERDEEN, AB12 3AL, GB | 25 | 2 |
| BANKHEAD AVENUE, BUCKSBURN, ABERDEEN, AB21 9ET, GB | 8 | 1 |
| THE BUSH ROADS DEPOT, PETERCULTER, AB14 0UX, GB | 5 | 0 |
| 38 POWIS TERRACE, KITTYBREWSTER, ABERDEEN, AB25 3RF, GB | 48 | 1 |
| ALTENS EAST RECYCLING AND RESOURCE FACIL, HARENNESS PLACE, ALTENS INDUSTRIAL ESTATE, ABERDEEN, AB12 3GX, GB | 60 | 0 |
| S I T A, GREENBANK CRESCENT, EAST TULLOS INDUSTRIAL ESTATE, ABERDEEN, AB12 3BG, GB | 2 | 0 |
| FORMER NOWSA WORKS YARD, GREAT NORTHERN ROAD, Aberdeen, AB24 3LJ, GB | 22 | 0 |

Transport Managers

| | |
|--------------------|--|
| Name | |
| MARK ADRIAN REILLY | |
| WILLIAM WHYTE | |

**FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018**

The Licence authorises a total of 111 vehicles and 4 trailers across 7 Operating Centres throughout the area covered by the Council.

The Auditor viewed a 'Vehicle details' document taken from the Vehicle Operator Licensing Self Service system (this was produced whilst the Auditor was on site), which listed a total of 91 specified vehicles and 1 specified trailer.

The Auditor also viewed an internal 'Register to ensure that the Operator Licence quota is not exceeded' control sheet document, together with internal documents for both the Roads and Waste Departments summarising vehicles at operating locations.

Whilst the Auditor could not exactly reconcile the above internal documents with the Vehicle details document (this potentially due to slight date variations), it is clear that Fleet management have taken steps to ensure control of the process of specifying LGV vehicles via the Vehicle Operator Licensing self service system, together with ensuring that authorised limits are not exceeded at individual Operating centres. It was noted that Mr Watt undertakes a weekly depot check which includes the number of vehicles at each site.

Therefore, the Council currently appears to have a margin of 20 vehicles and 3 trailers on its Operator's Licence (based on the 'Vehicle details' entry).

The audit visit was undertaken at the Kittybrewster maintenance facility site which was satisfactory for the operations undertaken. It was not possible to comment as to the suitability of the other authorised Operating centres listed on the Operator Licence.

The Auditor was advised that Council LGV vehicles are always parked overnight at the authorised Operating centre locations.

There are no operating restrictions or special undertakings detailed within the Operator Licence.

The Auditor was advised that Mr Whyte and Mr Watt are authorised to access the DVSA Vehicle Operator Licensing / OCRS systems.

**FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018**

In respect of vehicle maintenance arrangements, the Auditor viewed the entry on the Vehicle Operator Licensing system detailing the following Safety inspectors:

- Aberdeen City Council (Kittybrewster workshop)
- Volvo Truck & Bus (Aberdeen) – external workshop
- Norscot Truck & Van (Aberdeen) – external workshop
- Mercedes Benz Commercial Vehicles Aberdeen – external workshop;

together with an appropriate signed and dated GV79 format ‘Maintenance contract’ with each of the external providers.

There was no accompanying Schedule, detailing vehicles included within each of the Maintenance contract documents, however it was indicated that the external workshop providers were only used as an overflow resource when the Council workshop did not have the necessary capacity to fulfil scheduled inspections. The exception to this is that Norscot are utilised to prepare and process all LGV MOT’s for the Council, together with inspecting the single trailer.

Recommendations:

Maintenance contracts – each agreement should include a Schedule detailing the vehicles and trailers covered by the agreement. A copy of each Agreement should be submitted to the Office of the Traffic Commissioner and any subsequent changes advised in writing, so that it is clear at any given time that inspection arrangements are in force for all vehicles specified on the Operator’s Licence.

Priority Rating: 2A

4.3 Management of drivers’ hours and records

Compliance with the requirements of the Working Time and Agency Workers Directives

| Arrangements | Improvement Required |
|-------------------------------------|-----------------------------|
| Compliance with arrangements | Improvement Required |

Due to the nature of its operations the Council currently conducts its LGV transport activities under GB Domestic Hours rules, as explained below.

In respect of the provisions of the WTD/RTD, LGV Drivers work as per the standard reference periods and there is therefore no requirement for a Workplace Collective Agreement.

FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT Aberdeen City Council, Aberdeen, AB25 3RF – April 2018

The Auditor viewed evidence of individual 'opt outs' from the 48 hour weekly average working hours limit, signed by Drivers.

The Auditor was advised that there is very little night work, other than 'Response Squads' and gritting crews who are generally rostered on a 10 hour shift pattern of 5pm to 3am and 5am to 3pm.

The Council is exempt from the need to operate as per the EU Drivers Hours regulations for most of its operations (primarily, with the exception of 'commercial' activity) by virtue of a number of derogations which are listed below and can be found in the FTA Yearbook of Road Transport Law (pages 50 – 53 of the 2018 issue): -

- 10 (*Social Services functions*)
- 15 (*Mobile Libraries, being 'mobile project vehicles'*)
- 16 (*carrying materials, equipment or machinery for the driver's use in the course of the drivers work, within a 50km radius of the vehicles base*)
- 20 (*for vehicles being used in connection with ... road maintenance or control, door to door household refuse collection or disposal ...*)

The common themes that support the above derogations include:

- A direct and close involvement in the exempted activity
- The principle of a Service in the general public interest
- The limited and secondary nature of the transport activity

Discussion did not suggest that driving activities subject to EU Drivers Hours regulations are currently taking place.

The Council's policy is that they record all LGV driving by use of tachographs, with subsequent analysis being undertaken via use of the Tacho-Data system. It was confirmed that Tacho-Data are contracted to undertake their analysis as per GB Domestic Hours Rules and that Drivers set their tachographs to 'out of scope'.

As previously stated, the role of LGV Drivers within the Council varies dependant on which Service they are employed by. Some are specifically employed to drive (e.g. Refuse Department), others undertake driving which can be incidental to their main tasks (e.g. Roads and Grounds). The latter can also be spasmodic, with some staff not undertaking driving duties for several days, or even during a full week.

The Auditor was advised that it is the responsibility of each Department to monitor the activities of its drivers, as described below.

**FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018**

It is understood that the Tacho-Data system analysis and reporting is configured to include WTD analysis, this based on a combination of data generated via downloading of Driver data from digital tachograph cards, together with manual data (Weekly Timesheets) being separately forwarded by e-mail to Tacho-Data, who then manually input the latter into their system to complete each Drivers record.

All drivers complete the Weekly Timesheet referred to above, these being submitted on a Friday, then reviewed and signed off by Supervisors.

It is understood that there is no requirement for drivers to 'clock in and out'.

Holiday and sickness absence is input at the deemed 8 hours per day, as per the RTD.

Therefore there are records of total hours worked, which it is understood have been maintained on the Tacho-Data system for well in excess of the minimum 2 years required by the regulations.

However, there does not currently appear within the Tacho-Data system to be a mechanism to accurately report, by driver, average and maximum hours worked during relevant reference periods.

The Auditor was advised that the Waste Department occasionally utilise Agency driving staff, records being maintained via the Tacho-Data system as per permanent driving staff. The audit host had no knowledge of any checks being undertaken as to the 'hours capacity' of Agency Drivers prior to utilisation, but did confirm that Driving Licence and DQC Card checks are undertaken.

Recommendations:

The Council should satisfy itself that the Tacho-Data system is providing accurate WTD reports, by driver, of average and maximum weekly hours worked during relevant reference periods, to ensure that effective analysis and reporting of working time is facilitated.

Priority Rating: 1A

**FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018**

Arrangements for EU Tachograph and/or GB Domestic records analysis including activity timescales, procedures for following up driver infringements and action taken to avoid recurrences of infringements

| | |
|-------------------------------------|-----------------------------------|
| Arrangements | Improvement Required |
| Compliance with arrangements | Minor Improvement Required |

As stated earlier the Council conducts its LGV transport activities under GB Domestic Hours rules.

Additionally, they record all LGV driving by use of digital tachographs (or in the case of 3 older vehicles, analogue tachographs), with subsequent analysis being undertaken via the Tacho-Data system which has been utilised since 2015, thus providing in excess of the 12 months records required. It was not clear how the process worked in respect of the analogue tachograph charts.

As stated earlier, Tacho-Data are contracted to undertake their analysis as per GB Domestic Hours Rules and drivers set their tachographs to 'out of scope'.

In addition to the digital data downloaded to Tacho-data, their analysis also includes inputting relevant data from the manually completed 'Weekly Timesheets', particularly relating to days (or weeks) where Drivers have not undertaken any driving activity, which in some cases are frequent.

There are three databases maintained by Tacho-Data, one for each Department, being Workshop / Waste / Roads.

Mr Watt maintains a continuous overview of the Tacho-Data system, supporting the Department Supervisors by identifying and assisting them in addressing identified infringements. This overview includes monitoring timely download of Driver and vehicle data, together with reviewing and assisting in the reconciliation of 'missing mileages / instances of driving without card'.

It was noted that success in reconciling the above is patchy, with missing mileage associated with the Roads Department operations rarely being reconciled, whilst in the case of the Waste Department approximately 95% is successfully reconciled.

An important point was noted in that Infringement events are identified centrally (by the Fleet Department) but actioned locally (by Department Supervisors). It was acknowledged that at present there is no reconciliation between infringement reports identified and those completed (i.e. 'closed out' by Driver counselling and management signature).

FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT Aberdeen City Council, Aberdeen, AB25 3RF – April 2018

The Auditor viewed infringement reports for the activities of Waste Department drivers from January 2017, together with further example overview reports from January to March 2018. The infringement reports reviewed were correctly completed in a timely fashion, including appropriate comment, dated and signature of both the driver and Department Supervisor.

The Auditor also viewed KPI reports for 2017 and YTD 2018 for the Council, created by Tacho-Data, which summarise by month, the total number of infringements, by type, by Department (Workshop / Waste / Roads).

The general level of identified infringements is minimal, the most common being breaching the daily duty limit (11 hours under GB Domestic Rules), and failing to record time taken to undertake first use daily vehicle checks (FUVC) before commencing driving. It was reported that there is a continuing requirement for training to reduce the instances of infringements due to incorrect mode selection.

It was noted that the Fleet management team are in possession of 6 digital 'Company Cards'.

Driver and vehicle data is regularly downloaded (weekly by drivers, at inspection for vehicles), as evidenced to the Auditor by viewing relevant 'traffic light' reports within the Tacho-Data system.

The Council policy in respect of employees undertaking additional work for external employers is that any employee (driver) must apply for consent, which can only be granted by the Head of Human Resources. Any LGV driving undertaken by use of a Digital Tachograph Card would in any event appear within any subsequent analysis of driving activity, albeit retrospectively.

A small number of Council LGV's are equipped with vehicle tracking systems but these do not monitor Driver behaviour or speed. There is currently no detailed examination of overspeed events identified by Tacho-Data, although speeding is not perceived by management to be a major issue.

As previously noted, there is a driver 'Guidance Handbook' which includes advice specific to LGV driving, together with evidence of the provision of relevant DCPC modules such as 'Drivers Hours, Working Time, Analogue and Digital Tachographs' (09/16) and 'Drivers Hours' (11/17), together with Toolbox Talks being delivered to drivers (eg: relating to the correct use of Drivers Card in August 2016, which included signature confirmation of attendance).

Recommendations:

Data analysis of the analogue tachograph charts - it was not clear how the process works in respect of the analogue tachograph charts and it is recommended that Council Transport Management review this with Tacho-Data to ensure that a robust process is in place to ensure that driving data recorded via this mechanism is being collated and reported.

Priority Rating: 2A

Infringements - it is extremely important that the Council can demonstrate that management are continually reviewing the outcomes from Driver's Hours analysis (which they are), but additionally taking effective management action when infringements are identified. Within this it is recommended to establish a reporting mechanism to identify specific outstanding infringements, together with the current percentage of infringements issued to Departments, but not 'closed out', so that it can be sure that all infringements have been processed accordingly.

Priority Rating: 2A

Council Transport Management should ensure compliance to Drivers' Hours Regulations is maintained through a combination of continuing driver training (at least an annual refresher, for all drivers) and if necessary, focus on disciplinary procedures. Evidence of such training should continue to be retained by the Council.

Priority Rating: 2A

It is recommended that management initiates a simple monthly random audit system of over speeding events identified via the Tacho-Data system, so that company management can demonstrate they are aware of, and take action, relating to this important compliance issue. Any specific infringements should be the subject of driver counselling and drivers should be made aware that identified repeat infringements could be the subject of disciplinary action.

Priority Rating: 2A

4.4 Vehicle maintenance and inspection arrangements

Routine Service inspections, planning, execution and records

| | |
|-------------------------------------|-----------------------------|
| Arrangements | Improvement Required |
| Compliance with arrangements | Improvement Required |

LGV Vehicle Inspection and Servicing is undertaken primarily by the Council workshop, although supplemented by the use of selected pre-assessed external workshops, as detailed below:

- Volvo Truck & Bus (Aberdeen)
- Norscot Truck & Van (Aberdeen)
- Mercedes Benz Commercial Vehicles Aberdeen

These are used to undertake any scheduled inspections that cannot be catered for within the Council workshop. Norscot is specifically used to undertake pre-MOT inspections of all LGV vehicles, together with inspections of the single LGV trailer operated by the Council.

The position in respect of Maintenance Contracts between the Council and the aforementioned external workshops is previously referred to within section 4.2 of this report.

The Auditor was advised that inspection intervals of 8 weeks for vehicles and 12 weeks for trailers have been confirmed with the Traffic Commissioner, which was evidenced by viewing the Council entry on the Vehicle Operator Licensing website entry.

The Council primarily utilise the electronic ‘Tranman’ fleet management system to administer fleet maintenance, supported by various manual systems (including physical vehicle files). Most notably, Fleet management have identified that due to various ‘glitches’ in the Tranman system (primarily the cancellation of the ‘next scheduled event’, which it has not been possible to eliminate) the system cannot be relied upon to accurately provide visibility to the next scheduled future inspection date.

Therefore, management have developed two back-up systems (a ‘T Card’ manual system and an Outlook PC based system involving manual intervention and data input) to overcome the shortcomings in the Tranman system.

FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT Aberdeen City Council, Aberdeen, AB25 3RF – April 2018

The former is used to control inspection dates, MOT dates and Tachograph Calibration dates. The latter is used as a cross reference between the former and the Tranman system, in order to plan future inspection dates for the forthcoming 12 months. However, the latter does not provide physical visibility to future scheduled inspections and cannot be printed out.

In itself, this approach has introduced considerable complexity and duplicated effort in controlling what should be a relatively straightforward task.

If the number of vehicles was relatively modest, a simple solution would be to utilise a generic vehicle scheduling wallchart (such as the FTA VC100), which would simply and clearly enable inspection scheduling and easy visual reference to the status of key maintenance events. However, the Auditor recognises that with a total of approximately 1100 Vehicles (both LGV and non-LGV) and Plant the Council require a more sophisticated solution.

The Tranman system (as understood by the Auditor) should normally calculate pre-planned inspection dates for an advance 12-month period together with generating system reports, such as:

- Services Completed
- All Archived Jobs
- Multiple screen reports relating to specific vehicles, including
 - Procurement/Delivery
 - Vehicle Details
 - Operating Details
 - Financial Details
 - Technical Data and Dimensions
 - Tachograph Calibration Dates
 - Disposal Details
 - Notes and Mobile/Tracker details

The Auditor was advised that the Fleet Services department is responsible for advising Departments operating LGV vehicles when inspections are due, and arranging the inspection with the appropriate workshop, Department Supervisors are responsible for submitting the vehicle on the agreed date.

The Auditor selected at random four vehicles and one trailer and then undertook a detailed examination of the vehicle and trailer files, which were neatly presented, comprehensive and included Inspection/Service sheets, MOT records (current MOT Certificates being available for all vehicles reviewed), Plating Certificates, V5 registration documents and Tachograph Calibration Certificates, where appropriate.

**FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018**

Positive Defect Report (“Daily Vehicle Check and Drivers Defect Report – Large Goods Vehicles”) documents are also filed within vehicle files, these identifying defects which had been identified and actioned between inspections, together with internal audit ‘Job Cards’ which include management signatures to indicate that each inspection had been satisfactorily completed, all paperwork checked and cost elements referenced.

It was noted that the Aberdeen City Council Inspection Sheets are only signed by the Fitter (twice, initially to confirm identification of faults, then secondly, to confirm that faults have been satisfactorily rectified). However, as indicated above, each inspection sheet is accompanied by a ‘Job Card’ which is signed by the Workshop Manager.

The Auditor was also shown a ‘Missed Inspection Sheet’ document which would be placed within a vehicle file to indicate if a vehicle had been declared VOR, which also included reference to the date of inspection prior to going back into service. The Auditor viewed a VOR vehicle in the yard, which had a VOR sticker in the windscreen and also a cover placed over the steering wheel.

FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018

The detail relating to each vehicle/trailer file examined (including the analysis of inspection frequency) is set out below:

| SV61DXT | | SV09BUW | | SW12CPX | | SV16HDU | | Trailer C345061 | |
|--|-----------------|---|-----------------|---|-----------------|---|-----------------|---|-----------------|
| Inspection dates | Interval (days) | Inspection dates | Interval (days) | Inspection dates | Interval (days) | Inspection dates | Interval (days) | Inspection dates | Interval (days) |
| 09-04-18 | 55 | 20-02-18 | 7 | 06-03-18 | 50 | 13-03-18 | 63 | 29-03-18 | 52 |
| 13-02-18 | 60 | 13-02-18 | 48 | 15-01-18 | 10 | 09-01-18 | 36 | 05-02-18 | 61 |
| 15-12-17 | 16 | 27-12-17 | 55 | 05-01-18 | 53 | 04-12-17 | 20 | 06-12-17 | 56 |
| 29-11-17 | 2 | 02-11-17 | 55 | 13-11-17 | 41 | 14-11-17 | 47 | 11-10-17 | 56 |
| 27-11-17 | 33 | 08-09-17 | 57 | 03-10-17 | 56 | 28-09-17 | 64 | 16-08-17 | 49 |
| 25-10-17 | N/A | 13-07-17 | N/A | 08-08-17 | N/A | 26-07-17 | N/A | 28-06-17 | N/A |
| Notes | | Notes | | Notes | | Notes | | Notes | |
| 8 week interval, Refuse vehicle, mix of Internal and external workshops, Roller brake test at every inspection, all inspection paperwork ultimately signed by Fitter & Manager (please see note below)*, 3 defects recorded during inspections apparently not identified by Driver, positive defects within vehicle file. 13 months records on file, prior records held within same filing location and easily accessible. | | 8 week interval, 7.5t Tipper vehicle, mix of Internal and external workshops, Roller brake test at every inspection, all inspection paperwork ultimately signed by Fitter & Manager (please see note below)*, 0 defects recorded during inspections apparently not identified by Driver, positive defects within vehicle file. 14 months records on file, prior records held within same filing location and easily accessible. | | 8 week interval, Refuse vehicle, mix of Internal and external workshops, Roller brake test at every inspection, all inspection paperwork ultimately signed by Fitter & Manager (please see note below)*, except one inspection by Volvo not signed by Manager, 1 defect recorded during inspections apparently not identified by Driver, positive defects within vehicle file. 14 months records on file, prior records held within same filing location and easily accessible. | | 8 week interval, Gully emptier vehicle, mix of Internal and external workshops, Roller brake test at every inspection, all inspection paperwork ultimately signed by Fitter & Manager (please see note below)*, 0 defects recorded during inspections apparently not identified by Driver, positive defects within vehicle file. 14 months records on file, prior records held within same filing location and easily accessible. | | 12 week interval agreed with OTC, Roads Trailer, all external workshops (Norscot), Roller brake test at every inspection, all inspection paperwork signed by Fitter & Manager (please see note below)*, 0 defects recorded during inspections apparently not identified by Driver, positive defects within vehicle file. 15 months records on file, prior records held within same filing location and easily accessible. | |
| MOT | Yes | MOT | Yes | MOT | Yes | MOT | Yes | MOT | Yes |
| V5 | Yes | V5 | Yes | V5 | Yes | V5 | Yes | V5 | N/A |
| VTG7 | Yes | VTG7 | Yes | VTG7 | Yes | VTG7 | Yes | VTG7 | Yes |
| Tacho cal | Yes | Tacho cal | Yes | Tacho cal | Yes | Tacho cal | Yes | Tacho cal | N/A |
| RPC | N/A | RPC | N/A | RPC | N/A | RPC | N/A | RPC | N/A |
| Interval dates planned | | Interval dates planned | | Interval dates planned | | Interval dates planned | | Interval dates planned | |
| NB: *Aberdeen City Council inspection sheet document is only signed by Fitter, but accompanying Job Card documentation is signed by Management. | | | | | | | | | |

FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT Aberdeen City Council, Aberdeen, AB25 3RF – April 2018

The Council are to be commended for pursuing a beyond best practice approach for vehicles in respect of roller brake testing, with all vehicles (and the trailer) being tested at every inspection.

The red cells shown in the table above highlight where in 2 instances (out of 30) inspections were undertaken beyond the scheduled ISO week, which is deemed by DVSA to be a serious non-compliance.

The amber cells shown above highlight where in 2 instances inspections were undertaken beyond the exact declared inspection frequency. However, these were each within the appropriate ISO week (any inspection carrying over into the following ISO week is non-compliant).

In respect of tyre changes and wheel nut torquing, the Council utilise external contractor Redpath for on the road repairs and the Auditor viewed one Tyre Tag within a vehicle file, utilised as a control measure to ensure that wheel nuts are re-torqued within the required parameters.

This is backed up by a comprehensive 'Wheel Fitting and Re-Torque' Workshop Control Sheet which details all the key information required to effectively record the satisfactory completion of this important safety event. The sheet is readily available (at the main workshop counter) to all workshop fitters, who enter both initial and re-torque events for every occasion that such action takes place. The sheet provides an immediate visual reminder, should any gaps in completion arise. Each sheet is reviewed and signed by the workshop Foreman/Supervisor.

Wheel nut indicators were fitted to the vehicles viewed within the yard.

Recommendations:

Pre-planning of key maintenance tasks – the current utilisation of three separate systems to undertake key elements of maintenance planning involves considerable complexity and duplicated effort in controlling what should be a relatively straightforward task. The Council are recommended to explore options to either ensure the future reliability of the Tranman system, or replace it with a robust alternative, to include the essential pre-planning of MOT's referred to in the following section. DVSA expect holders of Operator Licenses to be in control of their essential maintenance planning and that they can demonstrate a robust method of achieving this at all times.

Priority Rating: 1C

**FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018**

Inspection frequencies must be adhered to at all times. DVSA is now putting emphasis on ensuring that inspections are undertaken at the required frequency. Good practice requires that inspections are undertaken by the due date and it is an absolute requirement that they are undertaken within the relevant ISO week (Monday to Sunday).

Priority Rating: 1A

A best practice recommendation would be for the Council to take a copy of each vehicle O Licence disc to retain within the vehicle file.

Priority Rating: 3C

Annual MOT Checks

| | |
|-------------------------------------|---------------------|
| Arrangements | Satisfactory |
| Compliance with arrangements | Satisfactory |

The Vehicle Test History Report (VT010) for the period 01.04.17 to 31.03.18 confirms the following:

| Table of Information | Traffic Area |
|------------------------------------|---------------------|
| Total number of tests | 88 |
| Passes | 86 |
| PRS (initial fail) | 1 |
| Failures | 1 |
| % Initial Pass rate (excludes PRS) | 97.73% |
| Final Pass rate (includes PRS) | 98.86% |

The National Initial Pass rate for the period was 85.99% and the National Final Pass rate was 90.57%, indicating that the Council is performing well above the national standard.

The Fleet Service Manager indicated that he examines the above Report on a monthly basis.

Following recent events where it was identified that a number of (non-LGV) vehicles had become overdue for MOT, Fleet management have introduced the use of the DVLA Fleet scheme as a further physical check (complementing the T-Card and Outlook database systems referred to earlier) to ensure that vehicles do not miss their due date for MOT examination.

**FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018**

Recommendations:

None

Drivers’ daily walk around checks and defect reporting arrangements including rectification of defects reported and records kept

| | |
|-------------------------------------|-----------------------------------|
| Arrangements | Minor Improvement Required |
| Compliance with arrangements | Satisfactory |

The Council utilise their own ‘Daily Vehicle Check and Drivers Defect Report – Large Goods Vehicles’ document (these being in duplicate books) to record daily checks and to initiate remedial action arising from the reporting of defects.

Drivers are requested to record ‘Nil Defect’ or record details of any defect identified and hand in the report to their Department Supervisor, who countersigns the document to acknowledge receipt / review. It was also noted that drivers are recording the position in respect of their vehicle at both the beginning and end of each shift (i.e. 07.00hrs and 15.00hrs), which is additionally thorough.

Where a defect is identified the defect is categorised as ‘urgent’ or ‘non-urgent’ by Fleet Services, who also advise what action the driver should take.

Whilst the above document is not signed off to confirm remedial action has been completed, a workshop ‘Job Card’ is raised to cover any work required, once the work is completed it is signed off by workshop management and the ‘Daily Vehicle Check and Drivers Defect Report – Large Goods Vehicles’ document and the completed ‘Job Card’ are filed within the vehicle file.

Department Supervisors maintain a ‘Vehicle Audit Check Register’ which acts as a control sheet to record all First Use Vehicle Checks (‘FUVC’), by vehicle Fleet Number, date, and ‘Yes/No’ defects reported. Additionally, completed ‘Daily Vehicle Check and Drivers Defect Report – Large Goods Vehicles’ duplicate books are retained by Department Supervisors.

Positive Defect Reports were included within the vehicle files reviewed, indicating that these are retained for the required 15-month period (older files are archived in an accessible area within the Kittybrewster site).

FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT Aberdeen City Council, Aberdeen, AB25 3RF – April 2018

There were just 4 defects apparently not reported prior to inspection, identified during the examination of the 30 inspections referred to earlier. It is emphasised that the analysis of this number only took account of those defects that could reasonably be expected to be identified by drivers during the course of their daily checks. These related to failed or unserviceable lights and tyre issues.

It was not clear if there is a formal cross check between defects identified during inspections, with the 'Daily Vehicle Check and Drivers Defect Report – Large Goods Vehicles' reports for the days preceding an inspection, or a workshop / compliance control sheet to ensure that no defect slips through the potential gap between the departmental 'Vehicle Audit Check Register' and the Fleet workshop.

However, the Auditor viewed evidence of a robust system of random 'Gatehouse Checks' of Driver Daily Checks, these being undertaken either by Department Supervisors or the Fleet Compliance Manager. The output from this process is reported within the 'Performance and Compliance – Update' report referred to within section 4.1. The requirement is for a minimum of 10% of daily checks to be audited through this process, and it is being reported that this is being achieved.

Recommendations:

It is recommended that continuing refresher training is provided to drivers to ensure that they are fully aware of their responsibilities relating to conscientious and accurate Daily Checks and Defect Reporting.

Priority Rating: 2C

Fleet management may wish to satisfy themselves that a robust process is in place to ensure that rectification of defects cannot be overlooked, between the Departmental reporting systems and the Fleet workshop.

Priority Rating: 2A

Fleet management are recommended to initiate sample comparison of completed Inspection Reports with 'Daily Vehicle Check and Drivers Defect Report – Large Goods Vehicles' reports for the days leading up to the actual vehicle inspection in order to highlight any driver inconsistencies in reporting of defects. It should be made clear to drivers (in writing) the importance of accurately undertaking the daily check process and that repeated instances of failure to identify defects may lead to disciplinary action.

Priority Rating: 3C

4.5 Procedures in the Event of a Collision

Driver and management procedures including action at the scene of a collision, reporting procedures and repairs

Incident records including investigations and follow up action in respect of poor driver performance, claims against the Council, prosecutions and summons and insurance Council details

| | |
|-------------------------------------|---------------------|
| Arrangements | Satisfactory |
| Compliance with arrangements | Satisfactory |

Discussion revealed that approximately 90 accidents / incidents involving Council LGV vehicles have been logged during the past 12-month period, this equating to an average of one incident per vehicle per annum.

The Auditor viewed an ‘Accident and Insurance Procedure’ which describes the process for administering the aftermath of an accident and progressing any necessary repairs, this involving liaison with the insurers (Zurich), the National Accident Repair Group and use of the Tranman system.

It is understood that there is currently no detailed trend analysis, although incidents are fully investigated, the Auditor viewing an example ‘Incident – Investigation Report’, which received contributions from the driver, the Department Supervisor and the Fleet Compliance Manager.

Drivers are provided with written instructions within the ‘Guidance Handbook’ referred to earlier.

Any disciplinary action arising from an accident or incident is the responsibility of Departmental Management. The Fleet Service can provide support as required (e.g. Driver assessment, or identification of appropriate training).

At present a small number of Roads Department vehicles are equipped with forward facing cameras. The latest Refuse vehicles are equipped with 360 degree all round cameras, with all Refuse vehicles being equipped with rear facing cameras.

The Council is insured with Zurich Municipal for Motor risks, under Policy Number QLA-14U003-0013-52, the policy expiry date being 31.03.19.

Recommendations:

None

4.6 Arrangements for Hiring of Vehicles

Management and control including arranging hire of a vehicle, checks and documentation on taking delivery of a hired vehicle, returning a hired vehicle

| | |
|-------------------------------------|---------------------|
| Arrangements | Satisfactory |
| Compliance with arrangements | Satisfactory |

On those occasions that the Council does hire LGV vehicles, copies of the current Test Certificate, the most recent Inspection Report and a copy of the V5 registration document are requested.

The Council workshop will inspect the vehicle prior to use and will ensure that future inspections are undertaken to match the interval declared on the Council’s Operator Licence.

Fleet Services will allocate a Fleet Number (with ‘H’ prefix) and create a new vehicle file, for the period that the vehicle is on hire.

It is understood that a hired LGV vehicle will always be specified on the O Licence.

A ‘Company Card’ is used to lock data ‘in and out’.

Recommendations:

None

4.7 Driver Training

Arrangements for training new drivers, refresher training for existing drivers and the Driver CPC/DQC Qualification

| | |
|-------------------------------------|-----------------------------------|
| Arrangements | Minor Improvement Required |
| Compliance with arrangements | Minor Improvement Required |

The Auditor was advised that new LGV drivers are subject to a formal driving assessment, this being undertaken by one of 4 qualified Driver Assessors (Mr Watt being one of these). The Auditor viewed an example ‘Driver Assessment Report’ completed by Mr Watt, together with an ‘Overview of Driving Assessment Reports’ document, summarising the outcome of a substantial number of drivers, during the second quarter of 2015.

It is understood that this programme has continued since, with a total of 133 Grounds Department drivers (both LGV and non-LGV) being reported as having been assessed in the ‘Performance and Compliance – Update’ report referred to within section 4.1.

Should an apparent problem be identified with an existing driver, the driver could be subject to a formal driving assessment by one of the Council Driving Assessor’s.

It is understood that each service has its own generic induction process which would apply to any new starters, whatever their role. Through discussion, it was not clear about the extent to which there is commonality in the content and approach to LGV driver specific induction training between the various Departments.

As stated earlier, the Council primarily communicates its requirements to its drivers by the issue of a ‘Guidance Handbook for drivers of Light and Heavy Goods Vehicles’ which does specify specific elements applying to LGV drivers. This is backed up by LGV driver focused training such as DCPC modules and Toolbox Talks.

The Auditor viewed a copy of the Guidance Handbook, it was noted that this is not dated or subject to an issue number, although it was believed this had been in circulation in its present form for approximately 2 years. Evidence was provided of drivers signing to acknowledge receipt (but not understanding of content). However, further evidence was separately supplied relating to Toolbox Talks being given to drivers to introduce the Guidance Handbook.

**FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018**

All LGV qualified drivers (and workshop fitters) employed by the Council are DCPC qualified, whether exempt or not. DCPC training is arranged and funded by the Council, being facilitated by the Fleet management team, who offer a timetable of modules that are selected by Department Supervisors (in conjunction with their departmental Health and Safety Manager) for the drivers who report into them. DCPC modules have historically been provided by external training providers Pooles Training Courses Ltd, of Dundee.

The Auditor viewed evidence of forward planning for the delivery of DCPC modules for example drivers, via a planning spreadsheet covering 2018.

The Fleet Service also provide direct training support to the Department Supervisors, so that they in turn can deliver Toolbox Talks to their drivers in such subjects as Daily vehicle checks (FUVC's).

The Auditor viewed evidence of various 'Toolbox Talks' given to Roads Department LGV drivers, including example subjects such as:

| <i>Subject</i> | <i>Date given</i> |
|--|--------------------------|
| Vehicle & Equipment refuelling & Manual handling | March 2016 |
| Fleet Handbook & supporting presentation | 05/02/16 |
| Fleet Compliance, use of Drivers Card & Highway Code | 22/08/16 |
| Fleet Compliance | 05/01/15 |
| Fleet Handbook & First Use training | Various during 2016 |

It was noted that it is intended to develop a Training Centre within the Fleet Services site, to provide central support to Department LGV drivers in such areas as HGV driving, DCPC courses and other relevant training elements.

The Auditor was advised that each Department's Health and Safety Manager maintains their own spreadsheet records of details of drivers Digital Tachograph Cards and DQC Cards (some but not all are also retained by the Fleet Services Department), together with records of training provided. All Driver Licence details are maintained centrally by the Fleet Services Department.

Spot checks are undertaken by Supervisors to establish if drivers are in possession of their DQC cards, this in conjunction with the 'Gatehouse Checks' referred to earlier. However, it was acknowledged that this element of the 'Gatehouse Checks' is inconsistently applied.

Recommendations:

DVSA expect LGV drivers to have refresher training on Drivers’ Hours and Records and Drivers Daily Walk Around Checks annually (whether through DCPC training or not). The Council should ensure that this training is delivered annually and that evidence is retained.

Priority Rating: 2C

It is recommended that LGV drivers are given readily accessible guidance specifically relating to the duties and responsibilities of LGV drivers (including Drivers Hours, WTD compliance and Drivers Daily Walk Around Checks). This could be provided by issue of a recognised Drivers Handbook such as produced by the FTA. Evidence of such issue should be retained by the Council.

Priority Rating: 3A

It is recommended that the scope of ‘Gatehouse Checks’ be expanded to ensure that all random spot checks carried out by Supervisors ensure that LGV drivers are carrying their DQC cards, and that such checks are noted.

Priority Rating: 2C

4.8 Goods Vehicle Management

Driving Licenses

| | |
|-------------------------------------|---------------------|
| Arrangements | Satisfactory |
| Compliance with arrangements | Satisfactory |

The Auditor was advised that the Council undertakes Driver Licence checks on a 6-monthly basis via the ‘Driver Hire’ system, which also provides immediate alerts if a Driver’s Licence status changes. The Fleet Services Department is authorised to undertake these checks by each driver, via a mandate signed at 3 yearly intervals.

Licence checks are undertaken as part of the driver recruitment process.

The Auditor viewed both a Driver Licence database and also a spreadsheet report of latest Licence Checks, together with a separate record of endorsements.

**FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018**

Whilst reference is made to regular eyesight assessments within the Guidance Handbook, it is understood that there are currently no regular eyesight checks of ability to read a number plate at 20.5 metres (other than undertaken at recruitment / induction).

The Guidance Handbook sets out the responsibility of drivers in relation to keeping their Licence details up to date and reporting of driving offences, medical conditions and any roadside inspection or police stops.

It is understood the Council do not currently utilise any EU (on non- UK Licences) or non-EU drivers.

Recommendations:

The Council should consider as a ‘best practice’ undertaking simple eyesight checks of drivers (check ability to read a standard Number Plate at 20.5 metres) at recommended 6 monthly intervals, and retaining records of such checks.

Priority Rating: 3C

Loading/unloading and overloading of vehicles

| Arrangements | Improvement Required |
|-------------------------------------|-----------------------------|
| Compliance with arrangements | Improvement Required |

The Auditor was advised that Council vehicles carry varied loads, dependent on Service and activity.

The Guidance Handbook sets out the responsibility of drivers relating to overloading and load security, including taking their vehicle for a weighbridge check if they have any concerns.

The Auditor viewed spreadsheet evidence of load weighing being undertaken in respect of Waste activities,

The Auditor was provided with a copy of a PG170 Prohibition Notice for overloading, in connection with vehicle KN17BHA, on 18/01/18.

This was subject to removal after 2 hours.

It was not clear if any further action had been taken by the Police in connection with this incident.

**FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018**

The Auditor was also provided with a copy of prosecution correspondence in connection with alleged overloading, this relating to vehicle ST64XXG, on 29/02/16.

It was noted that both of the above vehicles were plated at 3,500kgs and therefore do not fall under the scope of the Operator Licensing regime.

Recommendations:

The Council should provide continued regular training to its drivers so they understand the importance of safe and compliant loading practices.

Priority Rating: 2C

Offences, investigations and follow up action in respect of prohibition notices and road traffic offences

| Arrangements | Improvement Required |
|------------------------------|----------------------|
| Compliance with arrangements | Improvement Required |

The Auditor was provided with details of the following Prohibition Notices in respect of LGV vehicles received since the Public Inquiry in December 2014.

| | |
|--------------------------------------|---|
| Drivers Hours Prohibitions (TE160DH) | 2 |
|--------------------------------------|---|

The Drivers Hours Prohibitions (in May and November 2015) were in respect of exceeding 4.5 hours driving, within the band 0-15 minutes (the former) and failure to record ‘other work’ (the latter).

It was not clear if the Council had submitted any explanation of either circumstance to the Office of the Traffic Commissioner.

The Auditor was advised that LGV drivers have not been the subject of any speeding penalties whilst on Council duties in the period since the Fleet Compliance Manager took up his post in August 2015.

The Auditor was advised that to the knowledge of the Fleet Compliance Manager no LGV drivers have incurred any Graduated Fixed Penalties in the period since he took up his post in August 2015, albeit that there was uncertainty about the outcome of the two TE160DH Prohibitions detailed above.

As previously mentioned the Auditor was advised that the Council was called to Public Inquiry in December 2014.

**FTA CONSULTANCY – OPERATOR LICENCE COMPLIANCE AUDIT REPORT
Aberdeen City Council, Aberdeen, AB25 3RF – April 2018**

Recommendations:

Transport Management are reminded that the Office of the Traffic Commissioner must be advised in writing within 28 days of any enforcement action upon the Council or its drivers. Any offence involving a Council commercial vehicle must be advised in writing to the Office of the Traffic Commissioner. It is recommended that the Council retain and regularly review the document:

<https://www.gov.uk/government/publications/goods-vehicle-operator-licensing-guide-gv74> [see Annex 7: Relevant Convictions],

to aid in ensuring that relevant enforcement actions are identified and reported to the Office of the Traffic Commissioner.

Priority Rating: 2C

General items including authorised use of vehicles, vehicle taxation and cab notices

| Arrangements | Satisfactory |
|------------------------------|----------------------|
| Compliance with arrangements | Improvement Required |

The Council utilises the DVLA Fleet scheme to administer the VED for their fleet.

The Auditor undertook a physical audit of three vehicles available at the operating centre and the following results were noted:

| Registration No. | SV12XTT | SV16HDU | SW66OVV |
|----------------------|---------|---------|---------|
| Height Indicator | Yes | Yes | Yes |
| Plating Certificate | Yes | Yes | Yes |
| 'O'Licence Disc | Yes | Yes | Yes |
| No Smoking sign | Yes | Yes | No |
| Use Seatbelts sign | No | No | No |
| Wheel Nut Indicators | Yes | Yes | Yes |

Recommendations:

The Council should ensure that 'No Smoking' signs are fitted in all vehicles and that staff do not smoke in the vehicles. - **Priority Rating: 1A**

It is recommended as best practice that 'Use Seatbelt' signs are fitted in all vehicles. - **Priority Rating: 3C**

Tel: 01892 526171*
Fax: 01892 534989

www.fta.co.uk   

Freight Transport Association Limited
Hermes House, St John's Road, Tunbridge Wells, Kent TN4 9UZ • Registered in England Number 391957

*Calls may be recorded for training purposes
10.16/KP

**FREIGHT TRANSPORT ASSOCIATION OPERATOR LICENCE COMPLIANCE AUDIT
Aberdeen City Council - Aberdeen - May 2018**

| Audit Ref. | Action Item – Issued | Priority Rating | Target Date | Comment |
|------------|---|-----------------|-------------|--|
| 4.1 | The Council may wish to consider inviting selected Supervisory management of the Departments to attend the monthly Fleet Department Meeting. This would assist in raising awareness of the importance of compliance issues amongst a wider audience and also assist the Council in demonstrating that it has a professionally trained operational structure that is effectively and continuously in control of all its LGV driving operations. | 3C | 31/08/2018 | Monthly meetings with all Services are and have been ongoing over the last 2 years and any Compliance issues raised are discussed and resolved. The content of this report will be shared. Completed May 2016 |
| 4.2 | Maintenance contracts – each agreement should include a Schedule detailing the vehicles and trailers covered by the agreement. A copy of each Agreement should be submitted to the Office of the Traffic Commissioner and any subsequent changes advised in writing, so that it is clear at any given time that inspection arrangements are in force for all vehicles specified on the Operator's Licence. | 2A | 30/06/2018 | Maintenance contracts / agreements are in place for the 3 main providers of external maintenance for LGV vehicles, copies were sent to the Traffic Commissioner as and when required. Completed August 2016 |
| 4.3 | The Council should satisfy itself that the Tacho-Data system is providing accurate WTD reports, by Driver, of average and maximum weekly hours worked during relevant reference periods, to ensure that effective analysis and reporting of working time is facilitated. | 1A | 30/06/2018 | External supplier Tacho-data is now providing the reports in the format expected by DVSA and these reports are being sent to the relevant services for review. The reference period is 17 weeks for all staff. Completed June 2018 |
| 4.3 | Data analysis of the analogue tachograph charts - it was not clear how the process works in respect of the analogue tachograph charts and it is recommended that Council transport management review this with Tacho-Data to ensure that a robust process is in place to ensure that driving data recorded via this mechanism is being collated and reported. | 2A | 31/08/2018 | There are only 6 vehicles left in the Fleet with Analogue Tacho units, a more robust system is being put into place with Tacho-Data until such time these vehicles are replaced. In progress |
| 4.3 | Infringements - it is extremely important that the Council can demonstrate that management are continually reviewing the outcomes from Driver's Hours analysis (which they are), but additionally taking effective management action when infringements are identified. Within this it is recommended to establish a reporting mechanism to identify specific outstanding infringements, together with the current percentage of infringements issued to Departments, but not 'closed out', so that it can be sure that all infringements have been processed accordingly. | 2A | 31/08/2018 | A system is implemented but as yet the process is not fully completed due to a shortage of staff in Compliance, this is being addressed with one position filled and the Compliance Managers role filled and in position early August 2018. In progress |
| 4.3 | Council Transport Management should ensure compliance to Drivers' Hours Regulations is maintained through a combination of continuing driver training (at least an annual refresher, for all Drivers) and if necessary, focus on disciplinary procedures. Evidence of such training should continue to be retained by the Council. | 2A | 30/06/2018 | This will be addressed in conjunction with Drivers CPC Training. Completed June 2018 |

**FREIGHT TRANSPORT ASSOCIATION OPERATOR LICENCE COMPLIANCE AUDIT
Aberdeen City Council - Aberdeen - May 2018**

| Audit Ref. | Action Item – Issued | Priority Rating | Target Date | Comment |
|------------|---|-----------------|-------------|--|
| 4.3 | It is recommended that management initiates a simple monthly random audit system of overspeeding events identified via the Tacho-Data system, so that Company management can demonstrate they are aware of, and take action, relating to this important compliance issue. Any specific infringements should be the subject of Driver counselling and Drivers should be made aware that identified repeat infringements could be the subject of disciplinary action. | 2A | 30/06/2018 | There has been a system in place to carryout routine audits on Services, part of the audit is to see what action has been taken by the Service in the event of any infringements that have been highlighted. Completed April 2016 |
| 4.4 | Pre-planning of key maintenance tasks – the current utilisation of three separate systems to undertake key elements of maintenance planning involves considerable complexity and duplicated effort in controlling what should be a relatively straightforward task. The Council are recommended to explore options to either ensure the future reliability of the Tranman system, or replace it with a robust alternative, to include the essential pre-planning of MOT's referred to in the following section. DVSA expect holders of Operator's Licenses to be in control of their essential maintenance planning and that they can demonstrate a robust method of achieving this at all times. | 1C | 30/09/2018 | The Fleet Management system has been under review for more than 2 years through the Fleet Improvement Programme, PWC Business case, Fleet Business Case and currently under Service Redesign. In progress |
| 4.4 | Inspection frequencies must be adhered to at all times. DVSA is now putting emphasis on ensuring that inspections are undertaken at the required frequency. Good practice requires that inspections are undertaken by the due date and it is an absolute requirement that they are undertaken within the relevant ISO week (Monday to Sunday). | 1A | 30/06/2018 | The report highlighted 3 vehicles were overdue their safety check date, these dates were misinterpreted by the FTA Consultant on the Fleet Management system, the dates were the date work started when the vehicles were actually in the workshop waiting to be started. The ISO week will be adhered to. No action required complete. |
| 4.4 | A best practice recommendation would be for the Council to take a copy of each vehicle O Licence disc to retain within the vehicle file. | 3C | 31/08/2018 | This process will be put in place. To progress |
| 4.4 | It is recommended that continuing refresher training is provided to Drivers to ensure that they are fully aware of their responsibilities relating to conscientious and accurate Daily Checks and Defect Reporting. | 2C | 30/09/2018 | These subjects are covered in the periodic drivers CPC training, Fleet are to look at setting up online training for these subjects where there will be a test element involved.. To Progress |
| 4.4 | Fleet management may wish to satisfy themselves that a robust process is in place to ensure that rectification of defects cannot be overlooked, between the Departmental reporting systems and the Fleet workshop. | 2C | 31/08/2018 | Vehicles presented for safety inspections that have defects that should have been picked up at the drivers first use check are highlighted and an investigation is initiated to the service and appropriate action taken where necessary. Completed June 2016 |

**FREIGHT TRANSPORT ASSOCIATION OPERATOR LICENCE COMPLIANCE AUDIT
Aberdeen City Council - Aberdeen - May 2018**

| Audit Ref. | Action Item – Issued | Priority Rating | Target Date | Comment |
|------------|--|-----------------|-------------|--|
| 4.4 | Fleet management are recommended to initiate sample comparison of completed Inspection reports with 'Daily Vehicle Check and Drivers Defect Report – Large Goods Vehicles' reports for the days leading up to the actual vehicle inspection in order to highlight any driver inconsistencies in reporting of defects. It should be made clear to Drivers (in writing) the importance of accurately undertaking the daily check process and that repeated instances of failure to identify defects may lead to disciplinary action. | 3C | 31/08/2018 | This will be discussed and implemented by all Services and Fleet. The drivers defect report is currently being reviewed and when finished samples of how to complete will be issued to all services and drivers. To Progress |
| 4.7 | DVSA expect LGV drivers to have refresher training on Drivers' Hours and Records and Drivers Daily Walk Around Checks annually (whether through DCPC training or not). The Council should ensure that this training is delivered annually and that evidence is retained. | 2C | 30/09/2018 | These subjects are covered in the periodic drivers CPC training, Fleet are to look at setting up online training for these subjects where there will be a test element involved. To Progress |
| 4.7 | It is recommended that LGV Drivers are given readily accessible guidance specifically relating to the duties and responsibilities of LGV drivers (including Drivers Hours, WTD compliance and Drivers Daily Walk Around Checks). This could be provided by issue of a recognised Drivers Handbook such as produced by the FTA. Evidence of such issue should be retained by the Council. | 3A | 31/09/2018 | Fleet to look at cost to purchase booklet information or also set up online training for drivers. To Progress |
| 4.7 | It is recommended that the scope of 'Gatehouse Checks' be expanded to ensure that all random spot check carried out by Supervisors ensures that LGV Drivers are carrying their DQC cards, and that such checks are noted. | 2C | 31/08/2018 | This is already a part of the Gatehouse check list. Completed June 2016 |
| 4.8 | The Council should consider as a 'best practice' undertaking simple eyesight checks of Drivers (check ability to read a standard Number Plate at 20.5 metres) at recommended 6 monthly intervals, and retaining records of such checks. | 3C | 31/08/2018 | This will be discussed and considered by all Services and Fleet. To Progress |
| 4.8 | The Council should provide continued regular training to its Drivers so they understand the importance of safe and compliant carrying of load practices. | 2C | 31/09/2018 | Fleet to look at cost to purchase booklet information or also set up online training for drivers. To Progress |
| 4.8 | Transport management are reminded that the Office of the Traffic Commissioner must be advised in writing within 28 days of any enforcement action upon the Council or its Drivers. Any offence involving a Council commercial vehicle must be advised in writing to the TC. | 2C | 31/08/2018 | This is the current practice and process, Fleet were advised to set up a shared drive / folder to save all letters to the Traffic Commissioner. Completed June 2018 |
| 4.8 | The Council should ensure that 'No Smoking' signs are fitted in all vehicles and that staff do not smoke in the vehicles. | 1A | 30/06/2018 | Signs for no smoking as required under Scottish Legislation are applied to all vehicles and missing signs are being replaced when a vehicle comes into the workshop. The Environmental Health Officer has been advised on this observation. Completed June 2018 |

**FREIGHT TRANSPORT ASSOCIATION OPERATOR LICENCE COMPLIANCE AUDIT
Aberdeen City Council - Aberdeen - May 2018**

| Audit Ref. | Action Item – Issued | Priority Rating | Target Date | Comment |
|------------|---|-----------------|-------------|---|
| 4.8 | It is recommended as best practice that 'Use Seatbelts' signs are fitted in all vehicles. | 3C | 31/08/2018 | This is a recommendation but not mandatory, Fleet will enquire as to the cost to implement this sign or may link it in with other signage. To progress |

ABERDEEN CITY COUNCIL

| | |
|---------------------------|--|
| COMMITTEE | Audit Risk and Scrutiny |
| DATE | 25 th September 2018 |
| REPORT TITLE | Scottish Public Services Ombudsman Decisions and Inspector of Crematoria Complaint Decisions |
| REPORT NUMBER | CUS/18/081 |
| DIRECTOR | Andy MacDonald |
| REPORT AUTHOR | Lucy McKenzie |
| TERMS OF REFERENCE | 6.9 |

1. PURPOSE OF REPORT

- 1.1 This report provides information on all Scottish Public Services Ombudsman (SPSO) and Inspector of Crematoria decisions made in relation to Aberdeen City Council since the last reporting cycle to provide assurance to Committee that complaints and Scottish Welfare Fund applications are being handled appropriately.

2. RECOMMENDATION(S)

- 2.1 It is recommended that Committee notes the details of the report.

3. BACKGROUND

- 3.1 A report detailing all Scottish Public Services Ombudsman (SPSO) and/or Inspector of Crematoria decisions relating to Aberdeen City Council is submitted to Audit Risk and Scrutiny Committee each reporting cycle. This is to provide assurance that complaints and Scottish Welfare Fund decisions are being handled appropriately. The last report on this matter was submitted to the 26 June 2018 Committee.

Scottish Public Services Ombudsman (SPSO) Complaint Decisions

- 3.2 The Scottish Complaints Handling Procedure (CHP) followed by Aberdeen City Council is outlined by the SPSO. Details of the CHP can be accessed at www.aberdeencity.gov.uk/complaints

- 3.3 There are five SPSO decision relating to Aberdeen City Council complaints to notify the Committee of. Two complaints were not upheld, two complaints upheld, and one complaint partially upheld by the SPSO. The SPSO made recommendations in relation to four of the complaints investigated. Please refer to Appendix A for further information.
- 3.4 All complaints are now managed centrally by a corporate Customer Feedback Team to support and monitor compliance with the statutory requirements of the CHP. The complaints detailed in this report were dealt with by the council prior to implementation.

Scottish Public Services Ombudsman (SPSO) Scottish Welfare Fund Review Decisions

- 3.5 The Scottish Welfare Fund is delivered by Local Councils across Scotland and offers two types of grants – Crisis Grants and Community Care Grants. Further information is available at <https://www.aberdeencity.gov.uk/services/benefits-and-advice/apply-scottish-welfare-fund>
- 3.6 Since the last reporting period, the SPSO has carried out two Second Tier Reviews in relation to Aberdeen City Council Scottish Welfare Fund application decisions. On both occasions, the SPSO made the decision to not change the Council's original decision and provided positive feedback.

Inspector of Crematoria Decisions

- 3.7 The Inspector of Crematoria responds to complaints or queries from the public about cremations. There have been no decisions by the Inspector of Crematoria in relation to Aberdeen City Council cremations to date.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

| | Risk | Low (L), Medium (M), High (H) | Mitigation |
|------------------|--|--|--|
| Financial | Each time a complaint escalates it is more costly to the council than the previous stage due to the effort involved, therefore financially it is in the council's best interest to resolve complaints early in the process. There is also a risk that the council may be required to undertake additional actions as a result of an SPSO decision, including financial compensation. | L | The complaint handling procedure encourages resolution at first point of contact whenever possible. The financial benefits of early resolution is highlighted to responding officers in training. |
| Legal | There are no legal risks associated with this report. | N/A | Not applicable |
| Employee | Staff morale may be lowered as a result of a negative outcome of a SPSO decision. | L | Whilst it is not pleasant to receive a complaint, officers are encouraged to view complaints in a positive light, as a learning point going forwards. |
| Customer | There is a risk to the council's relationship with customers if a complaint or a Scottish Welfare Fund application is not handled correctly. | L | Support in complaint handling is available to responding officers through a variety of methods. In addition, all Stage 2 responses are also quality assured to ensure that responses are appropriate. Officers responsible for Scottish Welfare Fund applications receive comprehensive training to ensure they have the necessary knowledge to undertake assessments. |

| | | | |
|---------------------|--|-----|---|
| Environment | There are no environmental risks associated with this report | N/A | Not applicable |
| Technology | There are no technological risks associated with this report. | N/A | Not applicable |
| Reputational | Compliance with the Complaints Handling Procedure is audited by Audit Scotland. Non-compliance carries reputational risk. Customer perception of the council could also be negatively impacted if complaints and Scottish Welfare Fund applications are not handled correctly. | L | There is a centralised Customer Feedback Team responsible for ensuring that complaints are being handled consistently and appropriately across the council. |

7. OUTCOMES

| Local Outcome Improvement Plan Themes | |
|--|---|
| | Impact of Report |
| Prosperous People | The report provides assurances that people are supported appropriately when and if necessary. |

| Design Principles of Target Operating Model | |
|--|--|
| | Impact of Report |
| Customer Service Design | The report supports a focus on the delivery of customer centric services through the scrutiny of service delivery to customers. The organisation should look to solve the core issue which led to the complaint and learn from the outcome so to reduce the potential for more / similar complaints. This leads to an improvement in customer service delivery and a reduction in time spent on handling and investigating repeat complaints, which can be a lengthy process for those involved. |
| Organisational Design | The report focuses on complaints outcomes which provide rich customer insight for the organisation to act upon to help transform service delivery. |
| Governance | The report ensures transparency around complaint |

| | |
|-----------------------|---|
| | and Scottish Welfare Fund application handling and provides assurances that informed decisions are being made. |
| Workforce | The outcomes of SPSO decisions are fed back to the relevant staff. This includes both upheld and not upheld decisions to engage staff and ensure they are fully informed of outcomes. The information is also used to inform changes in working practices and training provision for staff to improve their experience as well as that of the customer. |
| Process Design | Processes may be redesigned as a result of lessons learnt from a complaint or an SPSO decision to better meet the needs of customers. |
| Technology | Complaints data can help to inform decisions around the use of technology as it provides insight into the customer experience of accessing services digitally. |

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|-----------------|
| Equality & Human Rights Impact Assessment | Not required |
| Privacy Impact Assessment | Not required |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable. |

9. BACKGROUND PAPERS

N/A

10. APPENDICES (if applicable)

Appendix A – Complaint Details and Subsequent SPSO Recommendations
Appendix B - Scottish Welfare Fund SPSO Review Decisions

11. REPORT AUTHOR CONTACT DETAILS

Lucy McKenzie
LucyMcKenzie@aberdeencity.gov.uk
01224 346976

Appendix A - Complaint Details and Subsequent Recommendations

| Complaint Received Date | SPSO Decision Date | Complaints Investigated by the SPSO | Directorate | SPSO Decision | SPSO Recommendations | Date Implemented |
|-------------------------|--------------------|--|---|----------------------------|---|------------------|
| 16 June 2016 | 31 March 2017 | <ol style="list-style-type: none"> 1) The Council unreasonably failed to notify the complainant in advance of the repairs that required to be carried out in the communal area of their property (not upheld) 2) The Council unreasonably delayed in issuing invoices for the repair work (upheld). 3) The council unreasonably failed to provide a breakdown of costs in respect of the invoices (not upheld). 4) The Council unreasonably failed to notify the complainant that their next step would be to instruct a debt collection agency to pursue the sums owed in respect of the outstanding invoices (not upheld). | Communities, Housing and Infrastructure | Complaint partially upheld | <ol style="list-style-type: none"> 1) The Council should issue an apology for the delay in issuing a repair invoice. 2) Where possible, the Council should provide a breakdown of costs on invoices. 3) The Council should nominate a key contact for communication about any matters relating to communal parts of the building and provide the complainant with contact details. | April 2017 |

| | | | | | | |
|------------------------|------------------------|---|---|---------------------|---|------------|
| 8 September 2017 | 26 February 2018 | <ol style="list-style-type: none"> 1) The Council unreasonably charged for a replacement front door (upheld) 2) The council's response to the complaint was unreasonable (upheld) | Communities, Housing and Infrastructure | Complaint Upheld | <ol style="list-style-type: none"> 1) The Council should cancel the invoice and instruct the debt recovery agency to take no further action. 2) The Council should apologise to the complainant for unreasonably charging for a replacement front door. 3) The Council should apologise for the unreasonable handling of the complaint. 4) The Council should acknowledge that they had the power/discretion to consider waiving the charge. 5) Housing staff should make a note of phone calls querying invoices and retain evidence that they told the caller to contact the repair team with details of the dispute, so the issues can be investigated. 6) Housing staff should make a record of their consideration of such cases, including requests for discretion to be applied, and the rationale for the conclusion(s) reached. 7) Housing staff should advise tenants or their representatives how to ask for the application of discretion for elderly and infirm people, advise what evidence is needed to support any such claim, and explain how their request will be considered. 8) Housing staff should advise tenants or their representatives under which procedure their dissatisfaction is being handled, i.e. whether under an invoice dispute process, or the CHP. | April 2018 |
|------------------------|------------------------|---|---|---------------------|---|------------|

| | | | | | | |
|-----------------|---------------|--|---|----------------------|--|----------------|
| | | | | | <p>9) Housing staff should respond to all key points of complaint. If handled under the CHP, this should happen in line with the CHP, including confirmation with the complainant.</p> <p>10) Housing staff should not ignore such emails but should provide an appropriate response.</p> | |
| 18 April 2017 | 13 April 2018 | The Council unreasonably failed to provide client with self-directed support | Children's Social Work | Complaint Not Upheld | <p>1) A further letter of apology should be sent to the client.</p> <p>2) Children's Social Work service should reflect on this complaint regarding the management of user's expectations and communicating decisions.</p> | April 2018 |
| 26 October 2017 | 8 June 2018 | The council unreasonably charged the complainant for communal front door and entry system repairs. | Communities, Housing and Infrastructure | Complaint Not Upheld | Not applicable | Not applicable |
| 14 June 2017 | 31 July 2018 | The Council's handling of the customer's complaint of statutory nuisance has been unreasonable. | Communities, Housing and Infrastructure | Complaint Upheld | <p>1) The Council should apologise to the complainant for failing to adopt or explain a reasonable interpretation of the Environmental Protection Act in relation to your reports of noise, resulting in an unjustifiable delay in investigation.</p> <p>2) The Council should accept that they must investigate any complaint of statutory nuisance to establish whether a nuisance exists, and an apology should be sent to the complainant.</p> | August 2018 |

Appendix B – Scottish Welfare Fund SPSO Review Decisions

| Crisis Grant Application Received Date | Application Type | Aberdeen City Council 1st Tier Review Decision Date | SPSO 2nd Tier Review Decision Date | SPSO Decision | Additional SPSO Feedback | Date Implemented |
|---|-------------------------|---|--|---------------------------------------|---|-------------------------|
| 4 June 2018 | Crisis Grant | 4 June 2018 | 6 June 2018 | Aberdeen City Council decision upheld | | Not applicable |
| 6 August 2018 | Crisis Grant | 6 August 2018 | 10 August 2018 | Aberdeen City Council decision upheld | The SPSO noted that the decision-making notes and letters were all of a high standard and were clear and comprehensive. The original decision letter particularly was well contracted and tailored to the applicant's particular circumstances and clearly explained the reason for the decision. | Not applicable |

This page is intentionally left blank

ABERDEEN CITY COUNCIL

| | |
|---------------------------|------------------------------------|
| COMMITTEE | Audit, Risk and Scrutiny Committee |
| DATE | 25 September 2018 |
| REPORT TITLE | Internal Audit Progress |
| REPORT NUMBER | IA/18/016 |
| DIRECTOR | N/A |
| REPORT AUTHOR | David Hughes |
| TERMS OF REFERENCE | 2.2 and 2.4 |

1. PURPOSE OF REPORT

- 1.1 This report advises the Committee of Internal Audit's progress against the approved 2017/18 and 2018/19 Internal Audit plans.

2. RECOMMENDATIONS

- 2.1 The Committee is requested to review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 The Internal Audit plans for 2017/18 and 2018/19 were approved by the Audit, Risk and Scrutiny Committee on 23 February 2017 and 22 February 2018, respectively. The plans included an indicative Committee date by when it was planned to report each audit. Progress against the 2017/18 plan has been reported to each subsequent meeting of the Committee.
- 3.2 Appendix A to this report shows progress with the audits contained in the 2017/18 plan whilst Appendix B shows progress with the audits contained in the 2018/19 plan. Summaries are shown in the following tables.

| 2017/18 Planned Audit Status | As at 12 September 2018 by Original Target Committee Date | | | | | | %age |
|------------------------------------|--|----------|----------|-----------|----------|-----------|--------------|
| | Jun 17 | Sep 17 | Nov 17 | Feb 18 | May 18 | Total | |
| Complete | 3 | 5 | 5 | 10 | 5 | 28 | 96.6 |
| Draft Report Issued | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Work in Progress | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Rescheduled to 2018/19 | 0 | 0 | 0 | 0 | 1 | 1 | 3.4 |
| Total | 3 | 5 | 5 | 10 | 6 | 29 | 100.0 |

| 2018/19 Planned Audit Status | As at 12 September 2018 by Original Target Committee Date | | | | | | %age |
|------------------------------------|--|----------|----------|----------|----------|-----------|--------------|
| | Jun 18 | Sep 18 | Dec 18 | Feb 19 | Apr 19 | Total | |
| Complete | 1 | 5 | 0 | 0 | 0 | 6 | 24.0 |
| Draft Report Issued | 0 | 1 | 0 | 0 | 0 | 1 | 4.0 |
| Work in Progress | 0 | 3 | 3 | 0 | 0 | 6 | 24.0 |
| To Start | 0 | 0 | 2 | 6 | 4 | 12 | 48.0 |
| Total | 1 | 9 | 5 | 6 | 4 | 25 | 100.0 |

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Where planned progress is not maintained, there is a risk that sufficient work will not have been completed by the end of the financial year for Internal Audit to complete its annual opinion on the Council’s control environment.

7. OUTCOMES

7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.

7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council’s framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|---|
| Equality & Human Rights Impact Assessment | An assessment is not required because the reason for this report is to report Internal Audit's progress to Committee. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. |
| Privacy Impact Assessment | Not required |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable |

9. APPENDICES

- 9.1 Appendix A – Progress with 2017/18 Internal Audit Plan
- 9.2 Appendix B – Progress with 2018/19 Internal Audit Plan.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01467) 537861

APPENDIX A

PROGRESS WITH 2017/18 INTERNAL AUDIT PLAN – BASED ON 2017/18 COUNCIL STRUCTURE

(Note – text in italics represents updates provided to Committee previously)

| SUBJECT / SCOPE | OBJECTIVE | Progress as at 12 September 2018 | Red Amber Green | Comment where applicable |
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|

CORPORATE GOVERNANCE

| | | | | | |
|--|---|----------------------------------|----------|-------|-------------------|
| Fixed Asset Register | Consider whether procedures for ensuring timely recording of the acquisition / disposal of assets are adequate and that revaluations are undertaken in accordance with recognised best practice. Ensure that a sample of recorded assets exist and those that should be recorded are. | Draft report due to be issued | 12.07.18 | Amber | <i>See below:</i> |
| | | Draft report issued | 12.07.18 | | |
| | | Management response due | 26.07.18 | Green | |
| | | Management response received | 23.07.18 | | |
| | | Final draft issued to management | 24.07.18 | Amber | |
| | | Management confirmation received | 30.08.18 | | |
| Final Report Issued | 31.08.18 | Green | | | |
| | | Original target Committee date | 22.02.18 | Amber | |
| | | Amended target date | 08.05.18 | | |
| | | Revised amended target | 26.06.18 | Red | |
| | | Actual Submission to Committee | 25.09.18 | | |
| <p><i>Following commencement of the audit, Internal Audit was advised that one area due to be tested is undertaken as an annual exercise by the end January each year. As at 8 February 2018, this work had not been completed. As this is one of the audits that External Audit planned to take assurance from Internal Audit's work, the testing requires to be undertaken on 2017/18 work. Therefore, completion of the audit has been delayed and the outcome will be reported to Committee in May 2018.</i></p> <p><i>Finance has not yet completed the work that Internal Audit planned to include in testing. Although External Audit has confirmed to Finance that they will not now be placing reliance on Internal Audit's work in this area, Internal Audit still intends to review the most recently completed work once it is done.</i></p> <p><i>The latest update is that Finance passed information to Internal Audit for review. There was a delay finalising the report while awaiting a reconciliation of the fixed asset registers maintained by Finance and Corporate Landlord.</i></p> | | | | | |

| SUBJECT / SCOPE | OBJECTIVE | Progress as at 12 September 2018 | Red Amber Green | Comment where applicable |
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|

COMMUNITIES, HOUSING AND INFRASTRUCTURE

| | | | | | |
|----------------------------------|---|----------------------------------|----------|-------|---|
| Stores Purchasing | Ensure that appropriate arrangements are in place regarding procurement of stock. | Draft report due to be issued | 27.04.18 | Green | <i>Delays in Internal Audit caused by staff sickness. There have been various meetings and exchanges of views in reaching the position of issuing the final draft report.</i> |
| | | Draft report issued | 25.04.18 | | |
| | | Management response due | 23.05.18 | Green | |
| | | Management response received | 23.05.18 | | |
| | | Final draft issued to management | 08.06.18 | Green | |
| Management confirmation received | N/A | | | | |
| | | Final Report Issued | 09.07.18 | Green | |
| | | Original target Committee date | 08.05.18 | Red | |
| | | Revised target Committee date | 25.09.18 | | |
| | | Actual Submission to Committee | 25.09.18 | | |

| | | | | | |
|--|---|--------------------------------|----------|-------|------------|
| Internal Transport Tendering Procedures | Consider whether robust tendering procedures are in place and are operating satisfactorily. | Draft report due to be issued | 10.08.18 | Amber | See below: |
| | | Draft report issued | 21.08.18 | | |
| | | Management response due | 04.09.18 | | |
| | | Management response received | TBC | | |
| | | Final Report Issued | TBC | | |
| | | Original target Committee date | 08.05.18 | Red | |
| | | Revised target Committee date | 04.12.18 | | |

When Internal Audit contacted the Service to commence this audit, the Service, whilst accepting that the audit should proceed, requested that it be delayed for a short period of time to allow current work demands to be prioritised. As a result, Internal Audit plans to commence the audit on 14 May 2018, which would mean reporting the outcome from the review to the December 2018 meeting of the Audit, Risk and Scrutiny Committee.

APPENDIX B

PROGRESS WITH 2018/19 INTERNAL AUDIT PLAN

(Note – text in italics represents updates provided to Committee previously)

| SUBJECT / SCOPE | OBJECTIVE | Progress as at 12 September 2018 | Red Amber Green | Comment where applicable |
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|

Originally Planned for June 2018 Committee

| | | | | | |
|--|--|----------------------------------|----------|-------|--|
| Payments made following interface to the Creditors System from Care First, Caps Uniform, TALIS, Total Consilium, Confirm and Tranman | To provide assurance that there are adequate controls around the interface of payment data from named systems to the Creditors System (supporting documentation for and authorisation controls over input data, segregation of duties, accuracy and reconciliation of interfaced data sent and received) and that any associated balance sheet / suspense codes are reconciled on a regular basis. | Draft report due to be issued | 21.06.18 | Green | Delay caused by additional systems having to be tested compared to those identified in the plan and the availability of Service staff to discuss these. In addition, testing is being undertaken in relation to the eFinancials to BACS interface. |
| | | Draft report issued | 21.06.18 | | |
| | | Management response due | 21.07.18 | Green | |
| | | Management response received | 21.07.18 | | |
| | | Final draft issued to management | 23.07.18 | Amber | |
| | | Management confirmation received | 21.08.18 | | |
| | | Final Report Issued | 21.08.18 | Green | |
| | | Original target Committee date | 26.06.18 | Amber | |
| | | Revised Committee Date | 25.09.18 | | |
| | | Actual Submission to Committee | 25.09.18 | | |

| SUBJECT / SCOPE | OBJECTIVE | Progress as at 12 September 2018 | Red Amber Green | Comment where applicable |
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|

Originally Planned for September 2018 Committee

| | | | | | |
|----------------|--|--------------------------------|----------|-------|--|
| Transformation | To provide assurance that the Council has appropriate arrangements in place to ensure the success of its transformational aspirations. | Draft report due to be issued | 04.09.18 | Green | Delay due to combination of Internal Auditor resigning and availability of key officers. |
| | | Draft report issued | 29.08.18 | | |
| | | Management response due | 07.09.18 | | |
| | | Management response received | TBC | Amber | |
| | | Original target Committee date | 25.09.18 | Green | |
| | | Revised target Committee date | 04.12.18 | | |

| | | | | | |
|---------------------------|---|----------------------------------|----------|-------|--|
| Timesheets and Allowances | To provide assurance that payments are accurate and justified, and that improvements recommended in previous reviews have been fully implemented. | Draft report due to be issued | 26.07.18 | Green | |
| | | Draft report issued | 26.07.18 | | |
| | | Management response due | 10.08.18 | | |
| | | Management response received | 10.08.18 | | |
| | | Final draft issued to management | 13.08.18 | | |
| | | Management confirmation received | 17.08.18 | Green | |
| | | Final Report Issued | 17.08.18 | Green | |
| | | Original target Committee date | 25.09.18 | Green | |
| | | Actual submission to Committee | 25.09.18 | | |

| | | | | | |
|-------------------------------------|--|----------------------------------|----------|-------|---|
| General Data Protection Regulations | To provide assurance that the Council has adequate arrangements in place, that are understood throughout the organisation, to protect the Council's information. | Draft report due to be issued | 30.07.18 | Amber | Delay receiving information required for audit testing followed by annual leave of key contact and auditor. |
| | | Draft report issued | 29.08.18 | | |
| | | Management response due | 07.09.18 | | |
| | | Management response received | 12.09.18 | | |
| | | Final draft issued to management | 12.09.18 | | |
| | | | | | |
| | | Final Report Issued | 13.09.18 | Green | |
| | | Original target Committee date | 25.09.18 | Green | |
| | | Actual submission to Committee | 25.09.18 | | |

| SUBJECT / SCOPE | OBJECTIVE | Progress as at 12 September 2018 | Red Amber Green | Comment where applicable |
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|

Originally Planned for September 2018 Committee (continued)

| | | | | | |
|--|---|--------------------------------------|----------|-------|--|
| Impact of Universal Credit on rent collection. | To provide assurance that appropriate arrangements have been put in place to manage the impact of Universal Credit on rent collection including intervention relating to identified vulnerable cases. | Draft report due to be issued | 17.07.18 | Green | |
| | | Draft report issued | 09.08.18 | | |
| | | Management response due | 17.08.18 | Green | |
| | | Initial management response received | 16.08.18 | | |
| | | Updated draft issued | 17.08.18 | Green | |
| | | Management response received | 29.08.18 | | |
| | | Final draft issued to management | 29.08.18 | Green | |
| Management confirmation received | 30.08.18 | | | | |
| Final Report Issued | 30.08.18 | Green | | | |
| Original target Committee date | 25.09.18 | Green | | | |
| Actual submission to Committee | 25.09.18 | | | | |
| Debtors System | To provide assurance over system controls, documentation supporting invoices raised and debt recovery process. | Draft report due to be issued | 25.06.18 | Green | Late consultation required with Customer due to changing responsibilities as a result of reorganisation. Additional evidence was also required to support changes to wording of report before being finalised. |
| | | Draft report issued | 06.07.18 | Green | |
| | | Management response due | 23.07.18 | | |
| | | Management response received | 23.07.18 | | |
| | | Final draft issued to management | 24.07.18 | Amber | |
| | | Management confirmation received | 28.08.18 | Green | |
| Final Report Issued | 30.08.18 | | | | |
| Original target Committee date | 25.09.18 | Green | | | |
| Actual submission to Committee | 25.09.18 | | | | |

| SUBJECT / SCOPE | OBJECTIVE | Progress as at 12 September 2018 | Red Amber Green | Comment where applicable |
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|

Originally Planned for September 2018 Committee (continued)

| | | | | | |
|--------------------------------------|---|----------------------------------|----------|-------|--|
| Digital Strategy | To provide assurance that there are appropriate plans in place to manage the Council's digital strategy including reporting of progress against established milestones. | Draft report due to be issued | 25.08.18 | Green | <i>Commencement delayed at request of Service pending Chief Officer – Digital and Technology taking up post.</i> |
| | | Draft report issued | TBC | | |
| | | Management response due | TBC | | |
| | | Management response received | TBC | | |
| | | Final draft issued to management | TBC | | |
| | | Management confirmation received | TBC | | |
| | | Final Report Issued | TBC | | |
| | | Original target Committee date | 25.09.18 | | |
| | | Revised Committee Date | 04.12.18 | | |
| Devolved Education Management Scheme | To provide assurance that the scheme in place is adequate and that the decision making process is appropriate based on delegations in place. | Draft report due to be issued | 28.09.18 | Amber | Commencement delayed pending planning meeting with Service |
| | | Draft report issued | N/A | | |
| | | Original target Committee date | 25.09.18 | | |
| | | Revised Committee Date | 04.12.18 | | |
| VAT | To provide assurance over arrangements in place to maximise the recovery of VAT and ensure that VAT recovered is adequately supported. | Draft report due to be issued | 20.07.18 | Green | |
| | | Draft report issued | 26.07.18 | | |
| | | Management response due | 13.08.18 | Green | |
| | | Management response received | 07.08.18 | | |
| | | Final draft issued to management | 14.08.18 | Green | |
| | | Management confirmation received | 17.08.18 | | |
| | | Final Report Issued | 20.08.18 | Green | |
| | | Original target Committee date | 25.09.18 | Green | |
| | | Actual submission to Committee | 25.09.18 | | |

| SUBJECT / SCOPE | OBJECTIVE | Progress as at 12 September 2018 | Red Amber Green | Comment where applicable |
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|

Originally Planned for September 2018 Committee (continued)

| | | | | | |
|--|---|--------------------------------|----------|-------|---|
| Health and Social Care Partnership Charging Policy | To provide assurance that there is a clear charging policy in place and that it is being complied with. | Draft report due to be issued | 21.12.18 | Amber | Delayed at request of Service which is developing a new strategy |
| | | Draft report issued | N/A | | |
| | | Original target Committee date | 25.09.18 | | |
| | | Revised Committee Date | 14.02.19 | | |

| SUBJECT / SCOPE | OBJECTIVE | Progress as at 12 September 2018 | Red Amber Green | Comment where applicable |
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|

Originally Planned for December 2018 Committee

| | | | | | |
|--|--|--------------------------------|----------|-------|--|
| Voluntary Severance / Early Retirement (VSER) | To provide assurance that the terms of the VSER Scheme are complied with and that payments made / enhancements to pensions are accurate. | Draft report due to be issued | 16.10.18 | Green | |
| | | Original target Committee date | 04.12.18 | Green | |

| | | | | | |
|---|---|--------------------------------|----------|-------|-------------------|
| Compliance with Procurement Legislation and Council Regulations | To provide assurance that the Council has appropriate arrangements in place that are being complied with, to ensure compliance with procurement legislation and internal regulations. | Original target Committee date | 04.12.18 | Green | Not yet commenced |
|---|---|--------------------------------|----------|-------|-------------------|

| | | | | | |
|----------------|---|--------------------------------|----------|-------|--|
| Business Rates | To provide assurance over the accuracy of Business Rates billing and robustness of collection arrangements. | Draft report due to be issued | 04.10.18 | Green | |
| | | Original target Committee date | 04.12.18 | Green | |

| | | | | | |
|---|--|--------------------------------|----------|-------|--|
| Data security in a cloud based environment | To provide assurance over the Council's arrangements to ensure data security where business is transacted through the Cloud. | Draft report due to be issued | 26.10.18 | Green | |
| | | Original target Committee date | 04.12.18 | Green | |

| SUBJECT / SCOPE | OBJECTIVE | Progress as at 12 September 2018 | Red Amber Green | Comment where applicable |
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|

Originally Planned for December 2018 Committee (continued)

| | | | | | |
|-----------------------------|---|--------------------------------|----------|-------|-------------------|
| National Care Home Contract | To provide assurance that risk to supply is controlled through adequate monitoring of supply and suppliers and related business continuity plans. (Ref Kingsmead Nursing Home.) | Original target Committee date | 04.12.18 | Green | Not yet commenced |
|-----------------------------|---|--------------------------------|----------|-------|-------------------|

| SUBJECT / SCOPE | OBJECTIVE | Progress as at 12 September 2018 | Red Amber Green | Comment where applicable |
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|

Originally Planned for February 2019 Committee

| | | | | | |
|---|--|--------------------------------|----------|-------|-------------------|
| Health and Safety Arrangements across the Council | To provide assurance that appropriate arrangements to manage Health and Safety have been implemented across the Council. | Original target Committee date | 14.02.19 | Green | Not yet commenced |
| Prevention of Fraud, Bribery and Corruption | To provide assurance that the Council's arrangements for the prevention of fraud, bribery and corruption are adequate and proportionate. | Original target Committee date | 14.02.19 | Green | Not yet commenced |
| i-World Housing Management System | To provide assurance that appropriate control is being exercised over the i-World system and that interfaces to and from other systems are accurate and properly controlled. | Original target Committee date | 14.02.19 | Green | Not yet commenced |
| Pupil Equity Fund | To provide assurance that schools are spending in accordance with their plans, and that these were developed as required, to close the poverty related attainment gap. | Original target Committee date | 14.02.19 | Green | Not yet commenced |
| Craft Workers' Payroll | To provide assurance that new Terms and Conditions have been implemented and are being complied with. | Original target Committee date | 14.02.19 | Green | Not yet commenced |

| SUBJECT / SCOPE | OBJECTIVE | Progress as at 12 September 2018 | Red Amber Green | Comment where applicable |
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|

Originally Planned for February 2019 Committee (continued)

| | | | | | |
|-----------------|--|--------------------------------|----------|-------|-------------------|
| Bond Trust Deed | To provide assurance that the requirements of the Bond Trust Deed are complied with. | Original target Committee date | 14.02.19 | Green | Not yet commenced |
|-----------------|--|--------------------------------|----------|-------|-------------------|

| SUBJECT / SCOPE | OBJECTIVE | Progress as at 12 September 2018 | Red Amber Green | Comment where applicable |
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|
|-----------------|-----------|-------------------------------------|-----------------------|-----------------------------|

Originally Planned for April 2019 Committee

| | | | | | |
|-----------------------------------|--|--------------------------------|----------|-------|-------------------|
| Digital Booking, Fees and Charges | To provide assurance over the controls around on-line booking and collection of fees and charges | Original target Committee date | 30.04.19 | Green | Not yet commenced |
|-----------------------------------|--|--------------------------------|----------|-------|-------------------|

| | | | | | |
|--------------|--|--------------------------------|----------|-------|-------------------|
| Music Centre | To provide assurance that procedures have been improved following completion of work undertaken by Corporate Investigation Team - review of income, expenditure (procurement and payroll), and inventory | Original target Committee date | 30.04.19 | Green | Not yet commenced |
|--------------|--|--------------------------------|----------|-------|-------------------|

| | | | | | |
|-----------------------------------|--|--------------------------------|----------|-------|-------------------|
| Management of high risk contracts | To focus on recent identified issues:- <ul style="list-style-type: none"> - 3rd Don Crossing - Photovoltaic Panels <p>To include data / intelligence used for monitoring and escalation of risk.</p> | Original target Committee date | 30.04.19 | Green | Not yet commenced |
|-----------------------------------|--|--------------------------------|----------|-------|-------------------|

| | | | | | |
|--------------------------|--|--------------------------------|----------|-------|-------------------|
| Criminal Justice Service | To provide assurance that adequate control is exercised over income and expenditure, that system data is accurate and adequately supported, and that reporting arrangements between the Council and IJB are appropriate. | Original target Committee date | 30.04.19 | Green | Not yet commenced |
|--------------------------|--|--------------------------------|----------|-------|-------------------|

| SUBJECT / SCOPE | OBJECTIVE | Progress as at 12 September 2018 |
|-----------------|-----------|-------------------------------------|
|-----------------|-----------|-------------------------------------|

No Planned Reporting to Committee

| | | |
|--|---|--|
| Interreg Projects where Aberdeen City Council is involved as a Lead Partner and / or Project Partner | <p>To certify required grant claims in accordance with Programme Secretariat requirements.</p> <p><i>There will be no specific reporting to management and / or Audit Risk and Scrutiny Committee in relation to these grant claims unless a significant issue were identified.</i></p> | <p>BEGIN Project ACC Partner Claim for period 2 certified (June 2018).</p> <p>HyTrEc2 Project ACC Partner Claim for period 2 certified (June 2018)</p> <p>HyTrEc2 Overall Project Claim for period 2 certified (June 2018)</p> <p>HeatNet Project ACC Partner Claim for period 3 certified (August 2018)</p> |
|--|---|--|

GENERAL

| | | |
|--|--|---|
| Contingency - Investigations and additional works. | To undertake investigations and additional works as they arise and to provide a contingency should systems subject to audit not be adequately documented by Services prior to audit. | Additional works being undertaken are detailed in the following tables. |
|--|--|---|

ABERDEEN CITY COUNCIL

| | |
|---------------------------|--|
| COMMITTEE | Audit, Risk and Scrutiny Committee |
| DATE | 25 September 2018 |
| REPORT TITLE | Internal Audit Report AC1909 – Timesheets & Allowances |
| REPORT NUMBER | IA/AC1909 |
| DIRECTOR | N/A |
| REPORT AUTHOR | David Hughes |
| TERMS OF REFERENCE | 2.2 |

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Timesheets & Allowances.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of Timesheets and Allowances.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|---|
| Equality & Human Rights Impact Assessment | An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. |
| Privacy Impact Assessment | Not required |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable |

9. APPENDICES

- 9.1 Internal Audit report AC1909 – Timesheets & Allowances.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01467) 537861



ABERDEEN

CITY COUNCIL

Internal Audit Report

Timesheets and Allowances

Issued to:

Andy MacDonald, Director of Customer Services
Steven Whyte, Director of Resources
Jacqui McKenzie, Chief Officer – Customer
Morven Spalding, Interim Chief Officer – People and Organisation
Mark Reilly, Chief Officer – Operations and Protective Services
Fraser Bell, Chief Officer – Governance
Sandra Buthlay, Interim Chief Officer – Finance
Andrea Garden, Team Leader

External Audit

EXECUTIVE SUMMARY

The objective of this audit was to review a sample of timesheets to ensure that they had been completed and paid correctly. Specific testing was also undertaken on the Non-Standard Working Week Allowance as this was previously identified as an area of concern.

In general, the sampled timesheets were found to have been completed accurately although in a small number of cases errors had been made which resulted in overpayments being made. Most of these were under £100, although one amounted to £360, all of which are being recovered by Payroll.

Although regular overtime working is discouraged, some Service areas rely on it to ensure that work is completed effectively. Where this is the case, there are risks that the Working Time Regulation requirements regarding working in excess of 48 hours per week over a defined reference period may be breached. Regular monitoring of working hours was agreed as part of a previous Internal Audit and People and Organisation has confirmed that this has been made the responsibility of managers who should be keeping records of hours worked. As the Payroll System holds details of hours worked, it should be possible to produce reports from the system to identify those employees who have, or may be at risk of, working more than 48 hours per week. The control would be more robust and efficient if it could be digitised and would ensure a more consistent approach across the Council. The Service has advised that the new CoreHR system is in the User Acceptance stage of implementation and has triggers that allow for the calculation of Working Time compliance. Available reports for managers will be fully explored following the initial implementation.

In the 2016/17 audit of timesheets and allowances, it was identified from a sample of almost 200 employees in receipt of a fixed Non-Standard Working Week Allowance (NSWWA) that 32% were being paid incorrectly. In addition to appropriate briefings and guidance being issued, it was agreed that all Managers / Supervisors of employees who had NSWWA as a permanent value set up in the payroll would be required to enter the shift / rota / working pattern into the YourHR system. This was to capture the data and allow quarterly verification of the working arrangements by Managers / Supervisors.

Testing of current allowances confirmed that payments are now more accurate although there were still errors in payment as rotas had not been updated as required, and not all rotas were held in YourHR. The rotas that are in the system are not being verified as planned and, as a new system is about to be implemented, changing YourHR would not be beneficial. It is important that the rotas in place are verified as still being appropriate when data is migrated to the new Payroll System and that regular verification is built into the new system. The new CoreHR System has rota management functionality which will be fully explored following initial implementation.

Whilst testing the NSWWA, it was identified that one employee who was in receipt of the Allowance was not detailed on the establishment's rota. It was confirmed that the employee had left the Council and that notification had been sent to the HR Service Centre, but it had not been forwarded to Payroll to make the necessary changes in the Payroll System. The former employee left on 1 April 2018 and had been paid their full salary and the Allowance for April, May and June 2018. Payment was about to be made for July 2018 when this was identified, and payment was stopped immediately upon notification by Internal Audit. Payroll will arrange for recovery of the previous months' overpayments; the gross amount of which was just over £5,400.

Services are advised of payments made to their employees through a report issued by Payroll. This had not been checked by the establishment at which the employee

worked. It has been agreed that anonymised details of this case will be issued to all Chief Officers for cascading to all Managers highlighting the importance of undertaking checks on payments made.

1. INTRODUCTION

1.1 Council employees under Equal Pay & Modernisation terms and conditions are paid for any hours worked as part of their contracted hours at plain time (normal hourly rate). Contracted hours are paid automatically having been set up on the payroll system whilst additional hours and enhancements have to be claimed on a monthly timesheet, or by direct input to the YourHR System.

1.2 Work in excess of an employee's contracted hours is paid as follows:

- Where the employee is contracted to work less than 37 hours per week, additional hours up to 37 hours per week are paid at plain time. Any hours over 37 hours per week, unless part of an agreed rota where the average weekly hours are 37 hours or less, are defined as overtime.
- Where an employee is contracted to work over 37 hours per week (this can be up to 45 hours per week), all hours over the employee's contracted hours (except where this is part of an agreed rota where the average weekly hours covering the rota period are below the employee's contracted hours) shall be considered as overtime.
- Overtime is paid at the rate of time and one half. However, for employees paid above Grade 12, overtime payments are restricted to the flat rate equivalent of the top point of Grade 13.

1.3 Where additional hours / overtime is considered to be "regular" the payment made attracts an additional holiday entitlement of 8.3%.

1.4 Certain hours that are not paid at the overtime rate attract a non-standard working week enhancement:

- Hours worked between 2000 and 0700, Monday to Friday attract an enhancement of one third.
- Hours worked on a Saturday and Sunday attract an enhancement of 40%.

This Allowance is either paid automatically based on rotas submitted to the YourHR System or by timesheet.

1.5 Casual Workers are paid all of their hours at the basic hourly rate for the job undertaken. An additional 12.07% of the hourly rate for each hour worked up to 37 hours per week is paid in respect of the workers entitlement to annual leave. These workers are not employees of the Council and there is no 'mutuality of obligation' to offer or accept work.

1.6 Employees providing the Out of Hours Service in Social Work do not claim the enhancements for unsocial hours. They are, instead, paid a composite rate of 25% on all hours worked in lieu of the non-standard working time allowances. This was approved by the Corporate Policy and Performance Committee in December 2011.

1.7 Craft Workers have a separate set of Terms and Conditions which includes payment of a Flexibility Allowance to cover unsocial hours worked. They have to commit to working a specific work pattern to receive either a 4% or 8% allowance.

1.8 The objective of this audit was to review a sample of timesheets to ensure that they had been completed, authorised and paid correctly. This was undertaken in the form of a "desk top" exercise, reviewing a sample of timesheets that had been paid in June 2018 for reasonableness (without initial reference to supporting documentation held by Services) and, where appropriate, seeking further information from Services to support

and justify the hours being claimed. Specific testing was also undertaken on the Non-Standard Working Week Allowance as this was previously identified as an area of concern.

- 1.9 The factual accuracy of this report and action to be taken with the recommendations made have been agreed with Jacqui McKenzie, Chief Officer – Customer, Morven Spalding, Interim Chief Officer – People and Organisation, Mark Reilly, Chief Officer – Operations and Protective Services Operations, and Andrea Garden, Team Leader (Payroll & HRSC).

2. FINDINGS AND RECOMMENDATIONS

2.1 Review of Timesheets

2.1.1 To establish compliance with the Council's terms and conditions, timesheets relating to payments made to 150 employees in June 2018, were examined. Whilst most timesheets appeared to be completed appropriately some were queried with authorising officers and / or HR / Payroll for a number of reasons and the outcomes are detailed below.

2.2 Errors in Timesheet Completion

2.2.1 During the review a small number of errors were identified in the completion of timesheets. Details of these are shown in Appendix 1 and the errors are being addressed by Payroll.

2.2.2 Where errors have been made in the completion of timesheets, these should be identified by the officer approving them for payment. Where they are not identified, it suggests that appropriate scrutiny is not being applied. However, the move to on-line timesheets should resolve any underlying issues and reduce the risk of further errors being made in this regard in the future.

2.3 Additional Holiday Pay on Additional Hours / Overtime

2.3.1 Where employees work regular additional hours / overtime, they are entitled to claim additional holiday pay at a rate of 8.3%. Where additional hours / overtime are not regular, additional holiday pay is not claimable.

2.3.2 In this respect, HR has issued the following additional holiday pay guidance to Services:

“The decision on whether the earnings form part of normal pay will be made by the managers concerned based on their knowledge and experience of the work. If the employee could reasonably expect those earnings on a regular or recurring basis then that would form part of normal pay. If they could have expected to earn that money had they been at work rather than on holiday then the hours are normal. Ad-hoc or one off occurrences would not be considered to be normal.”

2.3.3 Testing undertaken in previous audits identified that, whilst the majority of claims were being made correctly, there were occasions when staff were incorrectly claiming infrequent additional hours / overtime as Regular Hours and being paid Additional Holiday Pay whilst also enhancing their pension at additional cost to the Council. Conversely, some staff were failing to claim their additional hours / overtime against Regular Hours and were not being paid Additional Holiday Pay (and pension increases) which they were entitled to. HR discussed this issue with Directorate Business Managers and re-issued guidance in order to make improvements with compliance. In addition, where additional hours / overtime is submitted to Payroll via YourHR, there is a button which provides a definition of “regular” which has to be chosen for additional holiday pay to be made.

2.3.4 The results of this audit have shown an improvement but there are still a small number of cases which are incorrect. The Service has advised that implementation of the new CoreHR System is currently going through the testing phase and its capabilities regarding managing this aspect of payroll have yet to be explored.

2.4 Overtime

- 2.4.1 The Council's Local Terms and Conditions for Local Government Employees state that work in excess of normal contracted hours should be discouraged. In view of this, Internal Audit looked for regular patterns of overtime within the sampled timesheets and, where identified, sought explanations from the authorising officers. Responses received provided appropriate justification for the hours worked.
- 2.4.2 In relation to Roads, employees record all their hours on a Roads Service – Weekly Timesheet. The job that they are working on is recorded along with the time spent – split between basic and overtime hours. The overtime hours are then transferred to a spreadsheet which is approved and sent to Payroll, where the data is uploaded to the Payroll System. Testing undertaken during this audit confirmed that the data contained in the May 2018 spreadsheet was accurately recorded in the Payroll System for the June 2018 pay run. A small sample of timesheets was requested from the Service to check that the data had been accurately recorded in the spreadsheet and was otherwise appropriate. Except for the following issue, this was the case.
- 2.4.3 Some of the timesheets showed claims for overtime relating to vehicle maintenance without detailing the specific hours worked. The 2015/16 cross-Service audit of Timesheets and Allowances identified similar claims and Service management stated that this related to an old agreement whereby 20 minutes per day had been allowed for these duties. HR confirmed at that time that there was no longer any provision in the Local Terms and Conditions for Local Government Staff for this. Roads Service Management was advised of this in April 2016 with a request from HR that such payments cease.
- 2.4.4 Internal Audit report AC1705 (Roads Payroll) was issued in August 2016 and raised similar issues. Service management stated that they would work with HR (now People and Organisation) to identify necessary changes to working patterns to reduce reliance on overtime and ensure that these tasks could be completed within contractual hours.
- 2.4.5 This has not been achieved, as reported to the Audit, Risk and Scrutiny Committee, due to a failure to recruit to senior posts within the Service. The latest update from the Service, as reported to Committee, is that this issue will be resolved by December 2018. In the meantime, overtime payments are continuing to be made based on an old agreement which has been superseded.
- 2.4.6 Regular monitoring of working hours in relation to the maximum of 48 hours per week over the appropriate reference period was agreed as part of Internal Audit report AC1705 (Roads Payroll). People and Organisation has confirmed that this has been made the responsibility of managers who should be keeping records of hours worked. As the Payroll System holds details of hours worked, it should be possible to produce reports from the system to identify those employees who have, or may be at risk of, working more than 48 hours over a defined reference period. The control would be more robust and efficient if it could be digitised and would ensure a more consistent approach across the Council.

Recommendation

The Service should ensure that the new Payroll system can monitor working hours to ensure compliance with the 48-hour rule across the Council.

Service Response / Action

The new system is in the User Acceptance stage of implementation, the initial implementation is hoped to be completed by March 2019. There are triggers to allow for calculation of the working time directive, this can be explored in terms of the availability of reports for managers after the initial implementation.

| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
|----------------------------|------------------------------|----------------------------------|
| July 2019 | Team Leader (Payroll & HRSC) | Significant within audited area. |

2.5 Working Time

- 2.5.1 The European Working Time Directive requires that employees receive certain rest breaks in and between their working hours. In general, although there are exceptions, if an employee works for continuous periods in excess of six hours they should take a break of at least 20 minutes. Guidance relating to the Council's Working Time Policy states that a 30-minute break should be taken after 6 hours of work. The guidance goes on to state that whether such breaks are paid will depend on the terms of the employment contract. The timesheets for Casual Staff state that the minimum unpaid break if working more than six hours is 20 minutes.
- 2.5.2 During the 2015/16 and 2016/17 audits of Timesheets and Allowances, 18.5% and 7% of timesheets examined showed continuous periods in excess of six hours being recorded with no unpaid in-work rest break having been evidenced between the starting and finishing times recorded. This covered a range of staff in different Services.
- 2.5.3 People and Organisation has been working with Services to resolve the issues and during this audit only timesheets relating to Children's Homes and the Aberdeen City Music School Halls of Residence showed continuous periods in excess of six hours being paid in full. People and Organisation advised that there may also be staff in the Criminal Justice Unpaid Work Service who are unable to take an unpaid in-work rest break.
- 2.5.4 People and Organisation is currently finalising arrangements in relation to these groups of staff which will be included in revised Collective Agreements following implementation of the Target Operating Model. In view of the progress made to date, no further recommendation is being made.
- 2.5.5 Whilst the Non-Standard Working Week Allowance (see section 2.7, below) in place for eight members of staff in one Team was correct based on the hours they work, they take their unpaid break early in the shift (before the 2000 threshold for paying the Allowance) when working night shifts. The Working Time Regulations state that unpaid in-work rest breaks should be taken somewhere in the middle of the shift. The Service has stated that this is for operational reasons and Internal Audit has advised that this be checked with People and Organisation to ensure compliance with the WTR.

Recommendation

People and Organisation should confirm whether the taking of unpaid in-work rest breaks near the start of a shift, rather than somewhere in the middle, is compliant with the Working Time Regulations.

Service Response / Action

Agreed.

Implementation Date

October 2018

Responsible Officer

Policy and Advice Officer,
People and Organisation

Grading

Significant within
audited area.

2.6 Craft Workers

Flexibility Allowance

- 2.6.1 One employee in the sample was in receipt of a Flexibility Allowance. The employee's rota was provided by the employing Service and was referred to People and Organisation to confirm if it fits with requirements detailed in the Craft Workers Terms and Conditions. In strict terms, it did not comply, and the intention is to address this when the Craft Workers' Terms and Conditions are addressed through a Service Redesign (see paragraphs 2.6.5 and 2.6.6, below).

Vehicle Checks

- 2.6.2 One employee in the sample has been claiming overtime at time and a half rather than at plain time (as stipulated in the Craft Workers Terms and Conditions) for vehicle checks. This appears to have been going on since at least the April 2017 payroll run, giving rise to a potential overpayment (up to June 2018) of £360 plus holiday pay. The Service has advised that this arose following a change in the employee's duties and the payment regarding vehicle checks was not fully explained or subsequently picked up by line management. The overpayment will be recovered and the importance of ensuring that claims are correct has been reiterated to line management.

Overtime

- 2.6.3 Three Craft Workers who had claimed overtime whilst on standby were included in the sample of timesheets selected for testing. The employing Service provided their Emergency Call Out Time Sheets from which the Craft Workers Claim Form is completed, authorised and paid. The hours agreed between the two records.
- 2.6.4 However, the timesheets exhibited periods of up to 19 hours of continuous work without a break being evidenced. This may be because the Craft Workers Terms and Conditions allow employees to claim a minimum period of 2 hours per call-out whilst on standby (although where call-outs are consecutive these count as one callout).
- 2.6.5 Internal Audit report AC1602AW (Craft Workers Terms and Conditions), issued in October 2015 raised the issue of timesheets demonstrating breaches of the Working Time Regulations, whilst also potentially being inaccurate. At the time, there were no other records which could be used to confirm attendance hours and show compliance with the Regulations. In view of this, the report stated that if any safety critical work were found to be defective, having been completed in periods of work where the documentation shows that the employee had been working without a break (for up to 19 hours as evidenced in this audit), it would be unlikely that the Council would be able to mount a satisfactory defence and demonstrate its compliance with the Health and Safety at Work Act. As a result of recommendations made in Internal Audit report AC1602AW, the Service confirmed that it had reviewed and implemented revised procedures to ensure and demonstrate compliance.

Recommendation

The Service should put arrangements in place that demonstrate compliance with the Working Time Regulations regarding required rest breaks.

Service Response / Action

As per Internal Audit report AC1602AW, we have alternative shift patterns that comply with Working Time Regulations that are ready to implement, which forms part of a Craft agreement review. However, the review is currently on hold due to unresolved industrial relations. The craft agreement review will be included within the Service Redesign.

| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
|----------------------------|--|-----------------------------|
| To be advised separately | Chief Officer – Operations and Protective Services | Major at a Corporate Level. |

2.7 Non-Standard Working Week Allowance

- 2.7.1 Where staff work Non-Standard Working Week (NSWW) hours, ie between 2000 and 0700 on a weekday, or any hours at a weekend, they are entitled to payment of an enhanced rate. The additional payment made is 33% for the weekday hours and 40% for weekend hours. Where staff work such hours as part of a rota, they can be paid the additional allowances as a fixed element of pay so that they don't have to claim the enhancements on a timesheet. Whilst this is efficient in terms of processing, it does rely on People and Organisation and Payroll being advised of any changes to rotas so that adjustments can be made to fixed pay.
- 2.7.2 When this area was last audited in 2016/17, there were 604 employees in receipt of a fixed NSWW Allowance each month, giving rise to payments of approximately £1 million per annum. Testing on a sample of 194 employees identified that 32% were being paid incorrectly.
- 2.7.3 It was agreed that all Managers / Supervisors of employees who had NSWWA as a permanent value set up in the payroll would be required to enter the shift / rota / working pattern into the YourHR system. This was to capture the data and allow regular (quarterly) verification of the working arrangements by Managers / Supervisors. There was also a briefing for all Managers / Supervisors with responsibility for staff who are paid NSWWA covering the necessity to alter the details in YourHR if there is any change in Rota / Shift / Working Pattern / Hours / Times of Work. YourHR would also calculate the allowance, removing the possibility of errors in manual calculations, whilst the data produced would still require to be input manually to the Payroll System.
- 2.7.4 Whilst rotas are now set up in YourHR, and the system is calculating the allowance payable accurately based on the rota details input, the quarterly verification of the rota remaining accurate has not been implemented. Whilst this development would not now be beneficial in the current Payroll System, the Service should ensure that the replacement Payroll system has this verification requirement set up.
- 2.7.5 To test the accuracy of fixed payments, a sample of 7 work locations where employees were receiving the allowance was selected and their line managers were requested to provide the rotas that were being worked. Rotas relating to 50 employees were checked. This identified the following:
- 44 employees were being paid correctly.
 - Two employees were being paid incorrectly:
 - one has been overpaid by £15 per month for eight months – the Service has now corrected the rota in YourHR and will liaise with the employee and Payroll to recover the resultant overpayment;
 - another had been input to Your HR incorrectly and was not, therefore, accepted by the system. The employing Service has now rectified this, and Payroll has been advised that there may be a resultant overpayment. This area has rotas ranging from 2 to 65 weeks, making the calculation of NSWW Allowance complicated and giving rise to potential accuracy issues should employees leave. Consideration should be given to restricting rotas to a maximum number of weeks.
 - Three out of four staff at one establishment appear to be incorrect. The one that is correct and one of those that is not, do not have rotas recorded in

YourHR, indicating that the process set up previously to ensure that all NSW Allowances are supported by a rota in YourHR has not been fully implemented. The Service has been advised to input the actual rotas to YouHR and Payroll has been advised so that this can be monitored.

- The final employee is referred to in paragraphs 2.7.7 and 2.7.8 below.

2.7.6 Based on the above findings, the payment of the NSW Allowance as a fixed element is working better than it was when tested previously in 2015/16. Despite this, there are still errors in payment and it is important that the rotas in place are validated as still being appropriate when data is migrated to the new Payroll System. This will provide an ideal opportunity to ensure accuracy of data and resultant payments.

| <u>Recommendations</u> | | |
|---|---|----------------------------------|
| a) | Non-Standard Working Week Allowances should be set up on the new Payroll System based on current rotas provided by employees' line managers. | |
| b) | Once set up on the system, rotas should be verified by employees' line managers on a regular basis. | |
| c) | Consideration should be given to restricting rotas for NSW Allowance to a maximum number of weeks to ensure that calculations are transparent and that they reduce the risk of inaccurate payments when employees leave the Council. | |
| <u>Service Response / Action</u> | | |
| a) | The new system is in the User Acceptance stage of implementation, the initial implementation is hoped to be completed by March 2019. The CoreHR system has a rota management aspect, implementing this will not be part of the initial implementation, we will explore the full capabilities of monitoring this after the initial implementation. | |
| b) | As for a), above. | |
| c) | Agreed. People and Organisation will give consideration to the feasibility of restricting the maximum length of time for a rota to be based on. | |
| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
| a) December 2019 | a) Team Leader (Payroll & HRSC) | Significant within audited area. |
| b) February 2020 | b) Team Leader (Payroll & HRSC) | |
| c) December 2018 | c) HR Business Partner | |

2.7.7 In addition to the above, one employee who was in receipt of the Allowance was not detailed on the establishment rota provided to Internal Audit by the employing Service. The Service confirmed that the employee had left the Council and that notification had been sent to the HR Service Centre. This had, however, not been forwarded to Payroll to make the necessary changes in the Payroll System. The former employee left on 1 April 2018 and has been paid their full salary and the Allowance for April, May and June 2018. Payment was about to be made for July 2018 when this was identified, and payment was stopped immediately upon notification by Internal Audit. Payroll will arrange for recovery of the previous months' overpayments; the gross amount of which was just over £5,400.

2.7.8 To mitigate against omissions like the above, Payroll send monthly reports to each establishment detailing the payments made. These had not been checked at the employing establishment. Equally, the former employee had not contacted the Council to advise of continuing payment. Whilst it is anticipated that further digitisation will help mitigate against such risks in future, action should be taken to ensure that management are undertaking the necessary checks to identify such issues.

Recommendation

All Service areas should be advised of this case (anonymised) and of the importance of undertaking the necessary checks in relation to payment reports received.

Service Response / Action

Agreed. A communication will be drawn up to highlight this and similar issues which will be sent to Chief Officers for cascading to all Managers.

Implementation Date

August 2018

Responsible Officer

Team Leader (Payroll & HRSC)

Grading

Significant within audited area.

AUDITOR: D Hughes

Appendix 1 – Errors in Timesheet Completion

- A Craft Worker claiming overtime at plain time for vehicle checks (as permitted in the Craft Workers Terms and Conditions) recorded the hours in the incorrect column of the timesheet resulting in the time being input to the Payroll System as overtime at time and a half. This resulted in an overpayment of £90 plus additional holiday pay.
- Overtime payable at time and a half was transferred from one side of a timesheet to the other and recorded as Public Holiday Hours payable at double time. This resulted in an overpayment of £26.50 plus holiday pay.
- One member of staff included a claim for Public Holiday hours payable at double time in the total of additional hours for the same week payable at plain time, resulting in an overpayment of £66.50 plus holiday pay.
- Four timesheets were totalled incorrectly resulting in small overpayments.

Appendix 2 – Grading of Recommendations

| GRADE | DEFINITION |
|--|--|
| Major at a Corporate Level | The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council. |
| Major at a Service Level | <p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p> |
| Significant within audited area | <p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p> |
| Important within audited area | Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control. |

ABERDEEN CITY COUNCIL

| | |
|---------------------------|-------------------------------------|
| COMMITTEE | Audit, Risk and Scrutiny Committee |
| DATE | 20 September 2018 |
| REPORT TITLE | Internal Audit Report AC1904 – GDPR |
| REPORT NUMBER | IA/AC1904 |
| DIRECTOR | N/A |
| REPORT AUTHOR | David Hughes |
| TERMS OF REFERENCE | 2.2 |

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on GDPR.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of GDPR.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|---|
| Equality & Human Rights Impact Assessment | An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. |
| Privacy Impact Assessment | Not required |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable |

9. APPENDICES

- 9.1 Internal Audit report AC1904 – GDPR.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01467) 537861



Internal Audit Report

Governance

General Data Protection Regulation

Issued to:

Fraser Bell, Chief Officer – Governance
Jonathan Belford, Chief Officer – Finance
Jacqui McKenzie, Chief Officer – Customer Experience
Stephen Booth, Chief Officer – Corporate Landlord
Caroline Anderson, Information Manager
Wayne Connell, Revenue and Benefits Manager
Eleanor Sheppard, Chief Education Officer
External Audit

EXECUTIVE SUMMARY

The General Data Protection Regulation (GDPR) and the majority of the provisions of the Data Protection Act 2018 (DPA 2018) came into force on 25 May 2018: together this legislation (Data Protection legislation) replaced the Data Protection Act 1998 (DPA 1998).

The legislation introduces several major changes to former data protection legislation, including, but not limited to, increased accountability and transparency requirements, strengthened rights for individuals in relation to their own personal data, and greater penalties for breaching the requirements of the Data Protection legislation, up to a maximum of €20 million or 4% of turnover.

The objective of this audit was to provide assurance that the Council has adequate arrangements in place, that are understood throughout the organisation, to protect the Council's information.

In general, the audit found that adequate policy and procedures were in place, describing the Council's approach to managing information held by it. In order to enhance these, Governance has agreed to establish detailed procedures relating to individual's rights to data portability, and automated decision making and profiling.

A comprehensive range of training is available, and while only 44% of staff had completed the mandatory Information Governance training as at 11 September 2018, exception reporting is in place to advise Chief Officers of those employees yet to complete the training so that they can take appropriate corrective action.

The Council has adequate arrangements in place in terms of: a Data Protection Officer; registration with the ICO; data protection impact assessments; the records of processing activities; data breach monitoring; data retention guidance; freedom of information requests; postage guidance; and confidential waste.

Revised privacy notices were found to comply with the requirements of GDPR, however some paper forms in use at the time of the audit were found to refer to previous data protection legislation and some school parental permission forms lacked privacy notices. The historic forms have largely been replaced with updated versions and the respective Services have agreed to update the Penalty Charge Notice and pupil photo permission form to include a GDPR compliant privacy notice.

Contracts with the Council's data processors are currently being updated using a risk based approach (those contracts which are higher risk, e.g. social care, are being updated first). Higher risk contracts have been updated and Commercial and Procurement Services has agreed to ensure all data processor contracts are updated to reflect the requirement of GDPR.

Other recommendations have been agreed in relation to updating the Surplus Property procedures to require documents containing personal data to be removed from vacated premises and to ensuring a review of Information Sharing Agreements is completed to determine any necessary GDPR updates required to these agreements.

1. INTRODUCTION

- 1.1 The General Data Protection Regulation (GDPR) and the majority of the provisions of the Data Protection Act 2018 (DPA 2018) came into force on 25 May 2018: together this legislation (Data Protection legislation) replaced the Data Protection Act 1998 (DPA 1998).
- 1.2 The GDPR regulates the processing of personal data from which a living individual could be identified. Processing of data includes: collection, recording, organisation, structuring, storage, alteration, retrieval, consultation, use, disclosure by transmission, dissemination, combining with other data, restriction, erasure or destruction. The GDPR applies to any computerised or manual records containing personal information about living and identifiable people, and requires that appropriate technical and organisational measures are taken to ensure compliance with the Regulation. No personal data may be processed unless the Data Controller (organisation alone or jointly with others, determining the purposes and means of processing of personal data e.g. the Council) has identified an appropriate legal basis or bases, which meets the requirements of the GDPR. The GDPR provides derogations to EU member states on some elements of how Data Protection law will work domestically. The UK has enacted the Data Protection Act 2018 for this purpose. The DPA 2018 also sets the law around types of personal data processing not covered in the GDPR (for example, the processing of personal data for law enforcement purposes).
- 1.3 The legislation introduces several major changes to former data protection legislation, including, but not limited to, increased accountability and transparency requirements, strengthened rights for individuals in relation to their own personal data, and greater penalties for breaching the requirements of the Data Protection legislation, up to a maximum of €20 million or 4% of turnover.
- 1.4 The objective of this audit was to provide assurance that the Council has adequate arrangements in place, that are understood throughout the organisation, to protect the Council's information.
- 1.5 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Caroline Anderson (Information Manager), and Helen Cannings, Catriona Sim and Susan Patterson (Information Management Team).

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Procedures and Training

2.1.1 Comprehensive written procedures and guidance which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance that correct and consistent instructions are available to staff, important in the event of an experienced employee being absent or leaving. They have increased importance where new systems or procedures are being introduced.

2.1.2 On the Council's intranet ('the Zone') the Service provides policy, procedures and guidance for the management of information – primarily through the 'Managing Information Handbook'. The Service has updated the policy, procedures and guidance to reflect the requirements of GDPR.

2.1.3 The Service has made available both face-to-face and e-learning data protection training through the Council's Online Interactive Learning (OIL) platform. Face-to-face training sessions included the following (attendance numbers in brackets):

- Service specific changes to data protection law (825)
- Elected Members training on changes to data protection law (36)
- General session on the changes for data protection law (137)
- Data protection impact assessments briefing and training sessions (32)
- Information asset owner training (181)
- Managing information session (1)
- Updating privacy notices (70)

2.1.4 The OIL course entitled 'Information Governance Training' became available in July 2018 and as at 11 September 2018 was completed by 3,927 (44%) members of staff. These completion rates have been broken down by function below:

| <i>Function</i> | Current Staff | Number of Staff completed OIL course | Percentage |
|--------------------|---------------|--------------------------------------|------------|
| Social Care | 584 | 277 | 47% |
| Commissioning | 102 | 80 | 78% |
| Customer | 1,103 | 913 | 83% |
| Governance | 72 | 69 | 96% |
| Operations | 6,414 | 2,187 | 34% |
| City Growth | 241 | 88 | 37% |
| Strategic planning | 166 | 116 | 70% |
| Resources | 276 | 197 | 71% |
| Total | 8,958 | 3,927 | 44% |

2.1.5 Information Governance mandatory training completion rates are being sent to Chief Officers on a weekly basis. In addition, monthly exception reports are being sent to Chief Officers, with details of employees yet to complete the Information Governance training, for the purposes of ensuring training is completed as required. Elected Members are not required to complete the OIL course however further face-to face data protection training is scheduled to be delivered on the 20 September and 1 October 2018 for Elected Members yet to receive training.

2.2 Data Protection Officer and ICO registration

2.2.1 Under GDPR the Council is required to appoint a Data Protection Officer responsible for monitoring internal compliance amongst other tasks. The Council has appointed an interim Data Protection Officer and intends to recruit an individual to this role in the coming months. Further, the Council must, as an organisation processing personal data, pay a data protection fee to the Information Commissioners Office (ICO) (the UK's independent body to uphold information rights). This was verified through an examination of the ICO's register of fee payers. In addition, it was verified that all Tier 1 and 2 ALEOs, which are required to pay a data protection fee to the ICO, have done so. These ALEOs are separate data controllers from the Council and are responsible for their own data protection compliance arrangements.

2.3 Privacy Notices

2.3.1 In accordance with GDPR Article 13, where personal data relating to a data subject is collected, the Council uses privacy notices to: explain the purposes of processing; the legal basis for processing; the data subjects rights in relation to their personal data held by the Council; whether the data will be shared with any other parties; whether there is any automated decision making or profiling using the personal data; the retention period; and the contact details of the Data Protection Officer, responsible for monitoring the Council's compliance with Data Protection legislation.

2.3.2 The Council's 'Managing Information Handbook', available from the Zone, identifies the procedure for identifying where privacy notices are required and how these should be prepared. Internal Audit selected a sample of 15 privacy notices and in each case these had been updated in accordance with GDPR and the handbook.

2.3.3 To ensure the paper forms completed by customers have been updated to include privacy notices compliant with GDPR, a selection of 19 forms available from the Marischal College Customer Service Centre in August 2018 were inspected by Internal Audit. The following was noted:

- 7 forms had privacy notices which complied with GDPR
- 1 of the forms made reference to the 'Data Protection Act' but did not meet the requirements of GDPR
- 11 forms contained reference to the DPA 1998

Recommendation

The Service should ensure all forms have been updated to include privacy notices compliant with GDPR.

Service Response / Action

Whilst forms were being updated the Customer Service Centre was issuing copies of the old forms. This has now been resolved and all forms have been replaced with the updated copies.

The Penalty Charge Notice forms will be further revised following the update to the privacy notice which is currently underway.

Implementation Date

October 2018

Responsible Officer

Revenue and Benefits
Manager

Grading

Significant within audited
area

2.3.4 The introduction of GDPR necessitated that employees also be made aware of how their personal data is used via a privacy notice. A communication was emailed to all third tier managers for dissemination amongst their teams, providing guidance on accessing the

updated employee privacy notice, and a similar message was also posted to the Zone. Employees were encouraged to contact the Council's Data Protection Officer with any further queries they have. The privacy notice adequately described the personal data collected; types of processing; legal basis for processing; and rights of the individual in relation to their personal data held by the Council.

2.4 Individual's Rights

2.4.1 Under GDPR an individual has 8 defined rights:

- The right to be informed (privacy notices)
- The right of access (subject access)
- The right to rectification
- The right to erasure
- The right to restrict processing
- The right to data portability
- The right to object
- Rights in relation to automated decision making and profiling.

2.4.2 The Council's 'Managing Information Handbook' confirms that the Council has implemented policies and procedures for each of the above rights, except the right to data portability and the rights in relation to automated decision making and profiling. Whilst reference is made to each, there is no detailed procedure in place to ensure compliance with these rights. The Managing Information Handbook refers to a section of the handbook where relevant procedures can be found, however this was absent from the handbook. This increases the risk the Council may not adequately address these rights.

Recommendation

The Service should ensure procedures are in place to address all rights of individuals as described by GDPR.

Service Response / Action

Agreed.

Implementation Date

December 2018

Responsible Officer

Information Management
Team Leader

Grading

Important within audited
area

2.4.3 Internal Audit obtained a listing of all requests for erasure, access, rectification and data portability. Under GDPR the Council must provide responses to such reasonable requests within 1 month of receipt and may only charge a fee if the request is deemed manifestly unfounded or excessive. A sample of 10 subject access requests was tested and it was confirmed these were responded to within the required timeframe and that if a fee was charged, this was appropriate.

2.5 Data Processors

2.5.1 GDPR Article 28(3) and section 59(5) of the DPA 2018 require that where a data controller such as the Council uses a third party to process personal data (processor), the processing should be governed by a contract, binding the processor to the controller and setting out the subject matter and duration of processing, the nature and purposes of the processing, the type of personal data and categories of data subjects, and the obligations and rights of the controller.

2.5.2 The updating of contracts is currently being performed using a risk based approach (those contracts which are higher risk, e.g. social care, are being updated first). Of a sample of 12 updated contracts, each was found to have been appropriately updated in accordance

with GDPR Article 28 and had been approved by both parties. A recommendation has been made here for tracking purposes.

Recommendation

The Service should ensure all relevant contracts with data processors are updated to reflect the requirements of GDPR Article 28.

Service Response / Action

Contracts were prioritised based on the extent that personal information is shared with contractors. All social care contracts have been reviewed (209). 159 have had either a variation or a new contract issued with GDPR compliant clauses – 101 of these have been fully signed by both the Council and Provider, with the remaining 58 being in the issue / signing process. 50 remain to be reviewed and varied or a new contract issued – these include 25 National Care Home Contracts where the Council has recently received the preferred wording from Scotland Excel/COSLA. As regards all other contracts, the Council is continuing to prioritise these based on whether or not personal information is shared with the contractor. The Council's Contract Register is being used as the basis for this and work is progressing to update all contracts.

Implementation Date

December 2018

Responsible Officer

Team Leader –
Commissioning

Grading

Important within audited
area

2.6 Data Protection Impact Assessments

2.6.1 The Council has a legal requirement to carry out a data protection impact assessment (DPIA) for any type of processing that is likely to result in a high risk to the rights and freedoms of individuals. Within the Council's 'Managing Information Handbook', guidance is provided to ensure that officers are aware of when DPIA's are required and how these should be performed. This also includes a template for the completion of DPIA's. Further, the Council maintains an up-to-date register of all DPIA's in progress and completed, with these being sequentially numbered, to facilitate tracking of progress.

2.6.2 Since the introduction of GDPR, the Council has completed 6 DPIA's, with a further 28 currently in progress. Three completed DPIA's were obtained and it was confirmed that these had been fully completed, and that each was signed and approved as appropriate by the Data Protection Officer.

2.7 Data Breaches

2.7.1 The Information Governance Group (IGG), responsible for supporting and driving the broader information governance agenda, reviews the Council's data protection compliance, on a quarterly basis. A report is reviewed quarterly by the IGG, which includes response times to data subject access and the number of data protection breaches and complaints. This is also reported annually to the Audit, Risk and Scrutiny Committee (most recently reported on 26 September 2017 for the period July 2016 – June 2017). The next annual report, covering the period July 2017 to June 2018, will be reported to Audit, Risk and Scrutiny Committee on 25 September 2018. Internal Audit reviewed copies of the last 4 available quarterly reports and the following was noted:

| | Breaches | Self-Reports to ICO | Data Handling Complaints |
|---------------------|-----------------|----------------------------|---------------------------------|
| Apr – Jun 17 | 10 | 0 | 0 |
| Jul – Sep 17 | 12 | 0 | 1 |
| Oct – Dec 17 | 7 | 0 | 2 |
| Jan – Mar 18 | 22 | 0 | 0 |
| Total | 51 | 0 | 3 |

2.7.2 The types of breaches within this period were either the result of human error or unauthorised disclosure (e.g. incorrect email recipient). In this period there were no instances resulting in data loss or security failures.

2.7.3 More recently, an incident occurred in July 2018 in which the P11D forms for 837 current and 110 former employees were distributed to incorrect recipients. As such, the Information Security Incident Reporting procedure was followed and the breach reported to the ICO. Employees were also made aware of the breach by letter and an announcement on the Zone. Internal Audit inspected all records relating to the breach and the report prepared by the Service. It was agreed that the correct procedure was undertaken and that the breach was reported to the ICO as required within the correct timeframe (72 hours). Potential actions the ICO may take include investigating the breach and issuing a fine.

2.8 Information Asset Register

2.8.1 Article 30 of GDPR requires that each controller shall maintain a record of processing activities under its responsibility. That record shall contain all of the following: the name and contact details of the controller; the purposes of the processing; a description of the categories of data subjects and of the categories of personal data; the categories of recipients to whom the personal data have been or will be disclosed (including internationally); details of transfers to a third country; time limits for erasure (where possible); and a general description of the technical and organisational security measures (where possible).

2.8.2 The Council maintains an Information Asset Register which was found to be up to date. The processing activities recorded in relation to personal data held was found to comply with the requirements of GDPR. On inspection of the Information Asset Register it was confirmed that through the ICT Service Now platform, certain employee information is stored internationally in the Netherlands, an EU member state where GDPR applies.

2.9 Data Retention

2.9.1 Article 5(1)(e) of GDPR requires that data should not be held for longer than it is actually needed. The Council must therefore have reasoning for the retention period for each item of data held.

2.9.2 The Council maintains a comprehensive data retention schedule which is easily accessible by all employees. On inspection of the schedule it was confirmed that appropriate guidance is being given to ensure data is held for appropriate time periods, with reasons included for retention duration (either legislative or business requirement e.g. business requirement to retain for historical reasons). Instruction for the method of disposal of the information is also given. The Records Retention and Disposal Schedule was found to adequately describe the reasons for retention of personal data.

2.10 Education and Social Work

2.10.1 Given the sensitive high risk nature of certain types of personal data (e.g. social work / education records) it is important that these are stored securely and that only authorised

personnel can access these. Internal Audit visited 2 primary schools, 1 secondary school and 3 social work offices. At each of these visits, inspections were undertaken to ascertain how personal data was being collected and stored, and to ensure that personal data was stored securely and only accessible by authorised individuals. No exceptions were noted in relation to data security.

2.10.2 A letter was sent to parents and carers by the then Interim Head of Education and Inclusion explaining the impact of GDPR. This described the pupil personal data that is collected, the legal basis for this and the rights of parents in relation to personal data held by the Council.

2.10.3 The pupil enrolment form collects personal data, including special category personal data, on pupils. A GDPR compliant privacy notice is present on the enrolment form which describes the legal basis for collecting this data. The enrolment form also states pupil data may be shared with partners of the Council where data sharing agreements are in place. It was however noted during the visits to schools that parental permission forms (for matters such as photography, videos and sharing information e.g. for the NHS Dental Inspection Programme) are prepared by each school without privacy notices. Failure to provide appropriate explanation as to why personal data is being collected and the legal basis for processing that data may result in fines or reputational damage.

Recommendation

The Service should consider issuing standard permission forms for all schools to use, that include privacy notices compliant with GDPR where required.

Service Response / Action

Agreed.

Quality Improvement Officers will look at GDPR at the first 2018/19 Quality Assurance visit so that we can be confident in the use of revised enrolment forms which includes a GDPR compliant privacy notice and notifies parents of data sharing arrangements.

New photo permission privacy notices are currently being consulted on to ensure the range of reasons for pupil photographs are covered in the final photography consent privacy notice.

The Service is currently in discussion with the NHS in relation to the dental / ChildSmile privacy notice. No dental or ChildSmile forms will be issued through school until we have a privacy notice from the NHS.

Implementation Date

November 2018

Responsible Officer

Chief Education Officer

Grading

Important within audited area

2.11 Confidential Waste

2.11.1 The current confidential waste contract was awarded for a period of 6 months running from 26 April 2018 to 25 October 2018. The contract is for the provision of confidential waste bins, and collection and disposal of waste within these bins on a weekly basis. The Building Manager for Marischal College confirmed that regular inspections are undertaken to ensure these bins are not overflowing or that disposed waste is accessible. Further, when additional confidential waste bags are used during larger clear-outs these are sealed and stored in a locked cage in the mail room within Marischal College. These storage arrangements were found to be adequate. In addition, a sample of confidential waste bins was inspected, and these were not overfilled with confidential waste being inaccessible.

2.12 Property disposals

- 2.12.1 To avoid data protection breaches, the Council must ensure that documents containing personal data are removed from Council premises prior to property being disposed of. A Surplus Property Handover form must be completed and submitted to Corporate Landlord by the relevant Service when a property is being vacated. The form contains boxes which must be ticked to indicate whether or not the property is empty. However, the form does not require confirmation that all documentation containing personal data has been removed from the property, meaning such documents may be inadvertently left behind.

Recommendation

The Service should update Surplus Property procedures to require documentation containing personal data be removed from premises being vacated.

Service Response / Action

Agreed. The Service will update the property hand over form to specifically include reference to the removal of documentation including personal data.

Implementation Date

December 2018

Responsible Officer

Property Estates Manager

Grading

Important within audited area

2.13 Freedom of Information

- 2.13.1 Under the Freedom of Information (Scotland) (FOI) Act 2002 the public is entitled to make requests for information held by the Council. However, when providing this information the Council must ensure that data protection legislation is complied with. Internal Audit examined the procedures in place for responding to FOI requests to ensure this complied with data protection requirements. Further, a sample of 40 FOI request responses available on the Council's website were examined to ensure these complied with data protection legislation. No exceptions were noted from this testing and the procedures were appropriate.

2.14 Mail

- 2.14.1 The Council uses three mail providers; one for all first class, recorded, signed for and air mail; another for second class mail; and another for legal mail. The Managing Information handbook includes a procedure describing checks to be undertaken before sending information by post and requires 'sensitive or special category personal information' to be sent using a tracked postal service, reducing the risk personal data will be sent to the wrong recipient.

2.15 ICT Equipment

- 2.15.1 The loss of ICT equipment can result in data protection breaches. The Council's Managing Information Handbook identifies the procedures which should be undertaken were an individual to lose ICT equipment. This includes contacting ICT who can then deactivate the device. Further, the inappropriate usage of removable storage devices (e.g. memory stick) is also addressed. The policy requires that only Council issued removable storage devices should be used as these are encrypted, reducing the chance of data loss. Data breach and cyber attack prevention was reviewed as part of the Major IT Business Systems audit AC1810 and has therefore not been examined further as part of this audit.

2.16 **Data Sharing**

2.16.1 The Council holds several data sharing agreements with different organisations, including Police Scotland, the NHS and the Scottish Government. Some of these agreements involve multiple parties, sometimes even involving all 32 Scottish local authorities. The conclusion or updating of such agreements will therefore often depend upon input from a number of different parties. Each of these agreements is tracked on an Information Sharing Agreement Register which identifies all parties involved. During the review of privacy notices it was confirmed that these sharing agreements are being appropriately disclosed where required. Further, the Service is undertaking a review of these Information Sharing Agreements to assess whether or not they comply with GDPR. A recommendation is made here for tracking purposes.

Recommendation

The Service should ensure all data sharing agreements are reviewed to assess whether or not they comply with GDPR and produce a plan for any necessary updating of such agreements.

Service Response / Action

Agreed.

Implementation Date

December 2018

Responsible Officer

Team Leader –
Governance

Grading

Important within audited
area

AUDITORS: D Hughes
A Johnston
J Grigor

Appendix 1 – Grading of Recommendations

| GRADE | DEFINITION |
|--|--|
| Major at a Corporate Level | The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council. |
| Major at a Service Level | <p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p> |
| Significant within audited area | <p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p> |
| Important within audited area | Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control. |

ABERDEEN CITY COUNCIL

| | |
|---------------------------|--|
| COMMITTEE | Audit, Risk and Scrutiny Committee |
| DATE | 25 September 2018 |
| REPORT TITLE | Internal Audit Report AC1909 – Universal Credit and Housing Rent |
| REPORT NUMBER | IA/AC1909 |
| DIRECTOR | N/A |
| REPORT AUTHOR | David Hughes |
| TERMS OF REFERENCE | 2.2 |

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Universal Credit and Housing Rent.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of Universal Credit and Housing Rent.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|---|
| Equality & Human Rights Impact Assessment | An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. |
| Privacy Impact Assessment | Not required |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable |

9. APPENDICES

- 9.1 Internal Audit report AC1909 – Universal Credit and Housing Rent.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01467) 537861



ABERDEEN CITY COUNCIL

Internal Audit Report

Customer

Universal Credit and Housing Rent

Issued to:

Andy MacDonald, Director of Customer Services

Derek McGowan, Chief Officer – Early Intervention and Community Empowerment

Fraser Bell, Chief Officer – Governance

Sandra Buthlay, Interim Chief Officer – Finance

Neil Carnegie, Communities and Housing Area Manager

External Audit

EXECUTIVE SUMMARY

The Council provides housing across a portfolio of 22,050 properties. Universal Credit (UC) is due to be rolled out in full in Aberdeen on 31 October 2018 and will replace six means tested benefits including Housing Benefit. The Department for Work and Pensions (DWP) currently forecasts that by March 2019, over 2,600 individuals will be claiming UC in Aberdeen.

UC places the onus on the claimant to manage their finances and meet their obligations as they fall due. UC rent payments will be made directly by the DWP to the claimant who will then be responsible for paying rent to their landlord e.g. the Council. However, under certain circumstances these rental payments can be made directly to the landlord.

The objective of this audit was to provide assurance that appropriate arrangements have been put in place to manage the impact of UC on rent collection including intervention relating to identified vulnerable cases. In general, this was found to be the case, with clear policy on the treatment of vulnerable clients and the requirement to offer support, alternative payment arrangements applied as expected, and performance measures being reported.

The Service is at the planning stage for the introduction of UC full service on 31 October 2018 and at the time of the audit draft policies were available. The draft rent management policy is comprehensive and clear. The Service has agreed to develop and approve written procedures after the policy is reported to the September 2018 Operational Delivery Committee for approval. Training covering UC full service is also currently being developed and the Service has agreed to deliver this to Elected Members and employees ahead of UC full service being rolled out.

Finance reconcile rental income received per the cash receipting system to that per the rent management system on a monthly basis. Reconciling items relating to funds allocated to suspense are not currently detailed. The Rent Accounts team has agreed to provide Finance with details of items held in suspense on a monthly basis for reconciliation purposes. In addition, the Rent Accounts team has agreed to review Universal Credit transactions on a sample basis to ensure they are being applied to the correct account.

There is an increased risk of rent arrears as a result of the introduction of Universal Credit, as reported by another Scottish local authority, where UC full service has been rolled out. On inspection of the Housing Revenue Account budget for the 2018/19 financial year, no provision has been made for an increase in bad debts due to UC. Finance have agreed to review bad debts as a result of UC for the purpose of forecasting the HRA 2018/19 outturn and setting future budgets.

Rent arrears procedures are comprehensive and provide appropriate guidance to staff. In addition, the Service was found to have applied for alternative payment arrangements where applicable. However, whilst some reference was made in arrears procedures to UC, the procedures lacked detail in this regard. The Service has agreed to update the rent arrears policy and procedures with specific UC detail.

1. INTRODUCTION

- 1.1 The Council provides housing across a portfolio of 22,050 properties. Universal Credit (UC) is due to be rolled out in full in Aberdeen on 31 October 2018 and will replace six means tested benefits including Housing Benefit. The Department for Work and Pensions (DWP) currently forecasts that by March 2019, over 2,600 individuals will be claiming UC in Aberdeen.
- 1.2 UC was introduced through the Welfare Reform Act 2012 by the UK Government and was first implemented in Aberdeen in November 2015 as a trial 'live service'. UC live service concluded in January 2018 and no new UC claims within Aberdeen can be made until the full service rollout, while existing UC claimants within Aberdeen from live service, can continue to claim UC.
- 1.3 The objective of this audit was to provide assurance that appropriate arrangements have been put in place to manage the impact of UC on rent collection including intervention relating to identified vulnerable cases.
- 1.4 The factual accuracy of this report and action to be taken regarding the recommendations made have been agreed with Derek McGowan Chief Officer – Early Intervention and Community Empowerment, Neil Carnegie, Communities and Housing Area Manager and Doug McKenzie, Development Officer.

2. FINDINGS AND RECOMMENDATIONS

2.1 Background

2.1.1 UC is designed to replace the following benefits:

- Job Seekers Allowance
- Housing Benefit
- Working Tax Credit
- Child Tax Credit
- Employment and Support Allowance
- Income Support

2.1.2 All UC claims will be processed by the DWP. Claimants will be able, when making their application, to include a claim to cover housing costs (rent, certain service charges). The Council will be able to report tenant housing costs and payment reference numbers to the DWP through a landlord portal (to be rolled out to the Council ahead of full service). Individuals currently claiming Housing Benefit will have no requirement to change to UC upon full service rollout until they experience a change of circumstances.

2.1.3 UC places the onus on the claimant to manage their finances and meet their obligations as they fall due. UC rent payments will be made directly to the claimant who will then be responsible for paying rent to their landlord. However, under certain circumstances these rental payments can be made directly to the landlord.

2.1.4 UC claims may be revised and amounts paid may vary as a result. This is the result of DWP decisions based on claimant failures to meet certain requirements (e.g. attendance at work coach meetings). The Council will not be informed of such decisions and will not be provided access to DWP systems to monitor changes in UC payments.

2.1.5 The Council has met with the DWP to gain an understanding of the impact of UC full service. The Council also chairs the Scottish Rents Forum, which the Service advised has focused on the impact of Universal Credit for a number of years, found to be the case for the 2 most recent meetings, on reviewing the related minutes. Additionally, the Service has set up a visit to South Lanarkshire Council in August 2018 to discuss their lessons learned following full service rollout, as the Service believe their approach is applicable to Aberdeen City Council.

2.1.6 According to the Local Government Benchmarking Framework (LGBF), as at the end of the 2016/17 financial year (most recent available data), the Council is performing better than the average Council in Scotland, in relation to gross rent arrears as a percentage of rent due for 2016/17 (Council: 4.6%, Scotland average: 6.5%). Further, per the Scottish Housing Regulator, the Council collected 101.6% and 100.2% of rent due (including arrears) in 2015/16 and 2016/17 respectively (Scottish average 99.5% in 2015/16 and 99.6% in 2016/17).

2.2 Written Procedures and Training

2.2.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance that correct and consistent instructions are available to staff, important in the event of an experienced employee being absent or leaving. They have increased importance where new systems or procedures are being introduced.

2.2.2 Currently the Service is at the planning stage for the introduction of UC full service and at the time of the audit only draft policies were available. The draft rent management policy

is comprehensive and clear. Written procedures will be drafted by the Service following the approval of the policy and a training plan is also currently being drafted.

- 2.2.3 The Service has indicated their intention to have the rent management policy approved by CMT and it will be included on the September 2018 Operational Delivery Committee agenda for approval. The Service has organised training sessions for employees and Elected Members between 17 September and 19 October on UC full service. The following recommendations are for tracking purposes for the completion and approval of relevant policies and procedures, and the delivery of training.

| | | |
|---|-----------------------------------|-------------------------------|
| <u>Recommendation</u> | | |
| The Service should ensure policies, written procedures and training plans are completed and approved. | | |
| The Service should ensure training is delivered to relevant staff. | | |
| <u>Service Response / Action</u> | | |
| Agreed. | | |
| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
| October 2018 | Development Officer | Important within audited area |

2.3 Payments

- 2.3.1 Council tenants can pay their rent via a number of different methods: in person at the Council’s Access Points or at Post Offices using a rent card, via direct debit or standing order, over the phone and online via the Council’s website. These methods were reviewed as part of Internal Audit report AC1607 – Rent Collection & Arrears Management and the process under UC for the processing of these will not change.
- 2.3.2 During the application for UC, a claimant may make an election under the “Scottish UC Choices” for an Alternative Payment Arrangement (APA) and to have their rent paid directly to the landlord (Managed Payment to Landlord (MPTL)). Further, the Council may be eligible to make applications for MPTL and Third Party Deductions (TPD) to clear accrued rent arrears where certain criteria are met. TPD can be applied for when arrears meet one of several defined DWP thresholds. An MPTL can be applied for when a tenant has:
- Continually underpaid rent over a period of time and has accrued rent arrears totalling one month’s rent; or
 - Accrued rent arrears totalling two months’ rent; or
 - Defined trigger conditions are identified (e.g. addiction problems)
- 2.3.3 Following the full service rollout, the Council will be able to apply for APA’s through the DWP landlord portal (currently they must complete a UC47 form and return this to DWP). Due to the Council’s Trusted Partner status with the DWP, applications for APAs/TPDs are expected to proceed relatively unchallenged. The identification of trigger conditions (as outlined by DWP) may be difficult due to the complexity or sensitivity of some criteria. However guidance is available from the DWP, including the probability of the requirement for an APA based on the nature of claimant circumstances.
- 2.3.4 Any payments received directly from DWP will be receipted into the Housing Rents bank account. For each daily payment received from the DWP, a remittance advice is also received identifying each claimant’s payment reference (provided to DWP by the Council when confirming the rent due via the landlord portal at the outset of the claim) and National Insurance number for each individual covered within the payment. Finance receives a file

from the DWP and uploads this into the cash receipting system (ICON). The automated overnight process then distributes this along with all other rent payments into the rent management system. Payments are assigned the transaction sub-type reference 'UCAP'.

- 2.3.5 Internal Audit selected a sample of 40 UCAP MPTL transactions within the rent management system and traced these back to the original remittance and to the bank account to confirm amounts received were applied to the correct rent account. No exceptions were noted, all affected rent accounts were correctly updated and in a timely manner.
- 2.3.6 DWP will occasionally provide an incorrect reference number which iWorld will reject, putting the amount paid into a suspense account. A daily process is undertaken by the Rent Accounts team to manually identify such transactions and establish which rent account should have been credited. A manual adjustment is then posted to correct this. A copy of the suspense account statement as at 31 July 2018 was obtained and reviewed. On this it was noted that 4 transactions remained on the suspense account received from DWP in the previous 6 months. On consultation with the Service it was noted that an incorrect payment reference was provided and that the National Insurance number provided did not match any past or present tenants. DWP have been notified of these transactions, however no efforts have been made to reclaim these payments.

2.4 Overpayments

- 2.4.1 Potential exists for overpayments to be received from DWP (i.e. through DWP error). Due to the Service not having access to DWP systems to verify how much DWP were due to pay, this makes it challenging to identify where overpayments have been received. At present, although there is no defined process for identification of overpayments, where payments are received from DWP which are flagged by the Council as being made incorrectly, the Service will notify DWP of this to determine whether a refund is owed by the Council to the DWP.
- 2.4.2 DWP will notify the Council by mail where they identify an overpayment, with a supporting letter explaining what the overpayment relates to. The Council may then wish to challenge any requested refunds they deem inappropriate. Where refunds are agreed, the Council will inform the DWP by letter of their acceptance of this and will make the refund via BACS transfer. Further, the Service notifies the tenant of this refund being made as this may be recovered from the tenant.
- 2.4.3 The rent management system is also updated with any refunds which are due and each of these transactions posted is assigned the transaction code 'UCAR'. Only 2 such transactions were processed between April and June 2018, and both were reviewed by Internal Audit to ensure they were supported by repayment requests, that the overpayment was investigated and challenged if appropriate, and these were then traced to the bank account. In each case the Service repaid the amount within 28 days, provided notice to the tenant of the repayment and made the correct adjustment through the rent account.

2.5 Reconciliations

- 2.5.1 Finance reconciles the rental income received in the bank account to the total amount allocated to rent accounts within the rent management system on a monthly basis. From a review of the reconciliation as at 30 June 2018 it was noted that a difference of £32,484.17 existed. On discussion with the Finance Controls Accountant it was confirmed that this difference is the result of amounts being applied to suspense accounts due to incorrect references and timing differences relating to monies received by direct debit, which have yet to be applied to rent accounts in the rent management system. The related transactions making up the reconciling difference are not included in the reconciliation.

The Quality Assurance and Performance Management Manager has agreed to provide the transactions making up reconciling differences to Finance in a monthly report for the purposes of preparing the reconciliation. A recommendation is included for tracking purposes.

| | | |
|--|-----------------------------------|---|
| <u>Recommendation</u> | | |
| Finance should include details of rent income held in suspense in the rent reconciliation to highlight balances to be cleared from suspense. | | |
| <u>Service Response / Action</u> | | |
| Agreed. | | |
| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
| September 2018 | Finance Accountant | Controls Important within audited area |

- 2.5.2 No formalised checks are performed by the Service to confirm the correct rent accounts have been allocated UCAP transactions. Whilst the system is effectively “self-checking” in that, should an error be made, tenants would fall into arrears, be pursued for these and would challenge the process, there would be reputational damage in such a case. The introduction of a procedure checking a sample of rent accounts on a regular basis by someone other than the individual uploading the information would provide assurance that this process is working as expected.

| | | |
|--|---------------------------------------|-------------------------------|
| <u>Recommendation</u> | | |
| The Service should consider performing a check to confirm correct rent amounts have been allocated to rent accounts. | | |
| <u>Service Response / Action</u> | | |
| Agreed. A sample of UC transactions will be checked on a weekly basis to ensure they have been applied to rent accounts as expected. | | |
| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
| September 2018 | Community and Housing Area Manager | Important within audited area |

2.6 Arrears

- 2.6.1 There is an increased risk of rent arrears as a result of UC replacing Housing Benefit. Another Scottish local authority has reported an increase in rent arrears of 26% in the first six months following full service UC rollout, with the number of tenants claiming UC who are in rent arrears totalling 79.1%. In addition, a claimant’s UC rent award can be decreased by the DWP, if the claimant fails to comply with the ‘claimant commitment’ i.e. agreed tasks required for UC to continue, such as seeking work. This increases the risk of tenants failing to pay rent due to a lack of required funds when rent is due.
- 2.6.2 The Housing Revenue Account (HRA) working balance is projected to increase by £500,000 in 2018/19 to £10,737,000. This is based on write offs due to rent arrears staying static at £2m in 2018/19 as compared to 2017/18. The working balance has been set at this level to meet any unforeseen contingencies, including the uncertainty surrounding welfare reform. However, rent arrears may increase following the rollout of full service due to the increase in the number of UC claimants.

| |
|------------------------------|
| <u>Recommendation</u> |
|------------------------------|

The Service should review bad debts as a result of UC for the purposes of forecasting the HRA 2018/19 outturn and setting future budgets.

Service Response / Action

Agreed.

Implementation Date

March 2019

Responsible Officer

Finance Partner

Grading

Important within audited area

2.6.3 Rent arrears management is a key aspect of the Council's UC plan. In addition to the rent management policy the Service has prepared draft arrears management procedures – the Pre-court procedure and the Court Eviction procedure. These procedures detail the action to be taken when specific rent arrears thresholds are reached and includes an escalation process. The rent management system notifies Housing Officers whenever an arrears trigger is met.

2.6.4 On review of both rent arrears procedures, Internal Audit confirmed that these are comprehensive, complete and provide appropriate guidance to Housing staff to perform the necessary tasks. The procedures are more person-centric as opposed to process driven. The Service intends to work with tenants to understand circumstances and identify support methods which can be provided. The rent arrears management procedures will apply to all tenants, not just those on UC. Some reference within the policy is made to UC, however the Service has indicated that following staff training and identification of issues relating to UC in practice, this policy and the procedures will be updated. The following recommendation is made for tracking purposes.

Recommendation

The Service should update the rent arrears policy and procedures with specific UC detail.

Service Response / Action

Agreed.

Implementation Date

October 2018

Responsible Officer

Development Officer

Grading

Important within audited area

2.6.5 To verify that APAs are being applied for when available, Internal Audit obtained a listing of all tenants who have received UCAP payments into their rent account in the 4 months to 31 July 2018 and those who are also in £1,000 or more of rent arrears. A sample of 10 of these rent accounts was inspected to ensure that DP's and TPD's have been applied for. No exceptions were noted from this testing.

2.6.6 In two instances court proceedings with the tenant were underway, negating the requirement for a TPD. In a further three instances the individual is no longer a UC claimant and therefore no APA claim can be made. One further instance was noted where the individual is in temporary accommodation and has accrued rent arrears in excess of £8,000. Whilst TPD's cannot be claimed, the Temporary Accommodation Rent Arrears Recovery Escalation Process has not been followed by the Service, resulting in this large arrears balance. The Service has advised this is due to staff resource constraints. A recommendation was made in Internal Audit Report AC1825 that rent arrears procedures should be applied to all tenancies where arrears are present.

2.6.7 The effective use of APAs where available will ensure the Council has an opportunity to receive monies due and to avoid future rent arrears. However, it is DWP policy that TPD's

may only be taken for rent arrears on the current property. Therefore, where tenants move to private accommodation, for example, the Council will have to pursue other means to recover rent arrears and this may lead to an increase in bad debts.

2.7 Vulnerable Clients

2.7.1 Several considerations have been outlined by the Service in relation to their approach to vulnerable clients. There remains an understanding that circumstances may change which may affect a tenant's ability to make a rent payment. At this point applying undue stress may pose additional risks to the tenant and the Council's reputation. Therefore, the Council intends to adopt a person-centric process focused on understanding the circumstances which have led to the payment not being made. Through this they plan on being able to identify vulnerable clients who can then be directed to support from other Council or external services. The rent arrears policy reflects this and covers the identification of potential vulnerable clients, understanding situations and providing support.

2.8 Performance Reporting

2.8.1 The Service currently reports housing statistics to CMT, Senior Officers, staff and tenants on a monthly basis. Housing statistics are also provided to the Operational Delivery Committee in each cycle and to the Scottish Housing Regulator annually. Internal Audit inspected the most recent of each of these reports, confirming that appropriate information is being reported and that this is being performed in accordance with the aforementioned schedule. The most recent reporting to the Operational Delivery Committee was undertaken on 29 May 2018. No additional reporting is currently required by the Government or DWP.

2.8.2 Within the draft rent management policy the Service also identifies several internal KPIs, such as the level of arrears and number of Court actions, which are to be reported to CMT, Senior Officers, staff and Committee in addition to the currently reported statistics.

AUDITORS: D Hughes
A Johnston
J Grigor

Appendix 1 – Grading of Recommendations

| GRADE | DEFINITION |
|--|--|
| Major at a Corporate Level | The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council. |
| Major at a Service Level | <p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p> |
| Significant within audited area | <p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p> |
| Important within audited area | Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control. |

ABERDEEN CITY COUNCIL

| | |
|---------------------------|---|
| COMMITTEE | Audit, Risk and Scrutiny Committee |
| DATE | 25 September 2018 |
| REPORT TITLE | Internal Audit Report AC1902 – Debtors System |
| REPORT NUMBER | IA/AC1902 |
| DIRECTOR | N/A |
| REPORT AUTHOR | David Hughes |
| TERMS OF REFERENCE | 2.2 |

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on the Debtors System.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of the Debtors System.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|---|
| Equality & Human Rights Impact Assessment | An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. |
| Privacy Impact Assessment | Not required |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable |

9. APPENDICES

- 9.1 Internal Audit report AC1902 – Debtors System.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01467) 537861



ABERDEEN CITY COUNCIL

Internal Audit Report

Finance

Debtors System

Issued to:

Steven Whyte, Director of Resources
Sandra Buthlay, Interim Chief Officer – Finance
Carol Smith, Accounting Manager
Graham Stubbins, Finance Partner
Jacqui McKenzie, Chief Officer – Customer Experience
Wayne Connell, Revenue and Benefits Manager
External Audit

EXECUTIVE SUMMARY

The Council uses the Debtors module of the eFinancials system to raise invoices and manage debtor accounts. During 2017/18, the system was used to issue approximately 44,500 invoices totalling £47.2 million and approximately 2,400 credit notes totalling £2.8 million. This represented a decrease in number and value of debtor invoices which has been attributed by the Service to efforts made to encourage payment in advance of service delivery where possible.

The objective of this audit was to provide assurance over system controls, documentation supporting invoices raised, and the debt recovery process.

In general, the audit confirmed that the Service has detailed procedures in place, which require some minor amendments, and procedures for setting up new users, customers, invoices and credit notes were adequate. However, some documentation supporting the creation of new users was not available, as it had been destroyed to create more storage space, along with some relating to the creation of new customers and credit notes which appears to have been lost. To address these issues, the Service is now storing such documentation electronically which should assist in maintaining an adequate audit trail.

Appropriate reconciliations are being carried out to verify the completeness of data but regular reviews of the payments suspense account had not been undertaken for a number of months. As there are relatively few transactions in this account, the value of which is not considered material, the Service will now review the suspense account on a quarterly basis. This should help ensure that any underlying issues are identified and customers are not chased for debt that they have already paid.

Collection statistics show that the Council does not perform well compared with other Scottish Councils in collecting the debt relating to invoices raised. In 2016/17, the Council collected 70.7% of its opening debt plus debt raised in the year, compared with an average 84.7% across Scotland. In this respect, issues were identified during testing relating to passing debt to the Council's collection agents, and monitoring of debtors on payment plans. The Service has stated that the performance figures resulted from large debts due by other public sector organisations that were collected following the year end and historic debt that was due for write off that had not been actioned.

Under the new management arrangements for the TOM, a comprehensive improvement plan for the end to end collection process has been developed by the Services involved, and this includes several further actions that aim to improve collection, including: digitisation, system improvements, streamlining the process, task reallocation, recovery activity, reporting and debt and service income policy. Updated policies will be developed for approval in November by the City Growth and Resources Committee.

1. INTRODUCTION

- 1.1 The Council uses the Debtors module of the eFinancials system to raise invoices and manage debtor accounts. During 2017/18 the system was used to issue approximately 44,500 invoices totalling £47.2 million (2016/17, 48,000 invoices totalling £55.3 million) and approximately 2,400 credit notes totalling £2.8 million (2016/17, 3,000 totalling £2.2 million). The decrease in number and value of debtor invoices was attributed by the Service to efforts made to encourage payment in advance of service delivery where possible.
- 1.2 At the commencement of this audit, Service income collection was overseen by the Revenues and Benefits team within the Finance service. Following the implementation of the new TOM structure, the activity is undergoing a change to three areas of responsibility:
- Service income operational recovery and records, will be integrated with costing and billing activity, from across devolved Service teams, into the Business Services Transactions team, in the Customer Function.
 - Escalated recovery of Service income debt, will be managed by the Recovery team in Revenues and Benefits, under the Customer Function, with escalated recovery of all Corporate debt.
 - Debt policy and procedures will be managed in the Accounting team within the Resources Function, to align this with the long term financial strategy.
- 1.3 Throughout the above transition, the training team in Accounting is undertaking a process review of all operational recovery, costing and billing, to streamline processes and reallocate tasks.
- 1.4 During the course of the audit, within the Accounting team, a restructure has been implemented such that the Finance Systems Team is no longer separate, and the tasks have been allocated across the Corporate Accounting Team and the Accounting Controls Team.
- 1.5 The objective of this audit was to provide assurance over system controls, documentation supporting invoices raised, and the debt recovery process.
- 1.6 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Carol Smith, Accounting Manager, Graham Stubbins, Finance Partner, Jacqui McKenzie, Chief Officer – Customer Experience, and Wayne Connell, Revenues and Benefits Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Procedures and Training

- 2.1.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance of correct and consistent practices being followed, especially in the event of an experienced employee being absent or leaving.
- 2.1.2 System procedures are maintained by the Finance Systems Team (FST) and are held as web pages with links and screenshots in a shared network drive. The procedures were reviewed and were generally found to be comprehensive, covering interface processing, journals, period end processes, and user administration. However, the web pages hosting the procedures are dated 2012 although file properties for the pages show that they were updated in 2015 and 2017.
- 2.1.3 Training guides are available for eFinancials which are maintained and distributed by the Finance Development Officer and regular training sessions are offered for users.
- 2.1.4 The Service Income Team (SIT) maintains a number of procedures covering setting up Direct Debits and writing off unrecoverable debts. It was noted that revisions to procedures are outstanding in relation to recent staff changes. The Service advised that revisions were in progress and a recommendation is made here to track progress.

Recommendation

Procedures should be updated as required and issued to appropriate staff.

Service Response / Action

Agreed.

Implementation Date

December 2018

Responsible Officer

Accounting Manager

Grading

Significant within audited area

2.2 System Access

- 2.2.1 Access is granted to the various eFinancials modules by submitting an authorised new user form to the FST for a user account to be created or amended. The FST aims to have new users set up within one week of receiving the form. Access levels determine what the user can see in the debtors system as well as which tasks they can carry out.
- 2.2.2 Internal Audit selected a sample of 15 current users to confirm that accounts were created timeously, that the action was supported, and that the supporting evidence was retained.
- 2.2.3 Only 9 forms were available for inspection and these had been completed and authorised appropriately. The remaining accounts had been set up more than 12 months ago and all such forms had been destroyed to free up storage space. Had the forms been scanned and stored electronically this would have maintained the audit trail.

Recommendation

The Service should scan and store documentation authorising access electronically.

Service Response / Action

Agreed. Since May 2018 new user forms are scanned and saved electronically by Finance.

| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
|----------------------------|-----------------------------|---------------------------------|
| Implemented | Finance Controls Accountant | Significant within audited area |

- 2.2.4 The user access level for all of the sample was appropriate to the employee's job role and, for those where the form was available, had been set up timeously.
- 2.2.5 Access to eFinancials is terminated by updating the relevant user role to "ZZZ", either for a specified module or for the system as a whole. This is carried out when the FST is notified by Service management or otherwise becomes aware that the user no longer requires access.
- 2.2.6 Internal Audit report AC1812: Financial Ledger System, recommended that leavers' access to eFinancials should be deleted timeously. The FST had not been receiving leaver reports from People and Organisation at the time of the Financial Ledger System audit. The Finance Partner confirmed that People and Organisation has since agreed to provide monthly leaver reports and, following review of a recent report to May 2018, the FST removed 7 leavers from eFinancials.

2.3 Data Input

- 2.3.1 Services are responsible for requesting the creation or amendment of debtor accounts and thereafter creating invoices and credit notes. Standard forms and templates, supported by appropriate guidance, are available on the Zone to support these actions. If these are not fully completed, and appropriately authorised where required, requests will not be accepted.

Debtor Account Creation

- 2.3.2 Debtor accounts can only be created by the SIT based on Customer Invoice Control (CIC) forms provided by the requesting Service. A check is undertaken to ensure that the debtor is not already in the system and the system flags up if a duplicate postcode is input to assist with this process. The Team Leader carries out weekly spot checks on additions and amendments to confirm they are accurate and supported.
- 2.3.3 Almost 3,400 debtor accounts were created during 2017/18. A sample of 25 accounts that were recently created was selected and reviewed to confirm that these were authorised, accurately and timeously input, and not created by staff responsible for processing invoices / credit notes.
- 2.3.4 Three forms had not been retained and could not be tested. The Service advised that while paper forms were in use some had gone missing after processing but before filing; it is possible that some had been misfiled due to the large number of forms received. Since forms are now received electronically and saved to the shared drive this risk is better controlled.
- 2.3.5 All debtor accounts were created by members of the SIT, who do not have system access to create invoices or credit notes. All CIC forms were input timeously and all were appropriately authorised.
- 2.3.6 In 3 cases the data input did not match the CIC form; in all 3 cases there were spelling mistakes which had not been noticed or corrected at the time of the audit. A further 3 debtor accounts containing errors were identified during invoice testing as discussed below in 2.3.10. Errors in addresses appear unprofessional and may lead to invoices not being delivered to debtors.

Recommendation

The SIT should introduce checks to ensure debtor information input matches data on CIC forms when creating accounts.

Service Response / Action

Agreed.

Implementation Date

December 2018

Responsible Officer

Business Services
Manager

Grading

Important within audited
area

Invoices

- 2.3.7 Invoices are raised by staff within Services who have the relevant access. Many of the required details are automatically completed from data already in the system. However, although the input is required to be authorised, this is generally done by the person creating the entry, meaning that there is no independent check of the invoice details, including the amount being charged.
- 2.3.8 A sample of 40 invoices raised between January and March 2018 was selected to ensure they matched the template submitted by the Service, the invoice was complete and correct, and the invoice was raised and sent timeously.
- 2.3.9 VAT regulations require that VAT invoices are issued within 2 months of the tax point for local authorities, ie the date the Service is performed / goods are made available to the customer or the date payment is received if in advance of goods / services being delivered. 28 of the sampled invoices had been raised within one month. A further 8 were raised within 3 months, whilst 4 were raised after 5 or more months. Services advised that the delays were caused by the late receipt of information required to calculate the charges and in one case due to a lack of staff. The VAT on one invoice was reported late due to a delay raising the invoice, however the VAT of £3,138, was not material for VAT return error reporting purposes and the reason for the delay was outwith the Service's control.
- 2.3.10 Three of the invoices contained typographical errors in the debtor details, including misspelling the debtor's name or address. These errors were as a result of the customer standing data in the debtors system being incorrect. A recommendation has already been made at paragraph 2.3.6 above regarding this.

Credit Notes

- 2.3.11 Credit notes are input to the system by Services but must be approved by the SIT before they can be completed. Credit Note Authorisation (CNA) forms are submitted by Services seeking credit note approval by the SIT detailing reasons for credit notes, related invoice details, credit note value and revised invoice value. They are processed in the same way as invoices but only printed and sent to customers when a refund is required. When set against an invoice that has been raised and issued but not paid, or credited against an invoice yet to be issued, they are not printed. Refunds are made by BACS where the debtor has provided bank details, or by cheque.
- 2.3.12 A sample of 40 credit notes raised between January and March 2018 was selected to ensure they were reasonable, supported by evidence, appropriately authorised and applied timeously.
- 2.3.13 In 8 cases the CNA forms had not been retained. Since April 2018, the SIT requires CNA forms to be submitted by email rather than in paper form, and are saving them to a shared

drive, minimising the risk of forms being lost or mis-filed. All of the remaining forms were appropriately completed and authorised. All but two were created timeously; for these two, over a year had passed before the credit note was requested. No reason was given for the delay in either case.

- 2.3.14 Reasons were recorded for 35 of the 40. In 2 cases text had been input by the Service to the Credit Note form but this did not meet the standard for explanation given on the form, since reasons provided lacked detail. It was also observed that these reasons were generally not input to eFinancials by the Service. Despite this the credit notes had been checked and approved by the SIT.
- 2.3.15 If forms are not retained and errors are later identified, the cause of the errors may not be found and corrected. The forms also confirm that segregation of duties was observed between creation and authorisation of the credit note.

| | | |
|---|-----------------------------------|------------------------------------|
| <u>Recommendation</u> | | |
| Services should be reminded of the requirement to raise credit notes in a timely manner. | | |
| The SIT should only input CNA forms that have adequate explanations from the originating Service. | | |
| The Service should remind staff of the need to retain CNA forms. | | |
| <u>Service Response / Action</u> | | |
| Agreed. The responsibility for raising invoices in Services and the Corporate Service Income function are being integrated into the Business Services team. This will improve communication and enable process improvements between the two parts of the process. | | |
| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
| December 2018 | Business Services Manager | Significant within audited area |

2.4 Timetabling & Interfaces

- 2.4.1 Timetables and required tasks were reviewed as part of the Financial Ledger Systems audit and reported in audit report AC1812; some recommendations were made which have now been implemented. As a result, this was not considered as part of this audit.
- 2.4.2 Debtor interfaces include: the cash receipting system (payment data), and the trade waste, commercial leasing and property factoring systems (invoice data). Interface files are extracted from the feeder systems overnight and are posted to a 'Clink' holding area within eFinancials. The system has a number of automated checks which identify failures for Systems Analysts in IT to take corrective action as required. Successful interfaces are notified to the Controls Team by IT each morning by email for posting to eFinancials, with details of the Clink batch name, date, net amount, VAT and number of transactions for each interface.
- 2.4.3 The Processing Team also run a BOXI report detailing all interfaces waiting to be uploaded, including interface value and number of transactions. Finally, in the case of invoice interfaces, the system administration team emails interface details (amount and number of transactions) to the Controls Team. A reconciliation is then carried out by the Controls Team, confirming the interface details per the BOXI report and email from IT agree, and in the case of invoice interfaces that the BOXI report and system administration email also agree. A control document is created for each interface using the BOXI report

which records these checks. Once agreed, the Controls Team upload to eFinancials, and sign and date the control document to indicate this has taken place.

- 2.4.4 The upload process generates reports in eFinancials highlighting any errors which are investigated and corrected by the Controls Team, referring back to the Service or Finance Systems Team (FST) if necessary. The Controls Team notifies the FST once invoice interfaces are ready to be posted by them. The emails and the Clink report should be printed out and filed with the control document once the FST has been notified.
- 2.4.5 Duplicate interface uploads are recognised by eFinancials based on Clink batch references and invoice numbers and are automatically rejected, with rejected transactions held in the Clink holding area. System generated exception reports are produced for the batches containing rejected transactions. The Controls Team reviews these reports and rejected transactions are queried with System Owners who are required to investigate and inform the Controls Team if rejected transactions should be deleted or processed. Exception reports for low value VAT differences are not queried with System Owners; they are, instead, corrected by the Controls Team. Exception reports were tested as part of the Financial Ledger System audit (AC1812). These were being circulated to System Owners timeously and the Clink holding area had been cleared of such transactions by the Controls Team.
- 2.4.6 A sample of 10 payment interfaces and 10 invoice interfaces dated from January to May 2018 was reviewed and all had been appropriately recorded and none had been duplicated.
- 2.4.7 All of the interfaces were uploaded timeously. In all cases the interface control document data matched the emails from IT. However, for 2 payment interfaces, payments from the cash receipting system were not successfully applied to customer accounts in the debtors sub-ledger. The Service advised that in each case the payments were recurring or advance payments for which invoices had not yet been raised; these are the only circumstances in which these differences arise, and the Service does not have the time and resources to identify and annotate every case in which this happens.
- 2.4.8 Only 2 of the 20 sampled interfaces had been completely filed in hard copy and testing could only be completed by accessing electronic copies of reports. Clink reports or emails had not been printed out to confirm verification; for 4 invoice interfaces no control document had been printed; for a further 4 invoice interfaces, the control document did not include the total value; and in 1 invoice interface the document had not been signed to indicate who had carried out the reconciliation.

Recommendation

The Controls Team should print out, sign and file interface verification documents following procedure.

Service Response / Action

The Service agree there is a need for a record of interface verification and will document this electronically.

Implementation Date

September 2018

Responsible Officer

Finance Controls
Accountant

Grading

Important within audited
area

2.5 Reconciliations

- 2.5.1 As part of the monthly period end process, the debtors sub-ledger is balanced to the debtors control account by total value and at year-end by customer. After the sub-ledger

for the period has been closed and rolled forward, a control account report is run to reconcile the total customer outstanding sub-ledger balance with the debtor control account value in the general ledger. This creates a PDF report showing, for Debtors, the opening ledger balance plus all transactions from the Debtors sub-ledger and compares the result to the closing ledger balance. The report is checked by a Finance Assistant to confirm that “closing balance” and “closing balance per ledger” values match. If the balances do not match this is flagged to the Finance Partner and ICT for investigation and correction. The reports are saved in the shared drive.

2.5.2 The 6 control account reports from December 2017 to May 2018 were obtained and reviewed. In each case the two balances matched and no corrections had been required. The control account balance for end May 2018 was also reviewed in eFinancials using ‘ACTR13 Transactions by account report’ and was seen to match that in May reconciliation.

2.6 Payments

2.6.1 Invoices may be paid by cash or cheque via Kiosks, at cash offices, or by card through the online or telephone systems. Some Trade Waste debtors pay by direct debit; this has been running as a pilot since 2017. There are plans to extend the availability of direct debit, with the next phase being for property rental and lease, and to extend digital options for payment in advance. Plans are also underway to encourage customers to pay by the most efficient methods and reduce the number of cheques received. Payments come in through the cash receipting system; a process has been devised by the FST which allows payments to be automatically matched to invoices if enough data is provided by the debtor during the payment process. Where this is not possible the payments have to be manually matched in eFinancials by the SIT.

2.6.2 Payments which cannot be matched are allocated to a suspense account while they are investigated. As at 28 June 2018, there were 89 transactions still outstanding in this account totalling £16,067; the oldest unresolved transaction dated from 17 April 2012. The majority of un-cleared transactions over a year old were less than £100 in value; the largest was £600, dating from 4 November 2015.

2.6.3 Although the values are generally small, if transactions in suspense are not regularly investigated and reallocated, customers may be chased for debts which they have already paid. If the payment was made in error, the Council is holding money to which it is not entitled.

| | | |
|---|-----------------------------------|---------------------------------|
| <u>Recommendation</u> | | |
| The Service should investigate and clear transactions in the suspense account on a regular basis. | | |
| <u>Service Response / Action</u> | | |
| Agreed. The Service considers that all major suspense items are cleared in a timely manner. The suspense account will be reviewed on a quarterly basis to ensure balances are investigated and cleared. Long standing minor (below £100) suspense amounts will be appropriately written off more regularly. | | |
| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
| December 2018 | Accounting Manager | Significant within audited area |

2.6.4 The process for collecting Direct Debits was reviewed to confirm that appropriate checks are in place to ensure that all payments due are identified and submitted correctly and

timeously. Documents recording the collection run from January 2018 were obtained and tested.

- 2.6.5 All documents supporting the January collection had been retained, with one exception, and showed that reports had been run timeously and were verified as complete and reconciled before submission of the direct debit BACS instruction to the bank. One check had not been documented; the SIT had requested confirmation of matching of the Direct Debit batch total due to be submitted to the bank to the BOXI report of invoices due to be paid by direct debit, but this had not been given in writing. The SIT Leader advised that on this occasion the confirmation had been given verbally and added that due to restructuring this check was now done within the SIT and was being documented.
- 2.6.6 Three rejections were identified for the period January 2018. Corrective action was taken promptly and the payments chased.
- 2.6.7 A sample of 10 Direct Debit mandates was reviewed and it was confirmed that the forms were complete and had been input to eFinancials accurately.

2.7 Income Recovery

- 2.7.1 Only Sundry Debts are administered through the Debtors module by the SIT. As standard, Council invoices give the debtor 28 days to pay. On a weekly basis, the SIT runs a report (ACTRC6) in eFinancials, which generates reminder letters to customers who have unpaid debts over 35 days old, requesting payment be made 'without further delay'. A subsequent final notice letter is issued for invoices overdue by a further 14 days which indicates that if payment is not made in full within 7 days, legal proceedings will be undertaken.
- 2.7.2 The Council uses Sheriff Officers as collection agents where all other recovery action has failed. The previous contract expired in July 2018 and the retender was advertised in March 2018. Bids were being evaluated at the time of the audit in May 2018. The Service have advised that a new 4 year contract commenced in August 2018 with the option to extend for a further year. These agents pursue the debt on the Council's behalf and will initiate Court action to enforce recovery, with the costs of court action being recharged to the Council. The contract specifies key performance indicators and quarterly service meetings as well as weekly and monthly reports. These are monitored by the Council Tax and Recovery Manager. The last quarterly service meeting was held in December 2017. KPIs and monthly reports detailing recovery performance are being received as expected. The percentage of sundry debt passed to Sheriff Officers in 2017/18 that was recovered in 2017/18 was 28.3%, below the target of 36% (attributed to a downturn in the oil industry), while 19% of prior year debt was recovered compared to a target of 17%. The Service is reviewing recovery arrangements and reviewing Service Income and debt policy, and will develop revised performance measures reflecting this policy.

Recommendation

Performance measures for collection agents will be updated to reflect new debt policy.

Service Response / Action

Agreed. The policy is under preparation for presentation to November City Growth and Resouces Committee. The performance measures will be developed alongside this timescale.

Implementation Date

December 2018

Responsible Officer

Council Tax and Recovery
Manager

Grading

Important within audited
area

2.7.3 Debts to be passed to the SO are identified by running a BOXI report; debts identified by this report as ready to be passed to collection agents were then flagged manually within eFinancials. This was carried out by the SIT when time was available, rather than to a set schedule, and may have taken a significant amount of time to complete. As a result, the report was not run frequently and is currently approximately 12 months behind. Following the identification of this issue an automated report is under generation as part of the commitment to improve this process. A recommendation is included for tracking purposes.

| | | |
|---|-----------------------------------|-------------------------------|
| <u>Recommendation</u> | | |
| The Service should automate reporting of debts due to be referred to collection agents. | | |
| <u>Service Response / Action</u> | | |
| Agreed. | | |
| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
| October 2018 | Finance Partner | Important within audited area |

2.7.4 The 40 invoices reviewed in section 2.3 were examined to confirm whether they had been paid timeously or, if not paid, had been subject to the income recovery procedure.

2.7.5 12 invoices were paid after the due date, 5 of which had been chased by the SIT before payment was made, the remaining 7 were not chased as payment was made before a reminder was required. 6 invoices past their payment due date had not been sent to Sheriff Officers for further recovery action, despite qualifying.

2.7.6 Aged debt reports are run by the FST and sent to Finance colleagues monthly, to be discussed at Service budget meetings, to review recovery action. The most recent report, at the time of testing, was issued as planned on 5 June 2018. The Service intend to revise the format of the aged debt reports to better highlight where recovery action is required but not being taken. A recommendation is included for tracking purposes.

| | | |
|---|-----------------------------------|-------------------------------|
| <u>Recommendation</u> | | |
| The Service should revise aged debt reports to highlight where recovery action is required. | | |
| <u>Service Response / Action</u> | | |
| Agreed. | | |
| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
| December 2018 | Accounting Manager | Important within audited area |

2.7.7 A report on aged debts was provided by the FST and a sample of 8 debtors was selected and reviewed. In 2 cases appropriate follow up actions had not been taken by the SI Team: the debts had not been referred to Sheriff Officers despite qualifying.

| | | |
|--|--|--|
| <u>Recommendation</u> | | |
| The SIT should commit resources to improve clearance of the backlog of debts due to be sent to Sheriff Officers. | | |
| <u>Service Response / Action</u> | | |

Agreed. Resource has been identified to commit to resolve the backlog of debts and other recovery activity as part of the creation of the Business Services Team under the new TOM structure. Staff will undergo training and reallocation of tasks, with this activity being a priority between August and December 2018.

| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
|----------------------------|------------------------------|------------------------------------|
| December 2018 | Business Services Manager | Significant within audited area |

2.7.8 The SIT advised that they aim to run reports on debts to be written off, disputes, holds, arrangements and accounts in credit on a monthly basis; these are monitored and acted on within the team. Copies of reports run on holds and disputes were obtained and reviewed. Although action was seen to have been taken on a number of accounts, the reports were not being run every month due to staffing constraints.

2.7.9 Debts below £25,000 can be written off by the Chief Officer - Finance or Chief Officer - Customer Experience, while debts of £25,000 and above must be written off by the City Growth and Resources Committee, per Financial Regulations 5.3. A sample of 8 debts sent to be written off during financial year 2017/18 were obtained from the Service and reviewed. All written off debts reviewed were for under £25,000, had been appropriately approved and supporting evidence had been retained. Recovery action had been undertaken for all 8 debts before they were marked for write off. In 6 cases there was no record of the debts being sent to collection agents. The Service advised that in these cases there was a delay in sending the debts for collection and during that time the Service had established that the debts were unrecoverable. A recommendation has been made in relation to debt recovery at paragraph 2.7.7 above.

2.7.10 Payment arrangements are possible before the Sheriff Officer stage of income recovery and are managed through eFinancials. The SIT encourage the use of these where payment is not received in full; they attempt to limit them to 12 months, if not possible they will discuss with the debtor, using an income / expenditure form to ensure payment plans are realistic. In rare circumstances plans may be extended for over a year. Debtors are expected to pay by cash or cheque, or to make online payments, on schedule; they cannot use direct debits for payment arrangements but may set up Standing Orders. Reminder invoices will be sent if payment arrangements fail; the SI team run a process which should be monthly but is currently on an ad hoc basis to check if arrangements are up to date. This report has to be assessed manually as there are no system flags for failed payments. Payment arrangements were last reviewed by the SIT in February 2018. Since these are higher risk debtors, monitoring should be more frequent.

| <u>Recommendation</u> | | |
|--|------------------------------|----------------------------------|
| Debtors on payment arrangements should be monitored on a regular basis to ensure payments are being made in line with the arrangement. | | |
| <u>Service Response / Action</u> | | |
| Agreed. The Service will introduce more streamlined methods of reporting and identifying payment arrangements. Resource will be allocated to monitor this task monthly under the Business Services Team. | | |
| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
| December 2018 | Business Services Manager | Important within audited area |

2.8 Reporting

- 2.8.1 Collection statistics are run by the FST and reported annually as part of the CIPFA Directors of Finance Scottish Performance Indicators. Comparison of the Council's performance in 2016/17 against other Scottish Councils, using these Indicators, show that the Council collects the lowest percentage of the Opening Sundry Debtors Balance, plus Sundry Debtor Accounts issued during the year, with 62.1% compared to the average of 84.7%. The Council also performed poorly compared to the average for cost of collection and proportion of outstanding debt over 90 days old.
- 2.8.2 The Service reviewed calculation of the performance statistics and factors that may be influencing performance. It was identified that the statistic had been incorrectly calculated and the correct figure was 70.7% which is still fourth lowest in Scotland. The figure was not caused by any particular type of debt, but by large debts to public sector organisations that were collected following the year end and historic debt that was due for write off that had not been actioned.

Recommendation

The Service should report the amended 2016/17 collection of sundry debtors accounts performance indicator to CIPFA as part of the next return.

Service Response / Action

Agreed.

Implementation Date

November 2018

Responsible Officer

Finance Partner

Grading

Important within audited area

- 2.8.2 It is recognised by the Services that improving this collection rate is a priority. Under the new management arrangements for the TOM, a comprehensive improvement plan for the end to end process has been developed by the Services involved, and this includes several further actions that aim to improve collection including digitisation, system improvements, streamlining the process, task reallocation, recovery activity, reporting, engagement with Services, reviewing charging/pricing policies and debt and Service Income policy. Updated debt and Service Income policies are being developed for approval in November by the City Growth and Resources Committee.
- 2.8.3 During the audit of the 2016/17 Annual Accounts, external audit noted that it was unlikely that debts over a year old would be collected and it was recommended that management review the bad debt provision. In the 2016/17 Audited Annual Accounts the bad debt provision was increased to 37% of outstanding debt or £9 million. During 2017/18, £4.3m of historic debt that was raised prior to 2012 and deemed uncollectable was written off. This historic debt had not been subject to recent review and write off; this debt written off equated to less than 1.7% of debt raised in the related period. The 2017/18 audited accounts include a bad debt provision of £5.8 million which equates to 28% of outstanding debt. The bad debt provision and historic debt write off is now reviewed annually as part of the closedown process. The method of recognition of bad debts has also been revised so that debts are increasingly provided for, the older they are.

AUDITORS: D Hughes
A Johnston
L Jarvis

Appendix 1 – Grading of Recommendations

| GRADE | DEFINITION |
|--|--|
| Major at a Corporate Level | The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council. |
| Major at a Service Level | <p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p> |
| Significant within audited area | <p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p> |
| Important within audited area | Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control. |

ABERDEEN CITY COUNCIL

| | |
|---------------------------|------------------------------------|
| COMMITTEE | Audit, Risk and Scrutiny Committee |
| DATE | 25 September 2018 |
| REPORT TITLE | Internal Audit Report AC1906 – VAT |
| REPORT NUMBER | IA/AC1906 |
| DIRECTOR | N/A |
| REPORT AUTHOR | David Hughes |
| TERMS OF REFERENCE | 2.2 |

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on VAT.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of VAT.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|---|
| Equality & Human Rights Impact Assessment | An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. |
| Privacy Impact Assessment | Not required |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable |

9. APPENDICES

- 9.1 Internal Audit report AC1906 – VAT.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01467) 537861



ABERDEEN CITY COUNCIL

Internal Audit Report

VAT

Issued to:

Steven Whyte, Director of Resources
Sandra Buthlay, Interim Chief Officer - Finance
Fraser Bell, Chief Officer - Governance
Carol Smith, Accounting Manager
Lesley Fullerton, Finance Operations Manager
External Audit

EXECUTIVE SUMMARY

VAT is a tax that is charged on most goods and services that VAT-registered businesses provide in the UK. When VAT-registered businesses buy goods or services they can generally reclaim the VAT they have paid. The Council is required by law to make periodic VAT returns to HM Revenue and Customs (HMRC). In 2017/18 the Council reclaimed £60.6 million of VAT.

The objective of this audit was to provide assurance over arrangements in place to maximise the recovery of VAT and ensure that VAT recovered is adequately supported.

Clear procedures are in place for the preparation of VAT returns and staff involved in the preparation of returns are adequately trained. However, procedures lacked explanation on when VAT codes should be used, and Finance has agreed to make written procedures available to staff, who process creditor and debtor invoices, describing the correct use of VAT codes.

Business records were found to adequately support VAT recovered. However, purchases were overstated on the April 2018 VAT return by £1.7 million. This did not have any impact on the VAT claimed but resulted in a reporting error. The Service has agreed to put an independent review of VAT returns in place, agreeing the return to the supporting reconciliation spreadsheet and ledger prior to submission.

If input VAT on exempt activities is less than 5% of the Council's total input VAT, the Council can recover this VAT. The Council is correctly recovering this VAT, however, it was noted that the exempt VAT is not forecast during the financial year, in order to establish whether the 5% threshold might be exceeded. If this were exceeded, it would result in a reduction of recoverable input VAT of approximately £3 million per annum. Finance has agreed to prepare an exempt supply input VAT forecast once the budget has been agreed, in addition to the current calculation at year end.

VAT returns were being submitted in a timely manner, and VAT relating to bad debt write offs and election expenditure was found to be in accordance with HMRC guidance. There were no outstanding matters in relation to the most recent HMRC visit in June 2017.

1. INTRODUCTION

- 1.1 VAT is a tax that is charged on most goods and services that VAT-registered businesses provide in the UK. When VAT-registered businesses buy goods or services they can generally reclaim the VAT they have paid. In 2017/18 the Council reclaimed £60.6 million of VAT.
- 1.2 The Council is required by law to make periodic VAT returns to HM Revenue and Customs (HMRC). VAT returns are compiled by Finance from data contained in the Council's financial management system eFinancials and are submitted to HMRC electronically on a monthly basis.
- 1.3 The objective of this audit was to provide assurance over arrangements in place to maximise the recovery of VAT and ensure that VAT recovered is adequately supported.
- 1.4 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Carol Smith, Accounting Manager, Lesley Fullerton, Finance Operations Manager and James Boulton, Accountant.

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Procedures

- 2.1.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance of correct and consistent practices being followed, especially in the event of an experienced employee being absent or leaving.
- 2.1.2 Clear and comprehensive written procedures are in place for the preparation of the VAT return, including screenshots of eFinancials and the related reconciliation spreadsheet which must be completed.
- 2.1.3 The Council's Finance Regulations, approved by Council in March 2018, state VAT must be applied in compliance with VAT legislation and advice on the correct VAT treatment may be obtained from the Council's VAT Accountant. They detail the VAT codes to be used and when errors are required to be reported to HMRC. The Debtors Guide also notes the requirement to account for VAT when raising debtor invoices. However, policy and procedures lacked explanation on when the available VAT codes should be used. Including common examples of when to use codes would reduce the risk of VAT being accounted for incorrectly, particularly in relation to charges without VAT, where a choice is required between zero rated, outside the scope of VAT, and exempt.

Recommendation

Written procedures should be made available to staff, who process creditor and debtor invoices, describing the correct use of VAT codes.

Service Response / Action

Agreed.

Implementation Date

December 2018

Responsible Officer

VAT Accountant

Grading

Significant within audited area

- 2.1.4 The Service keeps up to date with current legislation through attendance at the CIPFA Local Authority VAT Consultative Group. The group meets 3 times each year and the VAT Accountant attended the most recent meeting in May 2018, where a range of VAT issues and HMRC guidance were discussed. A contract is also in place with PricewaterhouseCoopers to answer specific VAT queries.

2.2 Access Control over the Council's Online VAT Account

- 2.2.1 The Council submits VAT returns electronically using the Government Gateway online account. Access to the online account is restricted by user name and password. The VAT Accountant and four additional members of staff have access to the account, enabling the VAT return to be submitted in the VAT Accountant's absence. A random six digit access code is required to access the account, which is sent automatically by HMRC to the VAT Accountant's telephone, located within Finance, when a user attempts to log in.

2.3 Business Records

- 2.3.1 VAT Regulations require that business records are retained and should be sufficient to satisfy HMRC should they conduct an audit. Business records include annual accounts, bank statements, debtor and creditor invoices, orders and details of cash collected.

- 2.3.2 Output VAT on supplies should be accounted for by local authorities within 2 months of the date of supply, at the earliest of the debtor invoice date, and when payment is made. VAT on invoices issued by the Council has to be included in the VAT return within 2 months of supply or a VAT return error will occur due to the delay, which may need to be reported separately to HMRC, and can lead to interest and penalties. VAT on creditor invoices should be reclaimed on receipt of a compliant VAT invoice.
- 2.3.3 The Council accounts for VAT on debtor and creditor invoices based on the date of input to the respective systems. Cash received by the Council is recorded in the Icon cash receipting system and VAT is accounted for in the cash receipting system when received.
- 2.3.4 A sample of 40 creditor invoices, 20 debtor invoices and 20 cash receipting transactions, covering all VAT codes, was reviewed, to ensure VAT was accounted for correctly. The creditor and debtor invoices were also reviewed to ensure the invoices complied with VAT regulations and had been processed in a timely manner. This was found to be the case with the exception of 2 creditor invoices without VAT, 1 coded as zero rated when it should have been outside the scope of VAT and another coded as outside the scope of VAT when it should have been zero rated. In these cases, although the coding was incorrect the amount of VAT accounted for was correct. A recommendation to issue procedures on VAT coding has already been made at paragraph 2.1.3 above.

2.4 Reconciliations

- 2.4.1 The VAT return is created by extracting information from eFinancials and the cash receipting system using Business Objects (BOXI). The reports currently in use capture all required transactions and are considered adequate.
- 2.4.2 The top ten creditors invoices with and without VAT are reviewed, with copies of invoices obtained and any errors are adjusted by journal or manually in the reconciliation spreadsheet where there is no impact on VAT reclaimed. While no errors were noted in the coding of the top ten creditor invoices with VAT, three coding errors were noted in the top ten invoices without VAT. A recommendation to issue guidance on VAT codes has already been made above. No further creditor invoices are reviewed, on the basis the onus to charge VAT correctly is on the supplier, since any errors on VAT invoices are recovered by HMRC from the supplier.
- 2.4.3 The VAT return for April 2018 was reviewed and all sources of income and expenditure had been accounted for, with the VAT control accounts for input and output VAT per the ledger agreeing to the VAT return reconciliation and the figures per the VAT reconciliation agreeing to the VAT return.
- 2.4.4 Whilst figures could be clearly agreed to the ledger, manual adjustments had been applied on the face of the VAT reconciliation, which fed through onto the April 2018 VAT return. Two of the three creditor invoice coding errors referred to in paragraph 2.4.2 were identified by the VAT Accountant as being outside the scope, instead of zero rated, as per the creditors system. However, the adjustment was applied incorrectly, meaning purchases were overstated on the VAT return by £1.7m. This did not have any impact on the VAT claimed but resulted in a reporting error.
- 2.4.5 It was noted that the VAT Accountant prepares and submits VAT returns in the absence of a documented review. A review by a Finance colleague to confirm the accuracy of the VAT reconciliation and figures entered on the VAT return, would reduce the likelihood of errors in the return.

Recommendation

A copy of the online VAT return should be agreed to the reconciliation spreadsheet and ledger, by a member of Finance not involved in the preparation of the return, before submission.

Service Response / Action

Agreed.

Implementation Date

December 2018

Responsible Officer

Finance Operations
Manager

Grading

Significant within audited
area

2.5 Submission

- 2.5.1 The deadline for submission of VAT returns is the end of the first week of the month following the month of the return i.e. the return for August must be submitted by 7 October. Failure to submit the VAT return on time could result in a penalty and delays receipt of the VAT claimed. The February 2018, March 2018 and April 2018 returns were tested and found to have been submitted to HMRC timeously, and in advance of the prescribed due date.

2.6 Exempt VAT

- 2.6.1 The Council is entitled to reclaim all input VAT relating to its exempt activities, provided the input VAT relating to exempt supplies does not exceed 5% of the total input VAT in the financial year. An annual calculation is undertaken to confirm this. The calculation for financial year 2016/17 was reviewed to confirm the Council's exempt VAT position. The exempt VAT position was less than 5% of total input VAT, meaning the Council was entitled to reclaim all input VAT in 2016/17. The 2017/18 calculation is due to be completed by the first week in November 2018 when the September 2018 VAT return is due.
- 2.6.2 It was noted that the input VAT is not forecast during the financial year. The VAT Accountant advised that consideration was taken of large projects during the year, such as the AECC development, and their impact on exempt supplies and input VAT recovery. Documenting these considerations in a regular forecast would reduce the risk of financial loss due to exempt supply input VAT exceeding the 5% threshold. This loss would be at least £3.3m based on 5% of 2017/18 input VAT.

Recommendation

The Service should introduce a regular exempt supply input VAT forecast.

Service Response / Action

Agreed. Finance has agreed to prepare an exempt supply input VAT forecast once the budget has been agreed, in addition to the current calculation at year end.

Implementation Date

March 2019

Responsible Officer

VAT Accountant

Grading

Significant within audited
area

2.7 Bad Debt Relief

- 2.7.1 When VAT'able goods or services are sold to a customer, the VAT element is paid to HMRC. If the customer does not pay some or all of the amount due, the VAT that was charged and paid to HMRC can be reclaimed; this is termed bad debt relief. Claims for

bad debt relief can be made, when the debt is written off and the debt has remained unpaid for a period of 6 months and not longer than 4 years and 6 months, after the later of when payment is due and payable and the date of the supply.

- 2.7.2 VAT relating to write offs accounted for in the April 2018 VAT return was reviewed to ensure they complied with these conditions. All write offs related to debts older than 5 years of age and no VAT had been reclaimed for these invoices in accordance with HMRC regulations.

2.8 Reviews by HMRC

- 2.8.1 HMRC undertook a review of the Council's VAT records and returns in June 2017. Requests were made for additional information in June 2017 and August 2017 by HMRC, including staff guidance on processing invoices, a list of asset disposals and details of Council ALEOs, which were provided by the VAT Accountant. An error was identified in relation to the sale of land in 2014 which had been opted to tax, for which VAT of £16,667 had not been paid by the Council to HMRC in error. The VAT and interest owed was deducted by HMRC from the amount claimed in the September 2017 VAT return.

2.9 Elections

- 2.9.1 HMRC internal manual VATGPB8680 advises that because local authorities are under a statutory duty to provide a Returning Officer, they can recover any VAT incurred in connection with local elections under s33 of the VAT Act. VATGPB8680 goes on to state as a result of s27 of the Representation of the People Act 1983, the office of a Returning Officer is distinct from the Council, in relation to general elections, by-elections, and European elections, meaning VAT is not recoverable for goods or services from sources other than the Council for these elections.
- 2.9.2 Expenditure relating to the June 2017 general election and the May 2017 local government election was reviewed. VAT was treated in accordance with HMRC guidance.

AUDITORS: D Hughes
A Johnston
N Ritchie

Appendix 1 – Grading of Recommendations

| GRADE | DEFINITION |
|--|--|
| Major at a Corporate Level | The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council. |
| Major at a Service Level | <p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p> |
| Significant within audited area | <p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p> |
| Important within audited area | Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control. |

ABERDEEN CITY COUNCIL

| | |
|---------------------------|---|
| COMMITTEE | Audit, Risk and Scrutiny Committee |
| DATE | 25 September 2018 |
| REPORT TITLE | Internal Audit Report AC1901 – Creditors Payments |
| REPORT NUMBER | IA/AC1901 |
| DIRECTOR | N/A |
| REPORT AUTHOR | David Hughes |
| TERMS OF REFERENCE | 2.2 |

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Creditors Payments.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of Creditors Payments.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|---|
| Equality & Human Rights Impact Assessment | An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. |
| Privacy Impact Assessment | Not required |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable |

9. APPENDICES

- 9.1 Internal Audit report AC1901 – Creditors Payments.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01467) 537861



ABERDEEN CITY COUNCIL

Internal Audit Report

Finance

Creditors Payments

Issued to:

Steven Whyte, Director of Resources
Sandra Buthlay, Interim Chief Officer – Finance
Fraser Bell, Chief Officer – Governance
Andrew How, Chief Officer – Digital and Technology
Carol Smith, Accounting Manager
Graham Stubbins, Finance Partner
External Audit

EXECUTIVE SUMMARY

The Council uses the Payables module within their financial management system (eFinancials) to make payments to its suppliers. During 2017/18, payments totalling £737.9 million were made to 9,520 creditors. Of this, £275.5 million to 3,977 creditors was processed from nine feeder systems which process invoices / remittances outwith the payables module of eFinancials.

During 2016/17, another Scottish Local Authority identified a significant fraud perpetrated by a long serving member of staff, with extensive access to several Council systems. They combined their knowledge of these systems with their unrestricted system access privileges, to insert fictitious invoices into the creditors system for payment.

The objective of this audit was to provide assurance that there are adequate controls around the interface of payment data from named systems to the Creditors System (supporting documentation for and authorisation controls over input data, segregation of duties, accuracy and reconciliation of interfaced data sent and received) and that any associated balance sheet / suspense codes are reconciled on a regular basis.

In general, controls in place were found to be adequate, with automated system checks of files transmitted from feeder systems to eFinancials, appropriate reconciliations completed by Finance, and adequate insurance cover.

However, a number of recommendations have been made to improve creditor interface controls, including: the preparation of written procedures that clearly describe the flow of creditor invoice data from feeder systems to payment; where manual intervention can take place and the related controls; the introduction of feeder system to eFinancials reconciliations by staff unable to modify invoice batches submitted from feeder systems; ensuring BACS payment files are reconciled to eFinancials by more than one person; introducing a review of changes to creditor interface text files; and, introducing payment data analysis to identify manual changes to payment text files.

1. INTRODUCTION

1.1 During 2016/17, another Scottish Local Authority identified a significant fraud perpetrated by a long serving member of staff, with extensive access to several Council systems. They combined their knowledge of these systems with their unrestricted system access privileges, to insert fictitious invoices into the creditors system for payment. These invoices appeared to come from feeder sub systems interfacing with the creditors system and were payable to known suppliers. The feeder sub systems did not record these transactions. The employee was able to intercept these fictitious invoices and divert payment to bank accounts within the individual's control. A genuine payment to the supplier would not be intercepted, resulting in the supplier concerned being paid on time.

1.2 Aberdeen City Council uses the Payables module within their financial management system (eFinancials) to make payments to its suppliers. During 2017/18, payments totalling £737.9 million were made to 9,520 creditors. Of this, £275.5 million to 3,977 creditors was processed from nine feeder systems which process invoices / remittances out with the payables module of eFinancials. These feeder systems are:

| System | Invoices | Gross £ |
|--|----------------|--------------------|
| Confirm – Non HRA property repairs | 6,092 | 2,546,005 |
| SEEMIS – Education Maintenance Allowance to pupils | 4,317 | 262,440 |
| Clothing Grants – payments to parents for pupils uniform | 1,530 | 136,630 |
| Spydus – Library management System | 1,038 | 416,141 |
| NDR – Refunds of Business Rates | 971 | 5,813,878 |
| Total – HRA Building Maintenance and Roads | 23,426 | 27,392,714 |
| PSE – Payroll funding and statutory payments | 564 | 162,765,243 |
| Tranman – Vehicle Maintenance & hire vehicles | 10,904 | 2,753,896 |
| CareFirst – Social Work care packages | 36,721 | 73,371,620 |
| Total From feeder Systems | 85,563 | 275,458,567 |
| | 44.70% | 37.33% |
| Total Invoices Processed | 191,419 | 737,892,990 |

1.3 The objective of this audit was to provide assurance that there are adequate controls around the interface of payment data from named systems to the Creditors System (supporting documentation for and authorisation controls over input data, segregation of duties, accuracy and reconciliation of interfaced data sent and received) and that any associated balance sheet / suspense codes are reconciled on a regular basis.

1.4 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Carol Smith, Accounting Manager, Graham Stubbins, Finance Partner, and Jamie Kirkwood, ICT.

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Procedures and Training

- 2.1.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance of correct and consistent practices being followed, especially in the event of an experienced employee being absent or leaving.
- 2.1.2 There are written procedures relating to the actions required by feeder system staff and ICT in relation to the interface of payment data from feeder systems to the creditors system. However, it was noted that whilst procedures are in place, detailed system notes and mapping which articulate the flow of transactions and explain how interfaces work were absent from these procedures, meaning it was not possible to understand easily the flow of transactions, when manual intervention is required, and the controls in place.

Recommendation

Written procedures in relation to the interface of payment data from feeder systems to the creditors system should be reviewed to ensure they are sufficiently detailed, ensuring the flow of transactions via each feeder system to payment is mapped, including the points where manual intervention takes place and the controls in place.

Service Response / Action

Agreed. A high level flowchart will be prepared documenting the flow of transactions from feeder systems to payment, where manual intervention can take place and the controls in place. The Creditors Interface Processing procedure will be expanded to detail the manual intervention that takes place in response to errors in the Batch Report (step 5 of procedure) and the related controls.

Implementation Date

November 2018

Responsible Officer

Finance Partner

Grading

Significant within audited area

2.2 System Controls

- 2.2.1 Output files are generated from the feeder systems, either as part of a scheduled automated process, or when instigated by the system administration staff. The output file produced, which picks up all completed transactions since the previous output, is exported in a text format and saved onto one of the function's network drives. An automated process uplifts the text file from the server and places it on the Clink (link and load) area within e-Financials. The uplift is automated but can be carried out manually in the event of a processing failure. The text file is then vetted by the system to ensure it complies with the correct format and detail which, if successful, allows it to be fully uploaded into the creditors sub ledger system.
- 2.2.2 The process for making the BACs payment, also produces a text file, this time output from eFinancials, for transfer to the BACs system. While there is no requirement for manual intervention after accounts payable staff run the process within eFinancials, the text file produced is accessible by ICT staff who have specific administration privileges for that system.
- 2.2.3 ICT confirmed that access to feeder system text files is restricted to ICT staff who support the feeder system concerned and the system administrators. There is no automated audit trail of who has made changes to the text files once saved outwith their respective feeder

systems however requests for changes to be made to text files are logged in the ICT case management system Service Now.

- 2.2.4 The current process requires any errors which prevent the transaction from being successfully uploaded to be corrected within the text file, rather than being returned to the source feeder system, to be corrected and retransmitted. The current process requires any errors which prevent the transaction from being successfully uploaded to be corrected within the text file, rather than being returned to the source feeder system, to be corrected and retransmitted. The 'Invoice load from feeder systems to eFinancials Creditors' procedure details the names of ICT staff who support the systems and the system administrators, who ICT confirmed can access and edit feeder system text files, as well as the process to be followed when editing text files and the required authorisation. An equivalent list of staff who can access and edit BACS text files and a procedure documenting the process to be followed when editing BACS text files is also in place. This details the authorisation required prior to amending BACS text files.

| | | |
|--|-----------------------------------|---------------------------------|
| <u>Recommendation</u> | | |
| Finance should review access permissions to input 'Clink' files in eFinancials and restrict them as far as possible. | | |
| <u>Service Response / Action</u> | | |
| Finance will countersign all changes to input text files prior to processing. | | |
| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
| November 2018 | Finance Partner | Significant within audited area |

2.3 Interface Reconciliations

- 2.3.1 When the interface process is initiated, the feeder system or system administrator will issue an email detailing the batch control total, number of transactions, VAT value and gross payment value to email group ACC-Development. Prior to the transactions being uploaded onto eFinancials, they are held in a Clink table to be compliance checked by eFinancials as described in paragraph 2.2.1, above. Should any transactions fail, they are reported on an exception report and held pending correction; those that have no errors are loaded onto the creditors sub ledger.
- 2.3.2 At this stage one of the Finance Assistants will carry out a reconciliation between the email from the feeder system, and the batch total reported from the Clink table with any difference investigated with the feeder system administrator. This provides a batch level control for the totals which should be uploaded to eFinancials. Currently the ACC-Development team comprises three Finance Assistants, any one of whom can carry out the task, dependant on work load at that time. However, as these staff have responsibility for correcting any errors which arise when the upload to Clink occurs, they can edit text files on Clink. Therefore, there is a risk that information could be amended during the reconciliation process, without being independently checked.
- 2.3.3 Three of the feeder system staff carry out detailed reconciliations between eFinancials and their respective feeder system: Spydus, PSE & NDR. This is achievable due to the relatively small number of transactions being processed by these interfaces. This reconciliation provides an independent check to the details loaded onto eFinancials and should highlight any changes which were made after the original transaction file was exported from the feeder system. Currently the remaining systems' staff do not carry out any form of reconciliation to eFinancials, even at a batch total level. Should this be introduced this would reduce the risks highlighted in para 2.3.2, above. If this could be achieved by an automated exception report of reconciling differences being emailed to the

system administrators from eFinancials, this would keep the process to a manageable administrative check.

Recommendation

A system of reconciliations between feeder systems' batch totals and those uploaded onto eFinancials should be investigated.

Service Response / Action

Agreed. The use of BOXI reports will be investigated, to automatically send details of what has been uploaded to eFinancials to the relevant system administrators for reconciliation purposes.

Implementation Date

December 2018

Responsible Officer

Finance Partner

Grading

Significant within audited area

- 2.3.4 The Accounts Payable Team manage the process for the creditors system, generating payments through an interface with the BACs system. The Team carry out a reconciliation of the number and value of transactions output from the creditors system and those loaded onto BACs. Where staff numbers allow, this reconciliation is signed off by two members of staff, one who checks the values match and approves the payment and the other who rechecks the values match and submits the payment. There are occasions where this may be carried out by the same member of staff.

Recommendation

To maintain segregation of duties, two members of staff should complete the BACs reconciliation, approval and submission process.

Service Response / Action

Agreed. This will be resolved when Business Services take over the BACS reconciliation, approval and submission process, which will result in an increase in the number of staff available to complete these tasks.

Implementation Date

December 2018

Responsible Officer

Accounting Manager

Grading

Significant within audited area

2.4 Balance Sheet Reconciliation

- 2.4.1 The financial ledger codes associated with the creditor records are not processed directly from the feeder system into the financial ledger. These transactions interface to the creditors module (known as a sub ledger) which then updates the relevant capital, revenue and balance sheet codes within the financial ledger.
- 2.4.2 The creditors sub ledger system holds the balance of monies due by the Council to its creditors based upon invoices / payment requests processed and the payments made, resulting in the balance outstanding. This financial analysis is also held within the creditors control account which is updated with the value of invoices / payment requests and the payments made, whether BACs, cheques or CHAPS. The individual feeder systems do not have their own control accounts which could be reconciled to the feeder system balances.
- 2.4.3 The Finance Partner, carries out a monthly period end reconciliation between the creditors control account balance and the outstanding debt within the creditors sub ledger to ensure they balance, and any imbalance is investigated. The reconciliations for the period 1 April 2017 to 30 April 2018 were tested and all found to balance.

2.5 Transactional Testing

- 2.5.1 Payments, whether for invoices or another form of payment voucher, require to be authorised by an appropriate member of staff before being processed through one of the feeder systems and across to the creditors module of e-financials. Each of the feeder systems as stated in para 1.2 have administrative staff within the functions to process these transactions.
- 2.5.2 With the exception of CareFirst, which has already undergone a full system audit, testing of a random sample of five transactions from the remaining feeder systems found authorised source documents were present for each.
- 2.5.3 The sample was then traced through the interface files and into the creditors sub ledger to ensure the correct supplier was updated with the correct value based on the payment voucher. All transactions were found to match.
- 2.5.4 Once the transactions have been updated on the creditors sub ledger they will await the reaching of the payment date, based on the supplier's payment terms. At this stage any vouchers which have fallen due will be amalgamated into a single payment which will result in either a BACs, CHAPS or cheque payment.
- 2.5.5 A sample of ten payments made per the creditors sub ledger was traced through to the BACs payment being processed to confirm the bank account to which the payment was made matched the bank details held in the creditors system's standing data. All details tested were found to match.
- 2.5.6 As detailed in para 2.3.4, above, the payment runs per the eFinancials and the BACs system are checked and approved prior to submitting for payment. A sample of six random payment runs was tested to ensure the values matched and they had been signed off as checked by the accounts payable staff. Testing was found to be satisfactory.

2.6 Supplier Statements

- 2.6.1 Supplier statements are received from some suppliers detailing invoices raised in a particular period, payments received and the outstanding balance owed by the Council. Originating Services and the accounts payable team do not carry out reviews of all statements received from creditors. However, Accounts Payable will review any invoices which appear as long outstanding on a statement or where it has been intimated to them payment has not been made. This would result in an investigation into the reasons why such a payment had not been processed.
- 2.6.2 In the fraud case referred to paragraph 1.1, above, fictitious invoices were created against suppliers which were subsequently paid on time. Therefore, the supplier would not have any invoices outstanding, and therefore no exception would appear on the related statement. To be able to identify such fabricated invoices, every statement would have to be matched to every invoice processed through the creditors system. This would be resource intensive since over 190,000 invoices are processed per annum.

2.7 Payment Data Analysis

- 2.7.1 The Internal Auditors of the Council that suffered the fraud referred to in paragraph 1.1, above, analysed payments as part of additional work in the wake of the fraud being discovered, to identify further anomalous payments. This included identifying suppliers with BACS payments to more than one bank account and comparing payment files in the purchase ledger and the BACS system to ensure they agree. Such checks are not routinely carried out by Finance.

Recommendation

A system of payment data analysis should be set up to ensure payments to suppliers agree with supplier standing data.

Service Response / Action

The Service will investigate whether it is possible to check that supplier bank account details per the Creditors system agree to bank accounts being paid by BACS and if so introduce a regular check.

Implementation Date

December 2018

Responsible Officer

Finance Partner

Grading

Significant within audited area

2.8 Insurance

- 2.8.1 The loss associated with the fraud referred to in paragraph 1.1, above, was partly covered by the Council's fidelity insurance policy. With the exception of the policy excess of £10,000, the remainder was recovered from the perpetrator's pension fund and from a voluntary payment from a third party. Aberdeen City Council has a Crime insurance policy that provides cover in the event of employee fraud, subject to an excess of £15,000 and policy terms and conditions being met.

AUDITORS: D Hughes
A Johnston
G Flood

Appendix 1 – Grading of Recommendations

| GRADE | DEFINITION |
|--|--|
| Major at a Corporate Level | The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council. |
| Major at a Service Level | <p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p> |
| Significant within audited area | <p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p> |
| Important within audited area | Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control. |

This page is intentionally left blank

ABERDEEN CITY COUNCIL

| | |
|---------------------------|---|
| COMMITTEE | Audit, Risk and Scrutiny Committee |
| DATE | 25 September 2018 |
| REPORT TITLE | Internal Audit Report AC1823 – Fixed Asset Register |
| REPORT NUMBER | IA/AC1823 |
| DIRECTOR | N/A |
| REPORT AUTHOR | David Hughes |
| TERMS OF REFERENCE | 2.2 |

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on the Fixed Asset Register.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of the Fixed Asset Register.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|---|
| Equality & Human Rights Impact Assessment | An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. |
| Privacy Impact Assessment | Not required |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable |

9. APPENDICES

- 9.1 Internal Audit report AC1823 – Fixed Asset Register.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01467) 537861



ABERDEEN CITY COUNCIL

Internal Audit Report

Finance

Fixed Asset Register

Issued to:

Steven Whyte, Director of Resources
Sandra Buthlay, Interim Chief Officer - Finance
Fraser Bell, Chief Officer - Governance
Carol Smith, Accounting Manager
Lesley Fullerton, Finance Operations Manager
External Audit

EXECUTIVE SUMMARY

The fixed asset register (FAR) is used to record the Council's non-current assets, which include: council dwellings; other land and buildings; vehicles, plant and equipment; infrastructure assets; community assets; surplus assets, assets held for sale; assets under construction; investment properties; heritage assets and intangible assets. Assets are recorded in the Logotech AIRS Fixed Asset Management System. As at 31 March 2018, the total value of assets held in the fixed asset register was £2.663 billion. The value as at 31 March 2017 was £2.502 billion.

The objective of this audit was to consider whether procedures for ensuring timely recording of the acquisition / disposal of assets are adequate, revaluations are undertaken in accordance with recognised best practice, that a sample of recorded assets exist and those assets that should be recorded are.

In general this was found to be the case, with the fixed asset register reconciling clearly to the Annual Accounts, sampled assets recorded in the FAR existing, sampled assets that should be recorded included in the FAR, and disposals and impairments being accounted for correctly.

Recommendations have been agreed to: improve written procedures; investigate accounting errors relating to the revaluation reserve; and reconcile the ledger to the fixed asset register, after introducing asset category balance sheet codes and recording capital accounting transactions in the general ledger, currently applied to the Annual Accounts via manual adjustments.

It was noted that prior year adjustments have not been made for negative addition balances, relating to the removal of prior year expenditure, where values are immaterial. The Service has agreed to update review procedures for the FAR to identify negative additions and make appropriate corrections where values are material.

1. INTRODUCTION

- 1.1 The fixed asset register (FAR) is used to record the Council's non-current assets, which include: council dwellings; other land and buildings; vehicles, plant and equipment; infrastructure assets; community assets; surplus assets, assets held for sale; assets under construction; investment properties; heritage assets and intangible assets. With the exception of intangible assets, these assets have physical substance, are expected to be retained in use for more than one financial year and will be recognised in the Council's financial accounts. They may also be depreciated and be subject to revaluation, on a periodic basis, in line with the Council's accounting policies.
- 1.2 Assets are recorded in the Logotech AIRS Fixed Asset Management System. As at 31 March 2018, the total value of assets held in the fixed asset register was £2.663 billion. The value as at 31 March 2017 was £2.502 billion.
- 1.3 The objective of this audit was to consider whether procedures for ensuring timely recording of the acquisition / disposal of assets are adequate, revaluations are undertaken in accordance with recognised best practice, that a sample of recorded assets exist and those assets that should be recorded are.
- 1.4 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Carol Smith, Accounting Manager and Lesley Fullerton, Finance Operations Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 Policy and Procedures

- 2.1.1 The Council is required to prepare Annual Accounts under the Local Authority Accounts (Scotland) Regulations 2014. In addition, section 12 of the Local Government in Scotland Act 2003 requires they be prepared in accordance with proper accounting practices. These practices include the CIPFA Code of Practice on Local Authority Accounting in the UK (the Code) and the Service Reporting Code of Practice (SeRCOP), which are underpinned by International Accounting Standards. The Council must also ensure prompt disclosure to the market of the approval of the Annual Accounts, as a consequence of having issued Bonds on the London Stock Exchange, in order to comply with the Market Abuse Regulation and FCA Disclosure and Transparency Rules.
- 2.1.2 The accounting policies adopted by the Council in relation to non-current assets, for the preparation of the 2017/18 Audited Annual Accounts, as reported in notes to the accounts, are in accordance with the 2017/18 Code.
- 2.1.3 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance that correct and consistent instructions are available to staff, important in the event of an experienced employee being absent or leaving. They have increased importance where new systems or procedures are being introduced.
- 2.1.4 Written procedures for Fixed Asset Register maintenance were obtained and reviewed. Although these cover all aspects of updating the asset register once all relevant information has been received, and are available to key personnel, they do not include the sources of external information required to update the FAR, such as revaluation reports received from Corporate Landlord.
- 2.1.5 It was noted that whilst the Capital in Revenue procedure describes the process of reviewing revenue expenditure for transactions which require to be capitalised, it does not explain that the threshold is £6,000 for capitalising revenue transactions, as stated by the Service, and it does not explain the reasons transactions would and would not be capitalised.

Recommendation

The Service should expand written procedures to include any external information required and the sources of that information.

The Service should update the Capital in Revenue procedure to include the threshold for review and the reasons why revenue transactions above this threshold would and would not be capitalised.

Service Response / Action

Part 1: Agreed.

Part 2: Agreed.

Implementation Date

Part 1: September 2018

Part 2: December 2018

Responsible Officer

Finance Operations
Manager

Grading

Important within audited
area

2.2 Additions

- 2.2.1 Acquisitions of fixed assets are processed by Corporate Landlord and Governance for Land and Buildings. Assets are initially recorded on the Uniform Asset Management System within Corporate Landlord, and title is recorded and stored by Governance. Finance is advised of acquisitions by Corporate Landlord. Finance also review capital expenditure posted to the ledger to identify any additions not notified to them by Corporate Landlord.
- 2.2.2 The cost of a property, or item of plant and equipment is recognised if it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Costs include initial costs of acquisition and construction and those incurred subsequently to add to or replace part of the asset. Subsequent costs arising from day to day repairs and maintenance should not be capitalised as they do not add to the future economic benefits or service potential of the asset, rather the expenditure maintains the asset's potential to deliver future economic benefits or service potential that it was expected to provide when originally acquired.
- 2.2.3 A sample of 30 purchases as at 31 March 2018 across a range of capital budgets recorded in the ledger was selected, to confirm that items of a capital nature had been included in the FAR in a timely manner, in line with accounting policy and the Code. Additions were included in the FAR as expected.
- 2.2.4 A sample of 40 additions across all non-current asset categories was selected from the FAR between April 2017 and March 2018, to confirm that they are appropriate for use in the Council's activities and had been capitalised in a timely manner, in line with the Council's accounting policy and the Code. This was found to be the case, however it was noted that 2 Land and Building additions and 1 Vehicle, Plant and Equipment addition had negative values totalling £153,183. The negative values are due to credits relating to the removal of prior year expenditure and as such should be recorded as a prior year adjustment rather than in the current year. Whilst not material in relation to the Annual Accounts, these balances could have been identified and corrected by reviewing the additions column of the FAR for any negative values.

Recommendation

The Service should review the FAR for negative additions and make appropriate corrections at year-end.

Service Response / Action

The Service has agreed to update review procedures for the FAR to identify negative additions and make appropriate corrections where values are material.

Implementation Date

March 2019

Responsible Officer

Finance Operations
Manager

Grading

Important within audited
area

- 2.2.5 Updating of the Fixed Asset Register was due to move from an annual process to a quarterly one starting with the quarter to 31 December 2017. Internal Audit was advised that the process would be complete by 31 January 2018 at which point testing on 2017/18 data could be completed. However, the Service did not receive the final valuation reports from Corporate Landlord, required to update the FAR, until 6 April 2018, despite the valuations being as at 30 November 2017.

Recommendation

The Service should liaise with the Corporate Landlord to establish a mechanism for the timeous transfer of data required to update the fixed asset register.

Service Response / Action

This was the first year of the new process of Faster Close of the Annual Accounts and there were significant changes to timetables for transfer of data from Corporate Landlord to Finance. Corporate Landlord worked closely with Finance to meet the new dates. This has been reviewed as part of the Faster Close process and agreement has already been made to ensure valuation reports will be received timeously in future. Corporate Landlord have agreed to provide valuation reports required to update the fixed asset register 2018/19 valuations by 31 December 2018.

| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
|-----------------------------------|-----------------------------------|---------------------------------|
| Implemented | Finance Operations Manager | Significant within audited area |

2.2.6 Finance has set a threshold to capitalise revenue expenditure if the expenditure exceeds £6,000 and adds value to an asset. 10 revenue transactions which exceeded the £6,000 threshold were selected from repair and maintenance revenue budgets to determine if they had been capitalised where appropriate, in a timely manner, in line with the accounting policy and the Code. The transactions were assessed by the Service and deemed not to add value to the fixed assets they related to. This treatment was reasonable.

2.3 Disposals

2.3.1 The carrying amount of an item of property, plant and equipment should be derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

2.3.2 Assets Held for Sale are marketed by Corporate Landlord, with all sales being concluded by Governance. Corporate Landlord advises Finance of non-current asset disposals by way of a completion memo following the conclusion of a sale. Finance also review capital receipts posted to the ledger to identify any disposals not notified to them by Corporate Landlord.

2.3.3 The Code requires that the carrying amount of an asset should be derecognised on disposal, or when no future benefits are expected from its use. The gain or loss on disposal should be included in the Surplus or Deficit on the Provision of Services. Capital receipts should be credited to the Capital Receipts Reserve, and can only be used for new capital investment, or to reduce the Council's underlying need to borrow.

2.3.4 A sample of 10 non-current asset sales receipts per the financial ledger was selected to confirm if they had been removed from the FAR in a timely manner and accounted for in line with the accounting policy and the Code. This was found to be the case.

2.3.5 The capital ledger was reviewed in April 2018 to determine if any receipts had been received to ensure the disposals were recorded in the Fixed Asset Register in the correct financial year. Disposals relating to April 2018 had not been recorded in the fixed asset register as at 31 March 2018 as expected.

2.4 Revaluations and Impairment

2.4.1 The revaluation of land and buildings is carried out on a five-year rolling cycle, with the exception of investment properties, assets held for sale and surplus assets which are revalued on an annual basis. Vehicles, plant and equipment, infrastructure assets, and

community assets are carried at historical cost, and are not subject to revaluation. Corporate Landlord maintains a schedule of revaluations to ensure all relevant assets are revalued within the five-year cycle, and provides Finance with an interim revaluation report, and then a final revaluation report to allow for the FAR to be updated.

- 2.4.2 A schedule is maintained by Corporate Landlord of all asset categories and when they are due to be revalued. The schedule and Annual Accounts for the past 5 years was reviewed and all asset categories had been valued as expected.
- 2.4.3 The Code requires that revaluations should be accounted for in the revaluation reserve, unless the revaluation is a reversal of a previous impairment loss, or is a reversal of a previous revaluation decrease on the same asset, whereby a subsequent gain is credited to the Comprehensive Income and Expenditure Account (CI&ES). The revaluation credited to the CI&ES should be limited to the extent of the previous impairment loss or revaluation decrease, with the balance above the depreciated historical cost being credited to the revaluation reserve.
- 2.4.4 A sample of 25 revaluations (15 upward, 10 downward) as at 30 November 2017 was reviewed to ensure that the revaluations had been accounted for in line with the Code and the Council's accounting policy. All assets were reflected correctly in the fixed asset register, however it was noted that the revaluation reserve was incorrect for 8 assets since the net book value movement due to the revaluations did not agree to the movement in the revaluation reserve as expected. The combined error for the 8 assets of £163,000 is not material in relation to the Annual Accounts, however the problem is recurring and appears to relate to the reversal of depreciation charged to the revaluation reserve.

Recommendation

The Service should investigate the revaluation reserve errors and update procedures to avoid in future.

Service Response / Action

Agreed.

Implementation Date

March 2019

Responsible Officer

Finance Operations
Manager

Grading

Significant within audited
area

- 2.4.5 In the event that an asset is damaged, the value of that asset should be impaired in order that its carrying value reflects the reduced economic benefit the asset provides. On an annual basis, Finance requests a record of assets that have incurred an insurance loss to allow for the asset value to be adjusted in the FAR. Impairment losses should be charged to the revaluation reserve to the extent they do not exceed the revaluation reserve value for the same asset and thereafter in the Comprehensive Income and Expenditure Statement (CI&ES). A review of the insurance loss return submitted to the Service for 2017/18 indicated that Cordyce School is to be closed and demolished after a fire. The asset had been removed from the fixed asset register and the loss has been correctly accounted for in the CI&ES.
- 2.4.6 In addition to any insurance losses, Corporate Landlord carries out a review of all assets. An annual declaration is issued by the Service, which is completed and returned by the Chief Officer – Corporate Landlord to allow Finance to update the FAR. The 2017/18 annual declaration, submitted to Finance in February 2018, also reported the impairment in relation to Cordyce School.

2.5 Physical Verification of Assets

2.5.1 A sample of 10 Council non-current assets was selected from a range of locations, physically verified and agreed to the FAR to establish the completeness of the assets recorded on the FAR. A sample of 10 assets was then selected from the FAR and verified to the physical assets, to establish whether the assets existed and were in use. No exceptions were noted.

2.6 Reconciliations

2.6.1 To gain assurance over the integrity of system data it is important that the FAR be reconciled to the financial ledger and the Financial Statements. The Service advised that the fixed asset register is not reconciled to the ledger. This is due to the fact year-end accounting entries such as depreciation and revaluations are currently manually reflected in the Accounts and are not included in the ledger.

| | | |
|---|-----------------------------------|------------------------------------|
| <u>Recommendation</u> | | |
| Accounting transactions should be reflected in the ledger. | | |
| The ledger should be reconciled to the fixed asset register and Financial Statements. | | |
| <u>Service Response / Action</u> | | |
| Agreed. | | |
| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
| April 2019 | Finance Operations Manager | Significant within audited area |

2.6.2 Corporate Landlord operates a separate asset register for their Service, to manage the Council’s land and buildings, including Housing Revenue Account properties. It was recommended in Internal Audit report AC1714 that the Uniform asset register maintained by Corporate Landlord be reconciled to the Finance AIRS fixed asset register. The Service reconciled the systems as at 30 August 2018 with the assistance of Finance.

2.6.3 The Finance FAR was reviewed to ensure that it matched values stated in the Audited Annual Accounts for Plant, Property & Equipment, Heritage Assets, Investment Property and Assets Held for Sale as at 31 March 2018. Both records were in agreement.

AUDITORS: D Hughes
A Johnston
N Ritchie

Appendix 1 – Grading of Recommendations

| GRADE | DEFINITION |
|--|--|
| Major at a Corporate Level | The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council. |
| Major at a Service Level | <p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p> |
| Significant within audited area | <p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p> |
| Important within audited area | Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control. |

This page is intentionally left blank

ABERDEEN CITY COUNCIL

| | |
|---------------------------|--|
| COMMITTEE | Audit, Risk and Scrutiny Committee |
| DATE | 25 September 2018 |
| REPORT TITLE | Internal Audit Report AC1829 – Stores Purchasing |
| REPORT NUMBER | IA/AC1829 |
| DIRECTOR | N/A |
| REPORT AUTHOR | David Hughes |
| TERMS OF REFERENCE | 2.2 |

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Stores Purchasing.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of Stores Purchasing.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|---|
| Equality & Human Rights Impact Assessment | An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. |
| Privacy Impact Assessment | Not required |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable |

9. APPENDICES

- 9.1 Internal Audit report AC1829 – Stores Purchasing.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01467) 537861



ABERDEEN CITY COUNCIL

Internal Audit Report

Operations

Building Services Purchasing

Issued to:

Rob Polkinghorne, Chief Operating Officer
Mark Reilly, Chief Officer – Operations & Protective Services
Craig Innes, Chief Officer – Commercial and Procurement
Sandra Buthlay, Interim Chief Officer – Finance
Fraser Bell, Chief Officer – Governance
Graham Williamson, Operations Manager
Colin Maciver, Quantity Surveying Manager
External Audit

EXECUTIVE SUMMARY

Ordering and procurement of stock for repairs, maintenance and capital improvements on the Council's property portfolio is undertaken by Building Services supported by Commercial and Procurement Services. In 2017/18 total spend on materials, including direct issues to jobs was £5.256 million.

The objective of this audit was to consider whether adequate controls are in place regarding procurement and receipt of materials. This involved a review of procedures and analysis of procurement spend by Building Services for the financial year 2017/18.

Sixteen Suppliers were examined with which approximately 87% of Service expenditure is incurred. In five cases, covering over 15% of supplier expenditure in 2017/18, current contracts were not in place. In two cases contracts expired in February 2018 and Commercial and Procurement Services are in the process of adopting these Suppliers under a revised Framework Agreement. The remaining three contracts, from which the Service has procured items with a cumulative value in excess of European Procurement thresholds, expired between two and four years ago. The Service has stated that a transition period between one contract expiring and a replacement commencing is unavoidable and that it has been managing best value through ensuring that previous suppliers' costs are maintained. In addition, continuity of supply has been important to ensure that work can continue. The Service is currently working with Commercial and Procurement Services to ensure compliance with procurement rules and will have contracts in place or be able to otherwise demonstrate appropriate consideration and compliance by September 2018.

An issue was also raised during the audit regarding the fact that staff who were authorising orders were, occasionally, organisationally junior to the officer raising the order. Whilst segregation of duties was being evidenced, there is a risk that more senior staff could apply pressure on these staff to approve orders. The Service considered that the risk to service disruption, due to the low number of senior staff being available to approve orders, was greater but will introduce secondary controls.

1. INTRODUCTION

- 1.1 Ordering and procurement of stock for repairs, maintenance and capital improvements on the Council's property portfolio is undertaken by Building Services supported by Commercial and Procurement Services. In 2017/18 total spend on materials, including direct issues to jobs was £5.256 million.
- 1.2 The objective of this audit was to consider whether adequate controls are in place regarding procurement and receipt of materials. This involved a review of procedures and analysis of procurement spend by Building Services for the financial year 2017/18.
- 1.3 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Graham Williamson, Operations Manager, Colin Maciver, Quantity Surveying Manager, and Craig Innes, Chief Officer – Commercial and Procurement.

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Procedures & Guidance

- 2.1.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance of correct and consistent practices being followed, especially in the event of an experienced employee being absent or leaving.
- 2.1.2 Current procedures are represented in clear flowcharts showing the various stages in order processing and authorisation. These largely mirror current Financial and Procurement regulations, and testing undertaken as described below (section 2.3: Purchasing) shows general compliance with the procedures.
- 2.1.3 It is indicated within the purchasing flowchart that when Purchase Orders are raised which are within the authorisation limits of the person raising them, they are either automatically approved, or may be approved by another user with the same authorisation limit. This was queried with the Service who confirmed that this is merely an error in wording and that an order does require secondary approval from an appropriate member of the Team.

Recommendation

The Service should amend the purchasing flowchart to reflect current practice

Service Response / Action

Agreed. This process will be reworded by the Service, to reflect the correct process which is being followed.

Implementation Date

August 2018

Responsible Officer

Quantity Surveying
Manager

Grading

Important within audited
area

- 2.1.4 It was noted during review of a sample of purchases (section 2.3: Purchasing) that in some instances officers with the same or lower authorisation limits to the officer preparing the purchase requisition were recorded as having authorised them. Although there is segregation of duties evidenced in these cases, the control is weaker as officers might approve orders because they have been instructed to do so by senior officers.

Recommendation

The Service should ensure orders are authorised by officers senior to the requisitioner.

Service Response / Action

During the previous audit on Stores Materials, carried out in August 2016, this same item was discussed. At the time, it was decided by the Service that the risk of disruption to service delivery was too great, based on the low numbers of senior staff in these teams, and the high number of orders raised. The Service does acknowledge that this risk exists, and will put in place separate controls to balance the risk against the costs of maintaining service delivery. Following a review, and risk assessment, the Service has identified other solutions to this risk. The Service proposes to discontinue the use of the 'Total View' I.T. system for authorising orders, as a weakness was identified where orders are only displayed in summary form, and do not give full details of the order to the authoriser, which does not give the authoriser the opportunity to scrutinise the order and spot any anomalies. The full 'Total' system gives much more detail, and only that system should be used for authorising orders. The second control will be a weekly

sample audit, to be run by the Stores Contract Manager, which will highlight any discrepancies. These controls are in addition to existing controls and alert reports.

| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
|-----------------------------------|-----------------------------------|---------------------------------|
| August 2018 | Stores Contract Manager | Significant within audited area |

- 2.1.5 It was additionally noted on the flowcharts that the stores delivery process had yet to be produced. However, the Service confirmed this process was present but the flowchart had not been updated to reflect this. The Service confirmed that documentation was reviewed periodically or following an audit, however given the documentation was dated March 2016, it may be preferable to schedule reviews to ensure all documentation remains current.

Recommendation

The Service should ensure that procedural guidance is reviewed regularly and updated promptly.

Service Response / Action

There are reviews scheduled as part of the Quality Management plan and ISO9001 accreditation. The Service will continue to review the processes periodically or following an audit.

| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
|-----------------------------------|-----------------------------------|-------------------------------|
| October 2018 | Stores Contract Manager | Important within audited area |

- 2.1.6 Staff order the majority of materials from a list of Suppliers contained within 'Supplier Dashboards'. These were examined and found to contain suppliers with whom valid agreements are not currently in place: contracts had either expired or framework agreements had not been formally adopted for use by the Council (see further discussion in section 2.2: Procurement below). In addition, whilst the Dashboards indicated other contracts had expired, some had been renewed and the Dashboards not updated.

- 2.1.7 Use of the Dashboards if they are not up to date could encourage the use of off-contract suppliers, with whom there is no valid agreement in place. This presents a risk to best value for the Council and an increased risk of breach of local and national procurement regulations. This risk could in part be mitigated by timely monitoring of spend with Suppliers with whom agreements have lapsed where there is a transition period from one Supplier to another to ensure that expenditure in excess of relevant procurement thresholds does not occur off contract. Where such expenditure is identified the Service should remove the Supplier from the dashboards to prevent off contract expenditure in contravention of Financial Regulations.

Recommendation

The Service should ensure that spend with off contract Suppliers (due to transitional arrangements) is monitored, in lieu of new contractual arrangements being put in place, with appropriate action being taken where expenditure is anticipated to be in excess of relevant procurement thresholds.

Service Response / Action

The Service and CPS are aware of these particular expired contracts, and have managed the risks during a transition to a new tender. A transition period is unavoidable once one tender expires, and the stores have a need to continue to supply the same materials to supply ongoing projects, without interruption or changes to the specification. The risks are mitigated due to these particular suppliers having held their previous

prices, providing the best value to the Council. There is concern that should a fully compliant route be insisted upon then there could be significant additional cost to the Council. Specifications are also tightly controlled by the Service, and orders are placed on ACC or framework terms and conditions. The Service and CPS are in the process of preparing fresh procurement routes for tendering these contracts, and they will continue working on these. This issue was raised within the previous audit in August 2016, and this transition period was agreed under action 2.3.4. The Service has been encouraged to seek savings and efficiencies wherever possible, rather than compliance at all costs, in collaboration with CPS colleagues. The Service will continue to use the best value supplier option to ACC, and will continue to liaise and work together with CPS to maintain compliance, while also providing the best value and cost savings to the council.

Audit Position

This had previously been signed off by Internal Audit based on the response that the expected transition period would be three months, which is reasonable. The contracts referred to below have been out of date for between two and four years, hence the reason that the recommendation has been made again. Whilst it is accepted that there will be a transition period and goods will be required to allow for continuation of projects and works, as stated, lengthy periods of off contract spend present compliance risks to the Council. Concerns over additional costs to the Council (by being fully compliant) have been raised by the Service. It is for the Service, in conjunction with Commercial and Procurement Services, to consider and determine the best procurement option and the balance of risk to be accepted. This consideration, including fulfilment of any requirements for authorisation, notification and publication, needs to be evidenced in advance of procurement routes being selected.

| <u>Implementation Date</u> | <u>Responsible Officer</u> | <u>Grading</u> |
|-----------------------------------|---|------------------------------------|
| September 2018 | Quantity Surveying Manager Chief Officer – Commercial and Procurement | Significant within audited area |

2.2 Procurement

- 2.2.1 Supplies of goods and services for which expenditure exceeds £50,000 over the lifetime of a contract or framework agreement require the approval of the relevant Committee. Where a contract has been established with a Supplier following Committee approval, it should be registered on the Aberdeen City Council Contracts Register.
- 2.2.2 Framework agreements cover a list of Suppliers arranged either locally or by a national body (such as Scotland Excel) for the provision of specific goods and services, within the terms of an overarching contract. Although these typically set terms and conditions and pricing structures, there is no commitment at that point to purchase any of the supplies. From these agreements individual Local Authorities must select suppliers and enter into contracts with them according to their own requirements and in accordance with procurement and financial rules.
- 2.2.3 The Council's Procurement Regulations require Head of Commercial and Procurement Services approval before contracts may be drawn down from framework agreements and, as noted above, Committee approval is required prior to entering into contracts in which over £50,000 will be spent. Services should not directly enter into contracts with, or obtain supplies from, suppliers on a national framework until these approvals have been obtained.

- 2.2.4 Following approval of Housing Revenue and Capital budgets by Committee on 3 December 2015, minutes from a meeting of the Communities, Housing and Infrastructure Committee on 25 August 2016 confirmed that approval had been given for relevant expenditure on repair, maintenance and upkeep of housing stock for a 4 year period by Building Services of £3.45million per annum for 2016/17 and 2017/18 and £2.95million per annum for 2019/20 and 2020/21. Minutes from the same meeting confirmed that approval had additionally been given for expenditure relating to heating and plumbing supplies and installation to the value of between £1.5 and £1.61 million per annum between 2016/17 and 2019/20. Examination of expenditure by the Service for 2017/18 confirmed that they had not exceeded these expenditure limits.
- 2.2.5 Sixteen suppliers were identified with whom expenditure had exceeded £50,000 between April 2017 and March 2018. Of these, valid contracts were in place for only eleven.
- 2.2.6 Framework agreements for two suppliers (paint and construction goods) had lapsed in February 2018. Commercial and Procurement Services have confirmed that work is underway for the adoption of these suppliers via a revised framework agreement.
- 2.2.7 Contracts with another two suppliers (windows and frames) expired in March 2014, with records showing expenditure of £422,629 and £254,138 between April 2015 and March 2018.
- 2.2.8 The contract with the final supplier (kitchens) ceased in March 2016, since which time the Service has incurred expenditure of £289,225 between April 2016 and March 2018.
- 2.2.9 The Service has stated that the majority of expenditure consisted of individual elements of spend of less than £10,000 and that 4 quotes were sought in the majority of cases. Examination of records confirmed this, except for two purchase orders for amounts of around £90,000 for goods commissioned from one of the suppliers in 2017, where there was no record of competitive quotations, tendering or separate approval on file.
- 2.2.10 However, as set out in the Council's Procurement Regulations, cumulative spend must be taken into account where there is regular expenditure on the same type of supply, and contracts must not be split to avoid the requirement for tendering and approvals. Expenditure on each of these supplies has exceeded EU public procurement threshold limits and should therefore have been subject to appropriate tendering procedures.
- 2.2.11 The Service stated it had continued to use the above suppliers due to them being able to supply materials which were considered to be of a high quality, lifespan and reasonable price and to meet architectural specifications. There was also suggestion that use of particular suppliers in the past necessitated continued purchasing from them in order to maintain assets, and replace parts, to the same specification.
- 2.2.12 The Service has stated that quotations for goods from other suppliers have been aggregated and compared to the original tender quotations from the aforementioned suppliers and their prices have remained competitive. Additionally, the types of materials currently being supplied are of a type which meet Architectural requirements and retain backward compatibility for ease of repairs or replacement. However, these arguments for single-sourcing supplies have not been tested through competitive tendering or other market testing exercises and this approach is in contravention not only of the Council's Procurement Regulations but also of Scottish Domestic Procurement law and the European Public Procurement Regime. There is additionally a potential risk of legitimate legal challenges from other suppliers, who may be able to supply similar items, claiming undue loss due to the Council's non-compliance with legislation. Regardless of the outcome of any legal action, this could expose the Council to legal costs, reputational damage and possible disruption of service delivery.

Recommendation

The Service, in conjunction with Commercial and Procurement Services, should ensure that valid contracts are in place or are established through competitive tendering for all supplies in excess of Council, National and EU thresholds.

The Service, in conjunction with Commercial and Procurement Services, should develop and implement a forward plan for procurement to ensure that future tendering exercises are completed prior to the expiry of existing contracts.

Service Response / Action

The Service will continue to work with CPS, and will maintain the forward plans, which have existed in various formats for several years. A new process for this has been proposed by CPS, which the Service will adopt. The Service has been fully transparent about these contracts, and has been working closely with CPS on all these issues, obtaining guidance throughout the process. With the windows example, a decision was made in the interest of best value to the council, to source windows that met the architect's requirements, and also provided the lowest long term maintenance costs to the council, providing savings over the material's life cycle. The competitive market testing was provided by reviewing the submitted price against the same supplier's previous winning tender bid. The total aggregated figure was also made up of several other purchases, which did include several competitive quotation exercises. This particular contract falls within the category of savings and efficiencies taking priority over compliance, and CPS have been liaised with in this regard. Compliance will be further considered under the action agreed at 2.1.7 above. Stores only purchase standard stock material, project material goes through a completely different process. The forward plan for 2018 has already been issued to CPS, and the Service will work with CPS to ensure savings and value for money in these contracts.

Implementation Date

September 2018

Responsible Officer

Quantity Surveying
Manager
Chief Officer –
Commercial and
Procurement

Grading

Major at a Service Level

2.3 Purchasing

- 2.3.1 Financial Regulations stipulate that all orders should be made on official purchase order forms appropriately authorised in advance of ordering goods or services from a Supplier. Review of a sample of 20 items of expenditure selected at random from April 2017 to March 2018 demonstrated that this was the case in practice.
- 2.3.2 It is important that all goods which are received are recorded in the stock system or those which have been bought in direct for jobs can be identified as having been allocated to a job. In all 20 instances reviewed records were complete.

AUDITORS: D Hughes
C Harvey
D Henderson

Appendix 1 – Grading of Recommendations

| GRADE | DEFINITION |
|--|--|
| Major at a Corporate Level | The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council. |
| Major at a Service Level | <p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p> |
| Significant within audited area | <p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p> |
| Important within audited area | Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control. |

This page is intentionally left blank



Aberdeen City Council

Annual audit report to the Members of Aberdeen City Council and the Controller of Audit for the year ended
31 March 2018

17 September 2018

DRAFT

Contents

| | Page |
|---|------|
| Introduction | 3 |
| Audit dimensions | |
| - Financial management | 5 |
| - Financial sustainability | 8 |
| - Governance and transparency (<i>Best Value focus area: leadership, governance and scrutiny</i>) | 11 |
| - Value for money (<i>Best Value focus area: improvement</i>) | 16 |
| Appendix one: action plan | 20 |
| Appendix two: grant claims and WGA return | 21 |

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Aberdeen City Council ("the Council") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities sections of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to the Council, telephone 0131 527 6673, email: andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6682 or email to hugh.harvie@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Fiona Kordiak, Director of Audit Services, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Purpose, scope and approach

Purpose of this report

The Accounts Commission appointed KPMG LLP as auditor of Aberdeen City Council (the Council) under part VII of the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2016-17 to 2021-22, inclusive.

This annual audit report presents our conclusions in respect of the wider scope matters of Audit Scotland’s Code of Audit Practice (“the Code”). It is addressed to both those charged with governance at Aberdeen City Council and the Controller of Audit. The areas of wider scope focus were set out in our audit strategy document which was presented to the Audit, Risk and Scrutiny Committee (“ARSC”) at the outset of our audit.

The Code sets out the wider dimensions of public sector audit which involves consideration of the following audit dimensions: financial management; financial sustainability; governance and transparency; and value for money.

It is the Council’s responsibility to ensure that it has proper arrangements across each of the audit dimensions. These arrangements should be appropriate to the nature of the Council and the services and functions that it has been created to deliver.

The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value is assessed over the five year audit appointment, as part of the annual audit work. 2017-18 represents year two of the Best Value plan for the Council during which we considered Leadership, Scrutiny and Governance, and Improvement.

We issued an ISA 260: *Audit report to those charged with governance* report to the June 2018 meeting of the ARSC, summarising the findings and conclusions from the financial statements audit. The ISA 260 report and this report discharge our year end reporting responsibilities under the Code.

The Council will need to consider whether to give public notice in respect of this report under the Market Abuse Regulation as well as the Disclosure and Transparency Rules. We draw attention to the section, “About this report” on the contents page.

Scope and approach

We come to a conclusion on the audit dimensions, having considered the arrangements that the Council has put in place. Our work to consider these wider scope aspects of the Code was not designed to identify all matters that may be relevant to those charged with governance.




We performed a range of procedures to inform our work:

- interviews with senior officers, including the Chief Executive, and with the co-leaders of the Council;
- discussion with officers throughout the Council;
- review of various committee papers and reports;
- attending committee meetings; and
- consideration of Audit Scotland guidance to draw conclusions on good practice.

We also considered the Accounts Commission’s five Strategic Audit Priorities when considering the audit dimensions:

- the clarity of Council priorities and quality of long-term planning to achieve these;
- the effectiveness of councils in evaluating and implementing options for significant changes in delivering services;
- how effectively councils are ensuring that members and officers have the right knowledge, skills and time to lead and manage delivery of council priorities;
- how effectively councils are involving citizens in decisions about services; and
- the quality of council public performance reporting to help citizens gauge improvements.

We use icons to highlight specific matters of note throughout this report.

Key:  Best practice  Area of ongoing development  Case study

Financial context

Our report to those charged with governance, dated 27 July 2018, provided our conclusions in respect of our external audit of the annual accounts. By way of context, we set out below a summary of financial outturn for 2017-18 and the financial position as at 31 March 2018.

| | | |
|--|---|--|
| <p>Total long term borrowing £891 million 2016-17 £901 million</p> | <p>Capital investment (2017-18) £217.5 million 2016-17 £221.7 million</p> | <p>The Council has developed additional forms of commercial income and previously raised funds by issuing bonds on the London Stock Exchange. The proceeds of the £370 million bonds are being invested in the Council's capital plan with a view to furthering economic prosperity within Aberdeen and the region.</p> |
| <p>Capital financing requirement £744 million 2016-17 £621 million</p> | <p>Total reserves £1,384 million 2016-17 £1,493 million</p> | <p>The significance of the Council's bond debt and capital investment plans increases the importance of effective financial management arrangements (page five), focus on financial sustainability (page eight) and governance (page 11). The Council has worked hard to continue to enhance each of these areas with significant changes and ongoing development during 2017-18. Management's actions are wide ranging, ambitious, enacted at a relatively high pace and delivering the results intended to date. The extent of change brings inherently higher risk but is being closely managed and subject to a high degree of scrutiny.</p> |
| <p>Deficit on provision of services £73 million 2016-17 £58 million</p> | <p>Surplus on general fund £4.5 million 2016-17 £3.5 million</p> | <p>For 2017-18, service saving options of £31.9 million were presented to members in setting the budget, and a total of £21.8 million of savings proposals were approved. The Council delivered the savings required in 2017-18 and the core outturn was a surplus of £5 million against a balanced budget (being £4.5 million on the General Fund and £0.5 million on the Housing Revenue Account).</p> |
| <p>Finance lease liabilities £58.8 million 2016-17 £-</p> | <p>Investment property valuation £148.6 million 2016-17 £85.3 million</p> | <p>Following completion of the Marischal Square development in 2017-18 it was subject to valuation and the value of investment property increased by £63.3 million and associated finance lease liabilities also increased by £58.8 million.</p> |
| <p>Cash and short term investments £154.9 million 2016-17 £322.4 million</p> | <p>Net defined benefit liability £310 million 2016-17 £249.8 million</p> | <p>The Council's cash and short term investment balance decreased, associated with ongoing capital investment and use of reserves to support delivery of the transition to the TOM.</p> <p>The net defined benefit pension liability increased and we concluded in our report on the financial statements that the underlying assumptions adopted by the Council are reasonably balanced.</p> |

Page 340



Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

2018-19 budget proposals

The Council sets five budgets on an annual basis: General Fund; HRA; Capital; Common Good; and Pension Fund. Throughout July to November there is an iterative process of budget development, of transformation proposals and reporting through Corporate Management Team (“CMT”) and Extended CMT (“ECMT”), concluding in November.

Member proposals are submitted during that iterative process, for costing or consideration. Alternative proposals are then submitted by members or political groups, for consideration in advance of the meeting.

The STC has all-party representation and approved measures on 9 February 2018 to reduce third party spending and staff costs, through a voluntary severance scheme associated with the interim transformation structure, aimed at saving £16.4 million in 2018-19. These were assumed to be included in the baseline budget proposals subsequently considered at the Council budget meeting. The original indicative forecast savings required for 2018-19, as presented in last year’s annual audit report, was £37.4 million and the reduction demonstrates the progress made to date.

The 2018-19 budget proposed by the administration was considered together with proposals by SNP and Liberal Democrats. Following a vote, the administration budget was adopted.

On 6 March 2018 the Council approved a detailed balanced revenue budget for 2018-19 and a five year high-level budget to 2022-23. The Council also approved a five year capital budget (2018-19 to 2022-23) of £578.9 million, in addition to a revised housing investment program over the same period of £166 million.

The budget approved by Council was aligned to the new interim organisational structure and in light of the new chief officers appointed, the budget was formally delegated to the new chief officers by the interim head of finance in order to ensure clarity of budget responsibilities.

Participatory budgeting

The Aberdeen City Voice is the citizen’s panel run by the Community Planning Partnership (‘CPP’). It exhibits a number of aspects of good practice including clear link to outcomes but faces challenges in demonstrating appropriate demographic representation, like many localities.

Key strengths include: any citizen can join the panel; the questions are informed by the LOIP themes; responses are accepted online or in paper form; and the results are published in full and heads of service responses and plans to address comments are regularly included.

There are some development areas as response rates are generally falling (most recently 56.5% of panellists), however we note that the number of panellists is increasing resulting in more responses overall. The youngest age group (16 – 34) also represents the majority of the population in Aberdeen (33%) but the minority of responses (4.4%).

UDECIDE is a participatory budgeting process in which community groups in four priority areas can bid for a share of £250,000 funding. This is good practice although represents a small amount of the Council’s overall budget. It is management’s intention to scale up the use of such budgets as evidence demonstrates their effectiveness in delivering improvement.

The Council made available £1.6 million to the Fairer Aberdeen Fund which has a majority community board, combining individuals, organisations and Councillors. It awarded funds ranging from £2,000 to £155,000 to 44 bodies in 2017-18 in support of work in regeneration areas with vulnerable groups and individuals. Recipients are required to monitor and report the impact and benefit of funding. While the Fairer Aberdeen Fund does not encourage citizen voting on projects, it provides an opportunity for broader community participation and partnership working.

Overall, a wide variety of consultation is undertaken in a modern, technologically enabled way through the ‘consultation hub’, the community planning partnership, Aberdeen City Voice and UDECIDE. However, the Council does not formally consult citizens in respect of the annual budget. **(Recommendation one).**



Financial management (continued)

Financial capacity

As the Council transitioned to the new organisational structure, the existing head of Finance was promoted to the position of Director of Resources and an interim Head of Finance was appointed internally. The Director of Resources retained the Section 95 responsibilities during this period, as is appropriate

Financial capacity has been demonstrated through:

- embedding quarterly financial reporting (as opposite);
- successfully accelerating production of the annual accounts by three months;
- providing members with regular financial information and input;
- providing professional support as required to deliver the TOM, such as budget analysis and monitoring reports.

Financial reporting

The Council continues to forecast significant savings requirements which are anticipated to be delivered through transition to the TOM. Financial performance is regularly monitored.

During 2017-18, quarterly financial reporting was embedded. It comprises of a full set of financial statements with management commentary and additional notes to explain the financial position. This is in recognition of good governance in view of the listed debt, and is leading practice in a local authority context as noted opposite.

Workforce planning

There is ongoing voluntary severance associated with transition to the interim TOM of up to 260 FTE posts, including disestablishment of 140 FTE posts approved in respect of 2018-19. This is a significant undertaking and management undertook consultation with unions as part of the proposals and is closely monitoring the process.

Annual accounts – faster accounts closure

Management significantly accelerated the timetable for the production (and audit) of the annual accounts for the year ended 31 March 2018. This timetable is ahead of local authorities in Scotland, and in the UK more widely.

Draft annual accounts were provided on 3 May 2018, being complete and including the narrative statements. High quality working papers were also provided at the start of the audit fieldwork. Management made good arrangements in advance of the planned timetable acceleration including:

- implementing quarterly close down comprising a full set of financial statements with management commentary and notes to explain the financial position, this is leading practice in a local authority context;
- making the unaudited accounts available for public inspection as required by the Local Authority Accounts (Scotland) Regulations 2014, earlier than in previous years;
- issuing instructions to components of the Council’s group to ensure that their accounts and audits were appropriately advanced; and
- reviewing detailed transactional information following the early close of the financial ledger on 19 March 2018, to consider the appropriate cut-off in recognition of expenditure.

We made some low graded recommendations to further enhance the efficiency of the process in our report on the financial statements.

We consider that management performed creditably in its approach and delivery of a faster accounts closure which is ahead of the other Scottish local authorities despite the relatively high level of complexity inherent in the Council’s annual accounts.

Audit adjustments

As summarised in our report on the financial statements, 11 misstatements were identified during the 2017-18 audit. The adjustments generally related to complex/non-routine transactions and management is making progress on associated audit recommendations.

Page 342



Financial management (continued)

Capital plan

The Council has committed to significant capital projects, some with unique funding arrangements. The total gross capital resource over the next five years (2018-19 to 2022-23) is £578.9 million, in addition to a revised housing investment programme over the same period of £166 million, approved in March 2018.

The focus of capital investment is on ensuring that Aberdeen has empowered, resilient and sustainable communities. Supporting this commitment, the capital plan includes major infrastructure projects such as the Aberdeen Western Peripheral Route ('AWPR') and £25 million is also earmarked for investment and renewal of other roads over the next five years.

The City Centre Masterplan funding 2018-19 is concentrated on the redevelopment of Union Terrace Gardens, completing Broad Street works and the restoration of Provost Skene's House. Aspects of these works are funded from proceeds associated with the Marischal Square development; representing a good degree of management foresight when it was initially planned.

The Council has developed its capital project management, governance and reporting processes over the last two years. We consider that the arrangements are robust and facilitate member and officer scrutiny of individual project progress.

Aberdeen Western Peripheral Route

The construction of the AWPR is approaching completion, with the unitary charge mechanism in place for the sections which have reached "permitted for use" stage. The Council's contribution to this scheme is capped at £75 million and is not impacted by the collapse of Carillion, which was one of three companies which constituted the main contractor for the scheme. This is because the other contractors are jointly and severable liable for completion.

The 2017-18 budget was £12.56 million but in year spend was £4 million and completion delayed by around six months. The variance between budgeted and actual spend is primarily due to variation in the cost of land; with many land owners compensated through compulsory purchase orders. The £12.56 million budget reflected the expected purchase cost.

Aberdeen Exhibition and Conference Centre ("AECC")

The AECC project is advanced, and is expected to be completed by the due date of June 2019. The project management company prepares detailed reports on the project status, which are submitted to the Council on a monthly basis. It is anticipated that ACC will need to fund a relatively small variation in the overall cost, which reflects nature of the construction agreement, being primarily fixed cost.

Our view – financial management

We consider that the approach to financial management, including budget setting and monitoring is appropriate with clear supporting governance arrangements. The Council demonstrates advanced practice, in a local authority context, through quarterly financial reporting

Major projects are closely monitored and where exceptions within developments or project management weaknesses arise, improvement actions are identified and reported to members. The Council incorporated clauses into underlying contractor and partner agreements, associated with major capital projects, designed to reduce the financial risk to the Council and incentivise other parties to deliver projects well. This represents good practice but it increases the underlying complexity of arrangements which require careful management.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Annual budget presentation

As a result of the bond issuance and subsequent annual credit re-assessment, the Council developed its approach to medium and long term capital and revenue financial planning alongside the statutory requirement for an annual budget setting exercise. To support this, the annual budget report to Council includes the balance sheet, long term and medium term outlook and annual budget statement.

Medium term financial plan and benefits realisation

Long term assumptions around borrowing are used to inform prudential indicators that are presented as part of the final budget report and ensure that investment and borrowing proposals are affordable.

The medium term financial plan is refreshed at the start of the budget setting process, being informed by long term plans and Service Cost Models developed to estimate the impact of demand pressures and assumptions on current budgets. These are approved by the CMT before being presented to Council annually.

Deficits are forecast for each of the next five years, before further savings plans (as shown below).

| General fund revenue budget | 2018-19 £'000 | 2019-20 £'000 | 2020-21 £'000 | 2021-22 £'000 | 2022-23 £'000 |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|
| Gross expenditure | 443,637 | 463,297 | 479,368 | 496,125 | 525,324 |
| Gross income | (438,752) | (432,357) | (426,572) | (423,935) | (424,431) |
| Deficit | 4,883 | 30,940 | 52,796 | 72,190 | 100,893 |

At the budget meeting in March 2018, members instructed the Chief Executive to continue to progress the transformation programme, reporting transformation options and associated financial benefits through the approved transformation governance process in order to address the future years' funding gap.

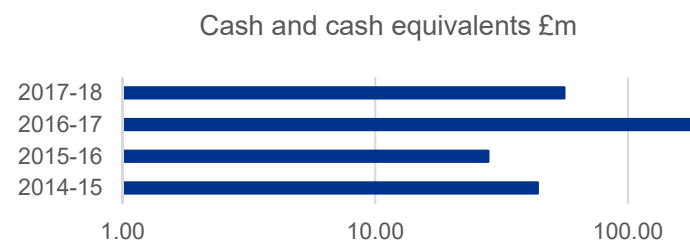
Representing best practice, the transformation portfolio budget (£15 million of reallocated existing earmarked reserves) and associated benefits realisation are included on the agenda of each meeting of the STC. Monitoring against benefits is by the responsible delivery board, following business case approval by the STC and its remit includes monitoring overall delivery.



Cash and cash equivalents

There was a significant reduction in cash and short term investments of £167.5 million from 31 March 2017 to 31 March 2018, as planned and in connection with ongoing capital investment in major projects.

The Council's Treasury Management Strategy states that the investment priorities are security of capital and the liquidity of investments. Liquidity is a key measure of the Council's ability to meet its liabilities as they fall due. The overall trend is of decreasing current assets (associated with planned investment) and the Council's current asset ratio is 1.3:1.



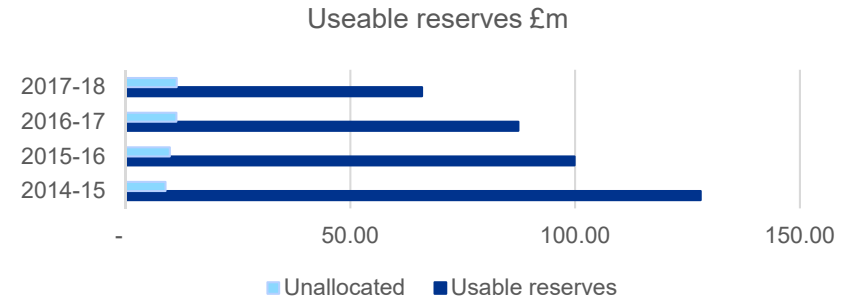
Financial sustainability (continued)

Use of reserves

The Council's useable reserves have decreased in recent years as planned, primarily due to major capital investment. The General Fund Balance decreased by £9.8 million to £40.7 million during 2017-18.

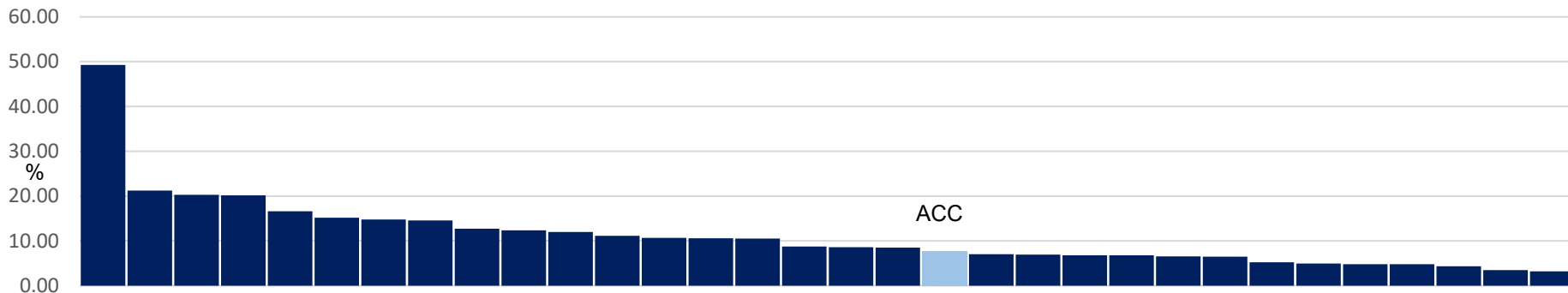
The unusable general fund balance as at 31 March 2018 was £1,318 million compared to overall useable reserves balance of £66 million. Earmarked reserves as at 31 March 2018 were £29.3 million and uncommitted reserves were £11.4 million, a £0.1 million increase compared with 2016-17 and member approval is required to utilise these funds. The majority of earmarked reserves relate to the transformation fund (£11.2 million) and funding set aside for affordable housing (£8.3 million).

As indicated below, the ratio of the Council's general fund reserves as a proportion of annual expenditure is broadly in the middle of all Scottish local authorities. In view of the planned utilisation of reserves and actions underway to reduce the funding gap, the level of general fund balance is reasonable.



Page 345

Usable general fund balance as a proportion of net cost of services



Financial sustainability (continued)

In line with Audit Scotland guidance, we have specifically considered the following areas related to financial sustainability. The Council has limited or no control in each of these areas.

EU withdrawal

A paper on EU funding implications post-Brexit was considered by the Communities, Housing and Infrastructure Committee on 1 December 2016. This was also considered as part of a wider 'Leaving the EU' report that went to Council on 14 December 2016. The Council has continued to consider the potential impacts from EU withdrawal through its routine risk management monitoring.

We note that the Council's credit rating was downgraded from Aa2 to Aa3 on 26 September 2017, together with 53 other UK sub-sovereign issuers and in line with the UK sovereign downgrading. The Council's credit rating relative to the UK sovereign credit rating is an important measure; there has been no change to this relationship.

In explaining the downgrading, Moody's noted that it considers that the UK government's decision to leave the EU Single Market and customs union will be negative for the country's medium-term economic growth prospects. The Council's credit rating was adjusted to Aa3 stable outlook from Aa2 negative outlook in September 2017 and further affirmed after the Council's annual reassessment in November 2017.

The Westminster Government and Scottish Government announced a guarantee that all UK projects that are approved before the UK officially leaves the EU will receive the funding to which they were awarded. No additional specific guarantees have been received, but the Council considers that this guarantee means there is limited additional financial risk attached to existing projects, and any agreed ahead of the official leave date.

Scotland's New Financial Powers

The Council does not obtain any new financial powers directly as a result of those obtained by the Scottish Government but may be impacted indirectly by subsequent delegated powers or changes in the external economic environment.

The Scottish Government's Local Government Finance (Scotland) Settlement 2018-19 includes the continued flexibility to increase Council Tax by up to 3%. The Council has used this flexibility.

Public sector pay policy

The 2018-19 budget assumes a pay award in line with the Scottish Government Public Sector Pay Policy and in the event of national negotiations exceeding this assumption, to instruct the Chief Officer - Finance to report back to the Finance, Policy and Resources Committee on options to finance potential additional costs.

Negotiations are ongoing between trade unions and negotiating bodies on the 2018-19 pay award which could impact upon the approved budget.

Our view – financial sustainability

A clear assessment of the future savings need has been identified and reported to Council on a consistent basis and decisive action taken, in approving the transformation programme designed to deliver the required savings.

The Council will continue to utilise reserves associated with the transformation programme which is designed to realise benefits and savings required over the period to 2023. Cash and cash equivalents have decreased significantly, associated with ongoing major capital projects but the Council closely monitors project performance and has included good examples of mechanisms to reduce financial risk and encourage cost effective completion of projects.

There remains a residual risk that in the medium to long term, transformation does not deliver the benefits and savings expected, or does not deliver them at the pace required to deliver a balanced budget without impacting services. However we consider that the Council is financial sustainable in the short term, with well monitored plans to ensure longer time financial balance.



Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial performance.

Target Operating Model

The TOM was approved by the Council on 23 August 2017 and represents a significant redesign in the operating model of the Council. The TOM was designed in recognition of the need for financial restraint, growing demand pressures and changing customer expectations. The TOM puts delivery of the outcomes within the LOIP at its core.

There are four phases to the transition to the new model, each broadly aligned to a financial year. Phase one (2017-18) includes the approval of the TOM design principles, organisational structure, transformation portfolio and supporting governance framework, engagement with a digital partner and realignment of staff roles within the approved First Tier structure.

The key functions of the Council and First Tier structure are:

- Customer (Director of Customer)
- Commissioning (Director of Commissioning)
- Operations (Chief Operating Officer)
- Resource management (Director of Resources)

All four directors have been appointed.

The Transformational Portfolio is set to achieve three objectives; namely delivering up to £125 million benefit realisation (savings) over five years from 2018-19 to 2022-23, delivering the Council's digital strategy and delivering the TOM by 2020-21.

Having agreed the interim functional structure, phase two (2018-19) is primarily related to further developing the structure, embedding new governance arrangements and progressing the digital transformation.

Best Value focus area: leadership, governance and scrutiny

Governance

Transformation to the TOM is being overseen by the STC, supported by control boards and delivery boards.

The Council continued its wide ranging governance review during 2017-18, as detailed in our 2016-17 Annual Audit report. The review so far has delivered:

- refreshed constitutional documents brought together under one Scheme of Governance to provide consistency and clarity;
- a Policy on the Appointment of Elected Members to Outside Bodies following a review of such appointments, to support any such appointments being consistent with the Council's objectives;
- a new ALEO Assurance Framework. The Account Commission reviewed these arrangements and considered them to be appropriate;
- new arrangements to support the bond issuance and credit rating, summarised by a Bond Governance Protocol. A report by Internal Audit concluded that the protocol is "comprehensive and clear" as well as raising recommendations for improvement. Officers report that the recommendations have been addressed and that the bond governance arrangements will be monitored annually through the credit rating reassessments.
- a Risk Management Framework to provide clarity to members and officers on the Council's risk management arrangements. This will be further developed, to keep pace with the Council's move to a new operating model.

The revised Scheme of Governance, approved by Council on 5 March 2018 includes provision for:

- a Commissioning Committee to which procurement workplans will be submitted at the start of the financial year;
- a City Growth and Resources Committee, which will have oversight of short, medium and long term financial strategies linked to outcomes: and



Governance and transparency (continued)

Page 348

Best Value focus area: leadership, governance and scrutiny (continued)

- a Public Protection Committee to scrutinise the Council’s statutory regulatory activities.

We note that there was a reported governance failing in respect of 2016-17, reported during 2017-18, in respect of Wellington Brae. Management reported to Council committees in respect of the matter together with intended improvement actions.

Scrutiny

There is a high degree of scrutiny and challenge exercised by officers and members. In particular, the political constitution of Council leads to robust scrutiny of proposals and reports, as further set out on page 14.

Key aspects of financial and project management are subject to regular oversight and appropriate level. Performance against the LOIP and other plans and objectives are also publicly reported.

Stakeholder engagement

At its meeting in August 2017, the Council noted that a programme of engagement with stakeholders, both within and outwith the Council, including trade unions, ALEOs and other partners would be undertaken as the detail of the TOM is developed.

57 staff engagement sessions were held in the next few months and attended by over 3,000 employees. This took total engagement sessions to 108 and 4,505 attendees, including statutory consultation sessions in respect of voluntary severance.

Feedback from engagement resulted in the following changes:

- the customer function including early intervention and community empowerment clusters;
- inclusion of place planning and city growth to the overall model, reflecting stakeholder emphasis on the importance of Place
- trade unions being invited to participate in any governance / control boards; and
- elevation of the Chief Social Work Officer status and reporting lines.

Transformation qualities

Audit Scotland’s report *Local Government in Scotland: Challenges and Performance 2018* stated that for transformation be successful councils should:

- set priorities - councils cannot transform everything at once;
- conduct robust option appraisals - councils should consider a wide range of options;
- have a clear strategy and a realistic savings target which is properly monitored;
- have proportionate governance structures; and
- assess the impact on equality of access and opportunity and whether change may have a disproportionate impact on more vulnerable or poorer communities or individuals.

It further noted that transformation needs effective leadership from councillors and senior management.

With these qualities in mind, we consider that the Council has a robust and proportionate approach to transitioning to the TOM and its objectives.

Our view – Target Operating Model

It is clear that local authorities need to make fundamental changes in order to meet today’s funding challenges as well as meeting the customer demands of the future. We consider that the TOM is bold, forward looking and wide ranging. By ‘anchoring’ the TOM around LOIP delivery the Council is focussed on better outcomes for the City, but has designed a model which is intended to be more efficient, more customer focussed and with better visibility of information which can be used to improve outcomes.

The change is significant but we consider that it is being managed methodically and with appropriate governance including through the STC. The governance arrangements require to be kept under review as TOM is implemented. A phased approach to implementation is also welcome. The governance review was thorough and robust, with a positive evolution of the Council’s overall governance framework.

Governance and transparency (continued)

Transparency



Transparency is an important aspect of good governance and increasingly expected by stakeholders. The Council makes committee meeting agendas and minutes available online and reports are publicly available in advance of meetings. Full Council meetings are also webcast.

Having attended various committee meetings, we have observed instances of robust debate over any suggestion to exempt specific items of business from publication. These examples demonstrated a commitment to conduct business as transparently as possible with senior officers providing legal guidance and their rationale for items to be taken in private business. We recognise that some reports should be considered in private to help ensure that the Council delivers Best Value and, in some cases, the Council must by law consider matters in private.

The Council also demonstrates transparency by:

- participating in the Local Government Benchmarking Framework (“LGBF”) and providing access via its website;
- publishing Statutory Performance Indicators; and
- reporting regularly on delivery against the LOIP.

Fraud risk management

The fraud, bribery and corruption policy was updated during the year, in particular to ensure that a balanced, case by case approach is taken in respect of potential Council Tax benefit investigations which may arise but not be the fault of the tenant. We reported positively to Audit Scotland on the Council’s participation in the National Fraud Initiative, which is a key part of the Council’s response to fraud risk.

Internal controls and risk management

In our previous reports to those charged with governance during 2017-18 we have reported broadly satisfactory conclusions in respect of those key internal controls which were tested.

We highlighted four recommendations related to general IT controls to enhance arrangements in respect of super-user access in particular. We also recommended enhanced arrangements in respect of the complex and innovative arrangements the Council has entered into.



An update on the risk and assurance improvement project was presented to the Audit, Risk and Scrutiny Committee in November 2017 and includes relevant actions.

Local Scrutiny Plan

The Local Scrutiny Plan (‘LSP’) sets out the planned scrutiny activity at the Council during 2017-18. The plan is based on a shared risk assessment undertaken by the Local Area Network (‘LAN’), comprising representatives from scrutiny bodies which engage with the Council. The shared risk assessment process draws on a range of evidence with the aim of determining the scrutiny activity required.

For 2017-18 there was no additional scrutiny required by external audit. Whilst there were positive views of the Health and Social Care Partnership and the progress being made, scrutiny partners continued to monitor progress against the issued action plans.

The 2018-19 LSP was presented to the June 2018 ARSC.

Governance and transparency (continued)

Approach to Cyber Resilience and GDPR compliance

In line with Audit Scotland guidance, we have specifically considered this area, being a key focus for all organisations given the May 2018 effective date of the new General Data Protection Regulations (“GDPR”).

We note that the Council developed a Data Governance Standard in support of compliance with GDPR.

A new information security team has been established, comprising eight staff members. Cyber risk is recorded on the corporate risk register together with relevant controls and monitoring arrangements.

In a positive development, the Council has achieved Cyber Essentials Plus compliance and also reviews CIS Critical Security Controls for Effective Cyber Defence to consider and report on current cyber capability. This is good practice and uncommon in the sector.

Control monitoring is generally assumption based rather than informed by specific testing. We concur with development areas identified by management, specifically in respect of progress to be made on data handling, classification and loss prevention as well as the opportunity to prepare an update report to the ARSC and enable a “deep dive” into risk areas.

Best Value focus area: leadership, governance and scrutiny

Leadership

We consider that Aberdeen City Council exhibits strong member and officer leadership. The Labour and Conservative Alliance Group form the administration and set out its collective vision and priorities in a Policy Document in August 2017. This, together with CPP working and stakeholder involvement, informed the LOIP objectives which are the basis of the Council’s strategy. In response, officers proposed transition to the TOM, which is designed to achieve sufficient savings to enable delivery of the LOIP.

The Council administration has an effective majority of one, which gives rise to a high degree of challenge and scrutiny within all aspects of Council business. While the proposed TOM was supported by the administration and approved in line with the working majority, we can see that members have now accepted the model as the approved structure of the Council. It remains the subject of ongoing scrutiny by all members regardless of political affiliation.

Both members and officers have a clear focus on delivery of the LOIP, economic development and on ‘Place’.

As part of transition to the TOM, newly appointed Directors are designing a Visible Leadership programme which includes staff and stakeholder engagement, a CMT blog which presents a united ‘tone from the top’ and ambition to use more flexible engagement methods.

A leadership strategy programme has been developed along with a training needs assessment for members and induction programme. The leadership capability framework assessment process has been developed to align the skills and knowledge of leaders with the Council’s requirements. New Directors and Chief Officers have set objectives aligned to the delivery of the vision and priorities. Progress is captured via a single co-ordinated process.

The scale of change at the Council requires significant cultural shift, particularly in respect of digital innovation in service delivery and ways of working. Officers recognise this and are responding to this challenge appropriately.

Governance and transparency (continued)

Page 351

Our view – governance and transparency

We attended a number of meetings of the ARSC and STC during 2017-18 at which we observed member / officer relations, scrutiny and challenge.

The Leadership has clear objectives, focussing on outcomes which are summarised in the LOIP. Service plans and other arrangements are designed to align with the LOIP, which is also based on stakeholder engagement – through the CPP and the administration’s Policy Document. Together this results in a clear strategic direction which is consistently pursued by members and officers.

Substantial changes have been made to the governance framework which underpins effective scrutiny. We consider that alignment to the transitional operating structure is best practice, together with the ongoing review. The governance review was thorough and robust.

It is evident that members have been closely involved in the design of the revised structure and influenced it in order to be satisfied that they are able to discharge their duties, as have staff and stakeholders.

The Council has an narrow administration majority and this inherently contributes to the level of scrutiny from all sides. We consider that this, while generally effective, has on occasions been detrimental to the efficient conduct of meetings and consideration of matters presented by officers. An example being high numbers of motions tabled on the day of meetings across agenda items.

Overall, members robustly challenge and scrutinise management with a clear focus on the communities and citizens they represent, in respect of governance, process and matters presented for decision. Member challenge is balanced by an appropriate degree of officer recognition.

The scale of changes associated with transition to the TOM is significant and has associated cultural challenges. We consider that officers are aware of and are responding to those challenges, although they remain a risk.

Value for Money

Value for money is concerned with using resources effectively and continually improving services

Following the Public Pound

Appointed auditors are required to consider the Council's arrangements for compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound ("the FtPP Code"). We have previously considered management's processes to comply with the FtPP Code through its local code of practice which applies the FtPP Code in the local context of the Council's interactions with its ALEOs.

This was updated during 2017-18 at the November 2017 meeting of the ARSC to include details in respect of assurance hubs, formed to monitor contracts and performance outcomes of ALEOs.

A report of the first meetings of the ALEO assurance hubs was also presented which included:

- details of the assurance hubs consideration and assessment in respect of selected ALEOs;
- details of individual ALEOs approach to financial management, governance, legal, risk and transparency matters; and
- an overall risk rating for each ALEO assessed.

Options appraisal

The Council has a business case template for use as part of the project management toolkit. This includes the requirement to undertake an options appraisal and all committee reports seeking decisions are submitted with the implications of recommended option.

Major capital projects - Value for Money

Aberdeen Art Gallery

The Aberdeen Art Gallery was closed in 2015 for redevelopment works, expected to cost £30 million. The Art Gallery, Cowdray Hall and Memorial Hall are being transformed through significant investment in the fabric of the building, new exhibition and display galleries, and improved facilities for visitors.

The project was initially delayed by six weeks by the uncovering of a mediaeval cemetery from the 13th century. However, due to project management issues, it was further delayed in during the year. The redevelopment is currently experiencing cost overruns. We note that the reasons for the delay and the actions taken to progress the redevelopment were presented to the Finance, Policy and Resources committee on 6 December 2017 and publicly reported.

Officers identified improvement opportunities in management of the project and members instructed internal audit to include the Aberdeen Art Gallery within a planned audit of capital governance.

Marischal Square development

The significant project constructed in partnership with Muse and Aviva was completed in November 2017. On completion the Council entered into a 35 year head lease and arrangement for the sub-letting of office space. The development also includes a hotel, which is operated under a management agreement. This is a relatively innovative and complex arrangement which was subject to previous narrative from the appointed auditor in respect of the decision making process.

The hotel occupancy has been steadily improving since it opened and a number of office and commercial space tenants have entered into lease arrangements. Both aspects are monitored by management and have been subject to reporting to members.

In forming the underlying agreements, we consider that the Council took steps to mitigate project and financial risk by sharing risks and rewards with partners in a way that encourages Value for Money.

We recognised that the complexity of these arrangements led to adjustments in the financial statements and requires close ongoing management oversight. Our report to those charged with governance dated 22 June 2018 includes a recommendation in this respect.



Value for Money (continued)

Best Value focus area: improvement

Improvement

The Council identifies improvement needs by engaging with partners, including communities, and through strategic assessment by studying: past and current trends; emerging issues; and areas of concern arising from reports. Use of the Aberdeen City Voice also provides insight from stakeholders while members have a key role in representing their communities. These needs form the basis of the LOIP.

Three localities are identified, through community planning arrangements, as areas of focus and monitoring is in place to track actions and progress against both the LOIP and the three locality plans.

The Council has led the adoption, across the CPP of the Scottish Government Model for Improvement in order to support a systematic approach to identifying, planning and delivering improvements. A training and development programme, including regular workshop based ‘bootcamps’, support users in its implementation.

Under the LOIP, the Council and the community planning partners have committed to delivering four outcomes for the people of Aberdeen; namely prosperous economy, prosperous people, prosperous place and enabling technology. Delivering these outcomes is the basis for the development of the TOM.

The Council’s digital strategy is aimed at making it easier for employees to perform their responsibilities, give customers better choice in how they get information and use services, ensure that information is shared and to use data to make better decisions. It is therefore a key enabler to delivery of the LOIP and TOM.

Improvement plans

Service Improvement Plans have been developed during 2017-18 with performance subsequently reported to Committee. Both the Plans and the Performance reporting identifies specific change required in order to deliver improvement.

Scrutiny of the Annual Outcome Improvement Report and regular Improvement Tracker reports has led to new initiatives being started, for example projects around inclusive economic growth in localities.

Where there is evidence of success the Council and the CPP seek to replicate and enhance the scale of improvement or stop activities which are not demonstrating improvement. There is a positive leadership culture which encourages decisions to stop activities without seeing this as failure.

Improvement reporting

Regular improvement tracking and monitoring happens throughout the year at an appropriate level.

The 2016-17 annual outcome improvement report was the first prepared since introduction of the current LOIP and the 2017-18 report is due to be published in September 2018. It includes a number of aspects of good practice, including:

- clear improvement objectives, by year, with comparison to actual performance;
- red/amber/green status tracking in respect of each measureable indicator which underpins an improvement objective;
- focus on outcome measures (rather than inputs);
- details of ongoing improvement projects;
- case studies; and
- priority next steps for the year ahead.

Statutory performance indicator reporting and the Council’s participation in the LGBF also provide transparent opportunity for stakeholders to consider improvement.

Where improvements are required, the Council seeks service responses in respect of relevant actions.

The Council’s Service Improvement Plans include the LGBF measures and are routinely reported to members through the Council’s established committee structures.



Value for Money (continued)

Performance reporting



We consider that the Council has a transparent approach to reporting progress on LOIP objectives. In addition to the annual report, a new bulletin was recently published (July 2018) which summarises key recent activities and both positive results and areas which remain a challenge. This demonstrated a fair and balanced approach to reporting.

The Council makes the LGBF benchmarking available from a link on its website.

Statutory performance indicator performance is published together with details of targets and historical trend information where available. Detailed information is provided but there is no simple overview to highlight key trends or focus areas.

Our analysis of performance indicators indicates a general trend of improvement in the majority of cases, with some instances of declining performance (which are addressed by management commentary).

Our view – value for money and improvement

Building upon the clear vision and objectives which leadership have established in the LOIP, improvement actions, responsibility and monitoring arrangements are well established to support delivery.

There is a strong focus on partnership working, both to achieve value for money and also to contribute to delivery of improvement objectives.

Progress reporting is transparent and includes targets, trend analysis and is provided in full detail and summary level to enhance stakeholder engagement.

Given the nature of LOIP annual reporting and the Council's digital transformation ambition, there is some scope to enhance the way in which improvement objectives, actual performance and stakeholder feedback and priorities are considered. While this is currently transparent and not out of line with other local authorities, these aspects could be more interactive and encourage stakeholder participation by being provided in a more modern and technologically enabled way.

Overall, we consider that members and officers are committed to working collaboratively with partners in order to deliver value for money and improvement. There is transparent monitoring and reporting against objectives.



Appendices

Action plan

The action plan summarises specific recommendations arising from our work, together with related risks and management’s responses. We present the identified finding related to the four audit dimensions set out in this report.

Priority rating for recommendation

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Page 356

| Finding(s) and risk(s) | Recommendation | Agreed management actions |
|--|---|---|
| <p>1. Citizen engagement in budget setting (page five)</p> <p><i>Audit dimensions: financial management and financial sustainability</i></p> | | <p>Grade three</p> |
| <p>A key principle for community planning is to ensure that people and communities are genuinely involved in the decisions made by public services which affect them.</p> <p>The Council’s Engagement, Participation and Empowerment Strategy sets out an ambition to go significantly beyond the requirements of the Community Empowerment (Scotland) Act 2010.</p> <p>Broad stakeholder engagement in determining priorities is undertaken through the consultation hub, Aberdeen City Voice, UDECIDE participatory budgeting and community planning arrangements associated with the LOIP. This is good practice and informs budget setting which is aligned with the LOIP providing an integrated approach. Citizen engagement during budget setting is a key opportunity for engagement and participation. It also provides a basis for informed decision making by Councillors.</p> <p>However, the Council did not undertake citizen consultation during the budget setting process (when the relative value placed on services is important). This increases the risk that the Council’s budget decisions are not aligned with stakeholder views and limits achievement of the aims of the Engagement, Participation and Empowerment Strategy.</p> | <p>At it’s June 2018 meeting, the Council’s Strategic Commissioning Committee received a report on customer and citizen engagement and instructed that officers undertake an audit and review of existing methods and activity of engagement and report back to the Committee.</p> <p>It is recommended that, as part of that report, the Council considers best practice examples in respect of citizen consultation as part of the annual budget setting exercise. This should include:</p> <ul style="list-style-type: none"> - Provision of information on budget challenges - A request for stakeholder input in respect of budget proposals; - A report, prepared for Council summarising feedback received in respect of the consultation. <p>Best practice would include monitoring the success of engagement (in a similar way to the Council’s existing approach in respect of the Aberdeen City Voice).</p> | <p>Agreed.</p> <p>Implementation date: November 2018</p> <p>Responsible officer: Chief Officer (Business Intelligence and Performance Management)</p> |

Grant claims and WGA return

We set out below the status of the “other reporting” responsibilities of our audit appointment. We will update this slide following completion of our procedures and issue a final version of this report.

| RETURN | DESCRIPTION | CONCLUSION |
|--|---|--|
| Whole Government Accounts (“WGA”) | WGA is the consolidated financial statements for all components of government in the UK. Most public bodies are required to provide information for the preparation of WGA. External auditors are required to review and provide assurance on WGA returns over a prescribed threshold. | We have received the Council’s WGA return and are progressing its audit in advance of the reporting deadline of 29 September 2018. |
| Non Domestic Rates (“NDR”) | NDR in Scotland is collected by local authorities on an agency basis and notionally placed in a national ‘pool’, which is then redistributed among authorities based on each authority’s estimated collection levels. In April each year, authorities submit an estimate of their expected NDR following the year end, authorities are required to submit their actual NDR yield, known as ‘the notified amount’ in a final return to the Scottish Government. | We have conducted testing in respect of the NDR return and will report our conclusions in advance of the reporting deadline of 6 October 2018. |
| Housing Benefits (“HB”) | The HB subsidy scheme is the means by which local authorities claim subsidy from the Department for Work and Pensions (“DWP”) towards the cost of paying HB in their local areas. Claimants benefits either by direct application to the authority or by applying simultaneously for income support/jobseekers allowance and HB to the DWP. Eligibility for, and the amount of, HB is determined in all cases solely by the local authority. Monthly instalments of subsidy are made by the DWP on the basis of authorities’ estimates in March and August. Final subsidy claims are made on claim form MPF720B which requires to be certified by the external auditor. | We have conducted testing in respect of the HB audit and will report our conclusions in advance of the reporting deadline of 30 November 2018. |
| Education Maintenance Allowance (“EMA”) | EMA is a means tested weekly allowance payable to young people from low income families to encourage them to remain in education beyond the compulsory school leaving age. Local authorities manage the delivery of the EMA programme in respect of schools, home education, and all other learning other than college provision. EMA payments comprise a weekly allowance of £30 and are made by local authorities to eligible young people. The Scottish Government reimburses the costs incurred by authorities through monthly payments of grant. An allowance for the costs of administering the programme is also paid by the Scottish Government. | We did not identify any exceptions in our testing and issued an unqualified opinion on the EMA return. We identified some cut-off errors in preparation of the draft return which were updated by management. |



The contacts at KPMG in connection with this report are:

Andy Shaw

Director

Tel: 0131 527 6673

andrew.shaw@kpmg.co.uk

Michael Wilkie

Senior Manager

Tel: 0141 300 5890

michael.wilkie:@kpmg.co.uk

Hilda Tsikata

Assistant Manager

Tel: 0122 441 6884

hilda.tsikata@kpmg.co.uk

Flavia Czika

Audit Assistant

Tel: 0131 527 6624

flavia.czika@kpmg.co.uk



© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

ABERDEEN CITY COUNCIL

| | |
|---------------------------|---|
| COMMITTEE | Audit, Risk and Scrutiny |
| DATE | 25 September 2018 |
| REPORT TITLE | Audit Scotland report on councils' use of arms-length organisations |
| REPORT NUMBER | GOV-18-078 |
| CHIEF OFFICER | Fraser Bell |
| REPORT AUTHOR | Iain Robertson |
| TERMS OF REFERENCE | Remit - 1.3 |

1. PURPOSE OF REPORT

- 1.1 To introduce Audit Scotland's recently published report on *Councils' use of arms-length organisations* and to outline the Council's proposed response to the report's recommendations.

2. RECOMMENDATIONS

That the Committee:-

- 2.1 Review, discuss and comment on Audit Scotland's report attached as **Appendix A**;
- 2.2 Note that there were no direct recommendations for Aberdeen City Council within Audit Scotland's report; and
- 2.3 Endorse the Council's proposed response to the report's recommendations.

3. BACKGROUND

- 3.1 On 17 May 2018, Audit Scotland published its report on *Councils' use of arm's length organisations* (attached as **Appendix A**). The purpose of the report was to review the Arms-Length External Organisation (ALEO) landscape across Scotland and make recommendations to councils on the best way to oversee ALEOs and ensure ALEOs provide best value.
- 3.2 Audit Scotland notified the Council on 6 July 2017 that it had been chosen as one of the case studies for an in-depth review of ALEOs and that the review

would focus primarily on Bon Accord Care, with a more limited desktop review of Aberdeen Heat and Power.

- 3.3 To support Audit Scotland's review, Aberdeen City Council and Bon Accord Care provided the auditors with requested documentation and facilitated an on-site visit to Aberdeen between 31 October - 1 November 2017. During this visit, the auditors met with senior representatives from the Council, the Aberdeen City Health and Social Care Partnership and Bon Accord Care. The auditors also observed an ALEO Assurance Hub meeting and held a roundtable with a Council Co-Leader, the Convener and Vice Convener of the Audit, Risk and Scrutiny Committee and Vice Chair of the Integration Joint Board.
- 3.4 Audit Scotland reported that all sample councils had appropriate governance processes for overseeing ALEOs but more effective practice included scrutiny proportionate to the risks involved, and clear roles and responsibilities for councillor and officer oversight. Audit Scotland particularly highlighted Aberdeen City Council's ALEO Assurance Hub model as an example of effective practice in the oversight of ALEOs.
- 3.5 The report made a number of recommendations for all councils to consider and provided case studies of good practice to learn from. The ALEO Assurance Hub terms of reference requires the Chief Officer Governance to carry out an annual review of the Hub's remit and functions. All relevant improvement actions within the report will be considered during this review before submission to the Audit, Risk and Scrutiny Committee on 4 December 2018. The report will also inform the Commissioning function's review of the Council's contract management arrangements.
- 3.6 With the development of the new Commissioning function, this report is also helpful in respect to recommendations on:
- (a) Preparing options appraisals, with increased public involvement;
 - (b) Monitoring ALEO performance and contractual compliance; and
 - (c) Implementing review periods to assess whether ALEOs remain the most effective way to deliver Council priorities and achieve best value.
- 3.7 The Council's response to each of Audit Scotland's recommendations has been outlined below.
- 3.8 Recommendation 1:**
In deciding whether an ALEO is the best way to provide services over the longer term, while providing value for money, councils should examine wider options that can bring similar benefits to ALEOs such as reorganising an existing service, sharing services with other councils, or involving the local community.
- 3.8.1 Responsibility for meeting this recommendation rests with the **Director of Commissioning**. This will involve reviewing the Council's strategic

commissioning priorities for ALEOs on an annual basis, and an ongoing review of ALEOs engagement and involvement in key decisions from customers and the public. By actioning this recommendation, the Council would adhere to provisions within the Community Empowerment (Scotland) Act 2015, particularly in relation to Participation Requests, which provide communities with an opportunity to design and shape local services delivered by public bodies.

The **Strategic Commissioning Committee** would be responsible for decision making in this area and assess whether ALEOs remained the most effective model for providing public services and delivering Council outcomes through its consideration of ALEO business plans and during interim contractual review periods.

3.9 Recommendation 2:

In deciding whether an ALEO is the best way to provide services over the longer term, while providing value for money, councils should demonstrate how ALEOs help the Council meet its objectives and improve outcomes for their communities.

- 3.9.1 Responsibility for meeting this recommendation will rest with the **Director of Commissioning**. This will involve the development of a high-level performance framework for ALEOs linking to the Local Outcome Improvement Plan (LOIP). This approach would allow the Council to monitor ALEO performance and whether they continued to provide best value, whilst recognising that ALEOs are independent entities with their own boards and management structures that are entitled to oversee operational matters. Building upon the work of the ALEO Assurance Hub, the Commissioning function will review its current contract management arrangements which will incorporate the high-level performance framework. This will be done in collaboration, where appropriate with the Aberdeen City Integration Joint Board which plays an important role with respect to Bon Accord Care.

The **Strategic Commissioning Committee** would review the ALEO annually and determine whether ALEOs had been meeting Council and LOIP outcomes and whether they continued to provide best value to the Council.

3.10 Recommendation 3:

In deciding whether an ALEO is the best way to provide services over the longer term, while providing value for money, councils should set clear criteria for reviewing an ALEO, considering risks, performance and how it fits with council priorities.

- 3.10.1 Responsibility for meeting this recommendation will rest with a number of teams within the Council. Firstly, the **Commissioning teams** will be required to incorporate Audit Scotland's recommendations into its ongoing review of ALEO service level agreements to ensure that Council expectations on performance and achievement of outcomes were clear within the revised contracts and that agreement could be reached on contractual interim review periods. Ongoing contract management processes will ensure performance is reviewed regularly and that there is a clear link to improving outcomes.

Secondly, it would be within the remit of the **Strategic Commissioning Committee** to annually review ALEOs and their business plans and assess ALEO compliance against contract on the delivery of outcomes and best value.

And thirdly, the **ALEO Assurance Hub** will continue to monitor ALEO management of risk, through receipt of ALEO risk registers and thereafter report its level of assurance to the **Audit, Risk and Scrutiny Committee**. The Hub's remit is due to be reviewed by the Audit, Risk and Scrutiny Committee on 4 December 2018 and this will take into account the findings of Audit Scotland.

3.11 Recommendation 4:

Councils should continue to apply the Following the Public Pound (FtPP) principles ensuring that they oversee the performance, financial position, and associated risks of ALEOs.

3.11.1 As noted above, there will an increased role for the **Strategic Commissioning Committee** in terms of reviewing ALEOs annually and their business plans.

The Council can continue to follow the public pound through:

- (1) **ALEO Assurance Hub** reporting to the **Audit, Risk and Scrutiny Committee** on the financial governance arrangements in place for ALEOs; and
- (2) The inclusion of Tier 1 ALEOs (Aberdeen Sports Village, Bon Accord Care and Sport Aberdeen) financial performance within the quarterly report to the City Growth and Resources Committee as part of the Council's Financial Performance report to provide assurance to Council and its creditors on the Council's bond issue.

3.12 Recommendation 5:

Councils should continue to apply the Following the Public Pound (FtPP) principles ensuring that they have clear reasons for appointing councillors and officers to ALEO boards, recognising the responsibilities and requirements of the role, and the risks of conflicts of interest.

3.12.1 Prior to the 2017 local government elections, the Head of Legal and Democratic Services oversaw the review of outside bodies (including ALEOs) that Members were appointed to. Following the review, the number of outside bodies that Members were appointed to was reduced. On 23 August 2017, Council agreed to continue to appoint Elected Members to fill Councillor vacancies on ALEO boards for the time being, but with a framework of safeguards built around these appointments. Additional safeguards include enhanced training to help ensure Elected Members have clarity on their responsibilities to the ALEO, conflict of interest risks and their potential liability.

3.12.2 The policy on Appointments of Elected Members to Outside Bodies will be reviewed by the **Chief Officer Governance** in light of Audit Scotland's findings and any recommendations will be brought to Council for consideration possibly in 2020 or 2021. The revised policy will provide a framework to inform a further review of member appointments to outside bodies (including ALEOs) ahead of the local government elections in 2022.

3.13 Recommendation 6:

Councils should continue to apply the Following the Public Pound (FtPP) principles ensuring that they provide training, support and advice from both the perspective of the Council and the ALEO. This should include legal responsibilities, scrutiny and oversight, and conflicts of interest.

3.13.1 The Council delivers induction training for Elected Members which includes a dedicated session on appointments to outside bodies which covers Members legal responsibilities; scrutiny and oversight; and managing conflicts of interest. **The Governance function** also delivers training sessions for Elected Members following local government elections and when there have been significant legislative changes or revisions to the Councillors Code of Conduct, to provide guidance and support for Councillors that serve on ALEO boards. The Council will explore opportunities for delivering joint training sessions with ALEOs to make the best use of resource and ensure consistent messaging through discussions at the **ALEO Strategic Partnership**. The **ALEO Assurance Hub** will continue to report regularly to the **Audit, Risk and Scrutiny Committee** on the robustness of each ALEO's Board induction and training programmes.

3.14 Recommendation 7:

Councils should continue to apply the Following the Public Pound (FtPP) principles ensuring that they have processes in place to manage any potential conflict of interest of Elected Members and officers involved in the operation of ALEOs.

3.14.1 As noted in para 3.12.1, Full Council agreed an Appointment of Elected Members to Outside Bodies Policy on 23 August 2017 which is monitored by the **Chief Officer Governance**. This policy outlined procedures and guidance for Elected Members to follow when serving as Directors or Trustees on an ALEO board. The Council does not currently have any officers serving as Board Directors on ALEOs which are under the remit of the ALEO Assurance Hub, and it is not recommended that this position change owing to the potential for conflicts of interest. Elected Members are also subject to the Councillors Code of Conduct which set standards on the relationships between Councillors and Council employees and Elected Member appointments to partner organisations.

3.15 Recommendation 8:

Councils should continue to apply the Following the Public Pound (FtPP) principles ensuring that they take an active role in managing their

relationship with ALEOs, including their compliance to service level agreements, contracts and other obligations.

3.15.1 In addition to an increased role for the **Strategic Commissioning Committee** in terms of reviewing ALEO annual performance and contribution to the LOIP as outlined in para 3.9.1, the Council has also established an **ALEO Strategic Partnership** which provides a forum for senior Council officers to meet with ALEO Managing Directors on a regular basis to discuss strategic and business planning and any existing risks and issues. This forum aims to strengthen the relationships between the Council and its ALEOs.

3.16 Recommendation 9:

Councils should continue to apply the Following the Public Pound (FtPP) principles ensuring that they make information about ALEO funding and performance clear and publicly available.

3.16.1 Meeting this recommendation will require action from both the Council and its ALEOs. With regards to the Council, the **ALEO Assurance Hub** currently records the level of annual funding the ALEOs receive from the Council on each occasion it reports to the **Audit, Risk and Scrutiny Committee** and Tier 1 ALEO financial performance is incorporated into the Council's quarterly Financial Performance report to the **City Growth and Resources Committee**. However, officers recognise that this information could be made more readily available on the Council's external website and work is ongoing to develop a dedicated ALEO page on the Council's website which will contain key governance and contact information for each ALEO. This will also help to underline the corporate relationship between the Council and its ALEOs and raise public awareness about the Council's use of ALEOs to deliver public services. The Council will also continue to explore further opportunities for enhanced transparency.

3.16.2 With regards to ALEOs, Audit Scotland's report noted that ALEOs would adhere to best practice if they clearly signposted on their websites where:

- (1) The public could enquire about facilities and services;
- (2) Submit a Freedom of Information Request; and
- (3) Lodge a complaint.

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from this report.

4.2 The role of the ALEO Assurance Hub is to ensure that ALEOs provide assurance that risks, including financial ones are identified and managed. One of the Hub's primary functions is to ensure that the Council is able to follow the public pound as outlined in Accounts Commission guidance.

5. LEGAL IMPLICATIONS

- 5.1 Audit Scotland have recommended a number of areas where councils could improve in relation to options appraisals and the preparation of business cases which will require input from Legal colleagues.

6. MANAGEMENT OF RISK

| | Risk | Low (L), Medium (M), High (H) | Mitigation |
|------------------|--|--|--|
| Financial | Financial Failure of ALEOs impacting on the Council and its bond issue. | (L) | <p>Audit Scotland's report notes that the Council has appropriate governance arrangements in place through the ALEO Assurance Framework to ensure effective oversight of ALEOs to mitigate financial risk.</p> <p>ALEOs report financial performance and governance to their boards and present their annual accounts for scrutiny by an external auditor.</p> <p>Tier 1 ALEO financial performance is incorporated into the Council's quarterly financial performance report to the City Growth and Resources Committee providing further assurance on financial performance.</p> |
| Legal | ALEO service level agreements are not up to date and ALEOs are not delivering on Council outcomes. | (L) | <p>The Legal Team within Commercial and Procurement Services are currently reviewing ALEO service level agreements to ensure they remain robust and fit for purpose.</p> <p>The Strategic Commissioning Committee will have oversight of how ALEOs are</p> |

| | | | |
|--------------------|---|-----|--|
| | | | achieving Council outcomes and complying with the terms of their service level agreements. |
| Employee | Conflicts of interest arising due to Council officers serving as Directors on ALEO boards. | (L) | The Council does not currently have any officers serving as ALEO Directors on boards that are overseen by the Assurance Hub. The Council's Appointment of Elected Members to Outside Bodies Policy will be reviewed further to consider the findings of Audit Scotland's report. |
| Customer | ALEOs are unaccountable to the public in terms of how they deliver services and spend public money. | (L) | <p>The Audit Scotland report recommends increased involvement of service users and local communities in ALEO decision making.</p> <p>ALEOs are scrutinised by the ALEO Assurance Hub which reports its level of assurance to the Audit, Risk and Scrutiny Committee.</p> <p>Tier 1 ALEO financial performance is incorporated into the Council's quarterly financial performance report to the City Growth and Resources Committee providing further assurance on financial performance.</p> <p>The Council will continue to discuss with ALEOs further opportunities to enhance transparency.</p> |
| Environment | No direct risks arising from the report's recommendations. | | |
| Technology | No direct risks arising from the report's recommendations. | | |

| | | | |
|---------------------|--|-----|--|
| Reputational | ALEO corporate governance or service delivery failure has a negative impact on the Council's reputation. | (L) | <p>The ALEO Assurance Hub provides assurance to the Audit, Risk and Scrutiny Committee on each ALEO's governance and approach towards financial management and risk management.</p> <p>Tier 1 ALEOs financial performance is incorporated into the Council's quarterly financial performance report to the City, Growth and Resources Committee providing further assurance on financial performance.</p> <p>The Strategic Commissioning Committee will have oversight of ALEO contractual compliance and delivery of outcomes.</p> <p>The Council has established an ALEO Strategic Partnership which is a six-weekly forum attended by senior Council officers and ALEO Managing Directors to discuss strategic and business planning; and manage reputational issues.</p> |
|---------------------|--|-----|--|

7. OUTCOMES

| Design Principles of Target Operating Model | |
|--|--|
| | Impact of Report |
| Governance | The Council supports the principles outlined in the Account Commission's Following the Public Pound guidance by providing oversight of ALEOs to receive assurance on the robustness of their governance arrangements and delivery of Council outcomes. |
| Partnerships and Alliances | ALEOs are key partners in the delivery of the Local Outcome Improvement Plan and particularly support |

| | |
|--|---|
| | <p>the themes of Prosperous Economy, Prosperous People and Prosperous Place.</p> <p>The Council will continue to explore where ALEOs could strengthen their alignment with the LOIP to ensure their activities deliver on outcomes.</p> |
|--|---|

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|--|
| Equality & Human Rights Impact Assessment | Sections 1,6 and 8 of the EHRIA have been completed and sent to the Equalities Team. |
| Privacy Impact Assessment | Not required |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable |

9. BACKGROUND PAPERS

CG/17/083: Appointment of Elected Members to Outside Bodies – reported to Council on 23 August 2017.

10. APPENDICES

Appendix A – Audit Scotland report on *Councils' Use of Arms-Length Organisations*.

11. REPORT AUTHOR CONTACT DETAILS

Iain Robertson
 Committee Services Officer
iairobertson@aberdeencity.gov.uk
 01224 522869

Councils' use of arm's-length organisations



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
May 2018




The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about-us/accounts-commission 

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents



| | |
|--|----|
| Key facts | 4 |
| Summary | 5 |
| Part 1. How councils use arm's-length external organisations | 9 |
| Part 2. How councils oversee ALEOs | 17 |
| Part 3: What ALEOs are achieving | 27 |
| Part 4. The future direction of ALEOs | 35 |
| Endnotes | 38 |
| Appendix 1. Audit approach | 39 |
| Appendix 2. The common forms of ALEO | 40 |
| Appendix 3. Factors for councils to consider | 41 |

Audit team

The core audit team consisted of: Carol Calder, Peter Worsdale and Derek Hoy, with support from other colleagues and under the direction of Ronnie Nicol.

Links

-  PDF download
-  Web link

Key facts



Number of ALEOs estimated in Scotland

130
ALEOs
turnover
£1.3bn

65
ALEOs
turnover
£550m

Number of charitable ALEOs. They receive an estimated relief of £45 million on non-domestic rates

4
councils

Four councils have eight or more ALEOs

3
councils
turnover
£186m

Number of councils with social care ALEOs. They employ over 5,300 FTE staff

25
councils
turnover
£430m

Number of councils with leisure and/or culture ALEOs

Summary



Key messages

- 1** Arm's-length external organisations (ALEOs) are separate organisations used by councils to deliver services. They can bring both financial and operational benefits.
- 2** Councils should consider the risks associated with ALEOs at the outset. Oversight, accountability and good management are essential. In managing ALEOs, councils should continue to apply the principles in the Following the Public Pound Code (FtPP).¹
- 3** Councils have improved and strengthened their oversight of ALEOs. They need to set clearer criteria for how councillors and officers are involved with ALEOs, and demonstrate more clearly how ALEOs secure Best Value.
- 4** Councils show improving practice in evaluating ALEOs as an option for delivering services. They could do more to involve the public and other stakeholders in the process.
- 5** Taxation advantages for registered charities have been a strong driver for councils establishing ALEOs. Following a Scottish Government review, these benefits are now less certain and some councils are exploring other options.
- 6** ALEOs have brought benefits including reduced service costs, increased uptake in sports and leisure, and improved standards of care. Councils need to better demonstrate how their use of ALEOs improves outcomes for people (by outcomes we mean the local improvements councils and their partners seek to make such as people's health and wellbeing, and a better-quality environment).
- 7** The context in which ALEOs operate is changing and cost pressures remain. Councils must have clear reasons for establishing ALEOs and consider alternatives. In doing so they should be clear on the risks involved, and work closely with local communities and businesses.

ALEOs have brought benefits but need to be managed carefully

Recommendations

We have identified the following recommendations for councils:

In deciding whether an ALEO is the best way to provide services over the longer term, while providing value for money, councils should:

- examine wider options that can bring similar benefits to ALEOs such as reorganising an existing service, sharing services with other councils, or involving the local community
- demonstrate how ALEOs help the council meet its objectives and improve outcomes for their communities
- set clear criteria for reviewing an ALEO, considering risks, performance and how it fits with council priorities.

Councils should continue to apply the Following the Public Pound (FtPP) principles ensuring that they:

- oversee the performance, financial position, and associated risks of ALEOs
- have clear reasons for appointing councillors and officers to ALEO boards, recognising the responsibilities and requirements of the role, and the risks of conflicts of interest
- provide training, support and advice from both the perspective of the council and the ALEO. This should include legal responsibilities, scrutiny and oversight, and conflicts of interest
- have processes in place to manage any potential conflict of interest of elected members and officers involved in the operation of ALEOs
- take an active role in managing their relationship with ALEOs, including their compliance to service level agreements, contracts and other obligations
- make information about ALEO funding and performance clear and publicly available.

Background

1. In local government, services can be delivered in a variety of ways. In Scotland the term arm's-length external organisation or ALEO, has come to be used where a separate body with its own legal identity is set up by a council to deliver services. Local government services are also delivered through community planning partnerships, integrated health and social care boards, valuation joint boards, and regional transport partnerships. Unlike these statutory arrangements, ALEOs can be created at the discretion of the council, within the boundaries set by local government legislation.

2. ALEO is a descriptive term for a delivery approach that can take many forms. It is not a legal definition. We describe an ALEO in [Exhibit 1](#).

Exhibit 1

What is an ALEO?



Arm's-length external organisation



An arm's-length external organisation (ALEO) is a term used to describe an organisation that is formally separate from the council but is subject to its control or influence. The level of control or influence can vary.



ALEOs can take many forms including companies, community enterprises, charitable organisations and trusts. Services they deliver include leisure, transportation, property development, and care services.



The council might own the ALEO. It might have representatives on the ALEO board. It might be the main funder or shareholder of an ALEO.



ALEOs can be set up as non-profit-making organisations and as charities to promote public benefit in areas such as health, education, recreation and equal opportunities.

Source: Audit Scotland

3. ALEOs are an established feature of local government in Scotland. Their use grew throughout the 1990s in areas such as sports and leisure and urban regeneration, and they are now used by most councils to provide a range of activities. Arm's-length organisations are also long established in England and Wales and are used in areas such as buildings management, social care, housing and children's services. Depending upon their form and functions they may be referred to as arm's-length organisations (ALEOs); local authority trading companies (LATCs); and arm's-length management operations (ALMOs).

The Accounts Commission has a continuing interest in ALEOs

4. The Accounts Commission has a strong and continued interest in how councils use ALEOs. This performance audit builds on the good governance messages of our earlier work. It also examines further the reasons councils use ALEOs, and the extent to which they are improving services and meeting their intended objectives. We will continue to examine councils' use of ALEOs in our audit work in councils.


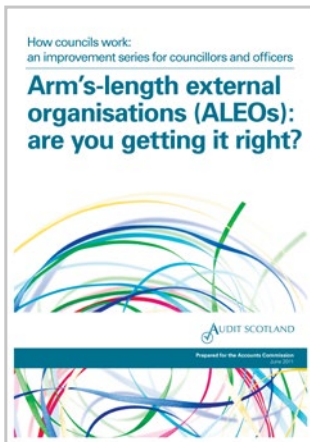
- In June 2011, the Accounts Commission published its [How councils work: Arm's-length external organisations \(ALEOs\): are you getting it right?](#) . This set out good practice and highlighted the risks and opportunities of using ALEOs ([Exhibit 2, page 8](#)). The report provided checklists and a self-assessment tool to highlight good practice for councillors and officers.

Exhibit 2

2011 How councils work ALEOs headline messages



- The Following the Public Pound principles provide the basis for sound governance
- Decisions to use ALEOs should be based on an options appraisal and sound business case
- Sound governance is needed from the outset
- Conditions attached to the use of public funds should be clear
- Clarity on roles and responsibilities is vital
- Councillors and officers require ongoing advice and training

Source: Audit Scotland

- The How councils work (HCW) report built on the principles set out in the FtPP code. This sets out how councils should manage their relationships and be accountable for ALEOs and other external bodies they are involved with. It is based on the premise that, to ensure public money is used properly, it must be possible to 'follow the public pound' across organisational boundaries.
- In March 2015, the Accounts Commission carried out follow-up work on its HCW report. This identified some improvements in councils' governance of ALEOs, and found that the standard of practice varied. The Commission wrote to all council leaders and chief executives to emphasise the need for good governance, including monitoring and reviewing the performance, costs and risks of ALEOs.

About this report

5. We have examined practice across a sample of councils to highlight messages for all councils. The audit did not focus specifically on any individual council or ALEO. We also drew on findings from our audit activity across all councils. Our audit approach is set out in [Appendix 1 \(page 39\)](#), and our audit examined the following:

- Councils' reasons for using ALEOs.
- How councils oversee and govern ALEOs.
- What ALEOs have achieved.

6. This report has four parts:

- [Part 1 \(page 9\)](#) gives an overview of ALEOs and why councils use them.
- [Part 2 \(page 17\)](#) considers councils' oversight and governance of ALEOs.
- [Part 3 \(page 27\)](#) examines what ALEOs have achieved.
- [Part 4 \(page 35\)](#) considers the future direction of ALEOs.

Part 1

How councils use arm's-length external organisations



Key messages

- 1** ALEO is not a legal definition but is a term that applies to separate organisations used by councils to deliver services. ALEOs provide many different services and can take many forms. Most councils use them to varying degrees. Around half are registered charities.
- 2** Councils need to examine a wide range of options to deliver the best outcomes for their communities. ALEOs bring the benefits of a more independent organisation, while allowing councils to retain some control or influence.
- 3** Councils show improving practice in how they plan to use ALEOs including detailed business cases. However, few have an overall policy for how they should consider options. Councils could do more to involve public and other stakeholders in the process.
- 4** Taxation advantages of charitable ALEOs have been a strong driver for their use. These are now subject to change and councils are considering other options.
- 5** ALEOs bring further benefits through their ability to trade more widely and attract new funding. They also provide a responsive and more focused operating model under the direction of a dedicated board.

tax benefits have been a driver for ALEOs but these may change

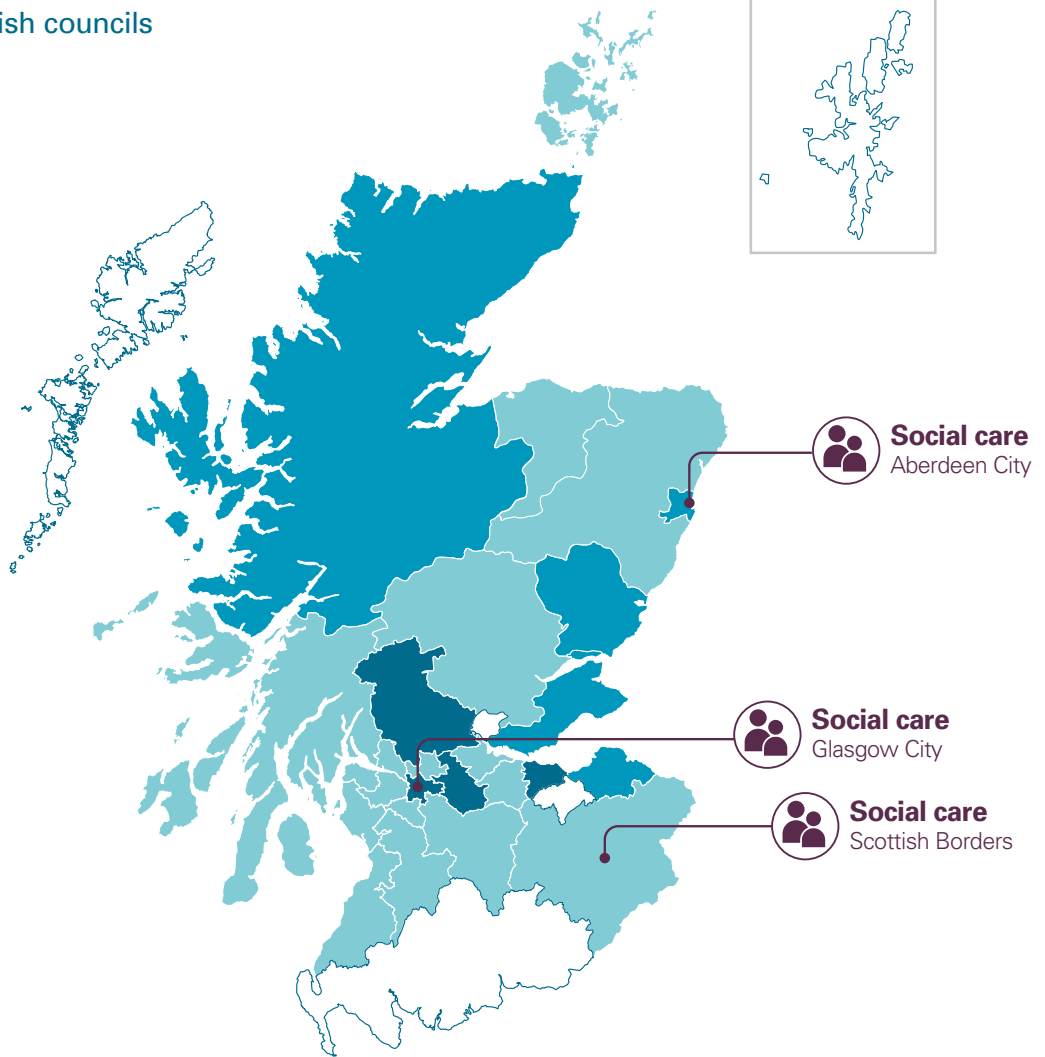
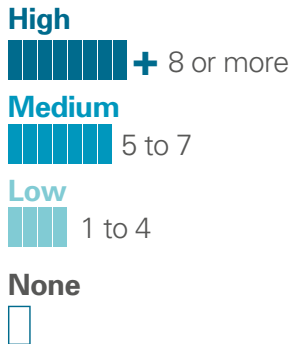
Most councils use ALEOs and their use continues to evolve

7. The range of ALEOs in Scotland is extremely diverse in size, function, and structure. Almost all Scottish councils use ALEOs to varying degrees. Larger urban councils are more likely to have a higher number of ALEOs. They are also more likely to have ALEOs that have been set up to achieve more commercial objectives, such as property development, conference facilities and marketing.

8. There are inconsistencies in how councils identify ALEOs and make information about them available. Indeed, there is little consensus even on what an ALEO is. This together with ongoing changes in their use, makes it difficult to quantify the number of ALEOs. [Exhibit 3 \(page 10\)](#) shows the use of ALEOs across councils and the functions they provide. This is based on information available to us from our 2015 follow-up work on ALEOs, councils' annual accounts, and ongoing changes we are aware of across councils, the most significant of which are summarised in [Exhibit 4 \(page 11\)](#).

Exhibit 3

ALEO use across Scottish councils

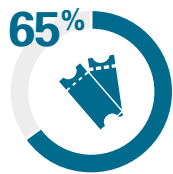


Approximate numbers of councils using ALEOs to deliver the following services:



Around 25 councils
Sport and leisure¹

Includes leisure centres, swimming pools and sports development.



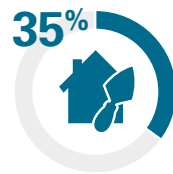
Around 20 councils
Cultural services¹

Includes museums, galleries, theatres and libraries.



Around 15 councils
Economic development and regeneration

Includes employability services, business support and physical regeneration.



Around 10 councils
Property

Includes property development, management and maintenance.



Three councils²
Social care services

Includes care homes, homecare services and day centres.

Other activities delivered through ALEOs include waste management, energy and community safety.

Notes:

- 1. Thirteen councils have joint leisure and culture ALEOs.
- 2. The three councils are Glasgow City, Aberdeen City and Scottish Borders.

Source: Audit Scotland

Exhibit 4

Recent changes with ALEOs



Recent and ongoing changes in the use of ALEOs

- The City of Edinburgh Council had consolidated its property development companies under one body – Edinburgh Development Initiative (EDI). It is now disbanding EDI to bring its property functions back into the council.
- Glasgow City Council has entered into a joint venture with the Wheatley Group to share ownership of its property maintenance ALEO, City Building.
- Glasgow City Council has wound up its city marketing ALEO and transferred its functions to its leisure and culture ALEO, Glasgow Life. It is bringing its social care and facilities management ALEO, Cordia, and its community safety ALEO back into the council.
- Some councils including Dundee and Scottish Borders have merged cultural and leisure services into a single ALEO.
- Some smaller ALEOs have been wound up, and their functions transferred to larger ALEOs, eg Dundee Ice Arena was transferred to Leisure and Culture Dundee.
- Some ALEOs are set up for a limited duration. For example, Steadfast Homes LLP is a partnership between Stirling Council and Scottish Futures Trust to provide mid-market rent properties, anticipated to operate for up to ten years.

Source: Audit Scotland

9. The diversity of financial arrangements across ALEOs makes it difficult to give a meaningful financial overview of them. In 2015, we estimated that spending through ALEOs was over £1.3 billion, with ALEOs accounting for around a quarter of the total spending for Glasgow City Council, their largest user.

ALEOs can be set up in many ways and take different legal forms

10. ALEOs are legally separate bodies from the council and can take different forms ([Appendix 2, page 40](#)) There are many possible variations within these, for example charities can operate trading subsidiaries such as a café in a museum or leisure centre.

11. Most ALEOs across our sample group of councils take the form of limited companies or limited liability partnerships and are wholly owned by the council. This means that the council is the ultimate decision-maker, with powers to wind up the ALEO or to determine board membership. It also sets the ALEO's objectives and powers. In the case of joint venture companies, third parties can also hold a stake in the ALEO, an example being property joint ventures with the council and private sector as partners.

12. We estimate that around half of ALEOs are registered charities. The majority of these provide leisure and cultural services, other examples include urban regeneration and tourism. ALEOs that have charitable status are regulated by the Office of the Scottish Charity Regulator (OSCR).² Charities must have a defined charitable purpose, for example in the areas of health, education, recreation or equal opportunities. Charities are non-profit making and are required to reinvest any surpluses to further their activities. The trustees of charitable ALEOs have duties over and above those of the directors of non-charitable ALEOs.

Councils' reasons for using ALEOs

13. We examined councils' reasons for using ALEOs, including the effectiveness of their use of options appraisal and business cases to reach decisions. The statutory duty of Best Value, within the Local Government in Scotland Act 2003 (LGISA), requires councils to secure the best options for providing services to their communities. It requires them to demonstrate continuous improvement and deliver good-quality services at reasonable cost. The legislation aims to remove barriers to innovation, but put in place safeguards that make councils accountable for how they use public money.³ The main options open to councils include:

- reorganising the way the council itself provides services
- 'outsourcing' or contracting services to private providers or the third sector such as voluntary groups and charities
- entering into partnerships with other councils or providers
- establishing 'arm's-length' bodies to deliver services
- any combination or hybrid of the above.

14. Implementing an ALEO or any other new delivery option is a complex and expensive process. It involves thoroughly appraising the options available and a sound business case. Councils must consider many detailed operational, legal, financial and commercial factors, and the risks involved. Set-up costs can be several hundred thousand pounds, and the time from the initial appraisal through to implementation can be more than a year. It follows that councils must proceed with caution when pursuing any new approach.

15. We found that councils have consistent reasons for using ALEOs. Generally, where councils provide services themselves they see direct control as an advantage. Contracting services to the private sector can save money, but reduces a council's control and influence. Councils see ALEOs as a good compromise between these two options. Though not without risk, the council can retain a degree of control or influence, and the ALEO can bring the benefits of a separate and more independent organisation. Business cases we examined identified these potential benefits of ALEOs:

- Taxation benefits of a charitable organisation including relief on non-domestic rates.
- Ability to generate income from additional services, and attract new income from funding, donations, sponsorship or loans.
- Strong service or commercial focus as a smaller more independent organisation under the direction of a dedicated board.
- Ability to involve public stakeholders in the management and direction of their services.
- Ability to foster a positive working relationship with an ALEO as a 'trusted partner'.

16. Councils saw the dedicated board of an ALEO as a strength. These can involve community and industry representatives and bring wider experience and new opportunities.

Business case assumptions may change over time

17. Many councils had established charitable ALEOs such as those for leisure and culture to benefit from relief on non-domestic rates (NDR). Some business cases we examined identified this as a way for councils to meet their savings targets without having to cut services. Business cases identify NDR relief as a specific benefit provided that the ALEO meets the requirements for charitable status. While NDR relief can bring benefits locally, it offers no net financial gain to the public sector.

18. The ALEO model is also seen to bring a more commercial focus to generate income and attract new funding. In the case of charities, their charitable status is also seen as a safeguard against an overly commercial approach. Another unique benefit of charities is their ability to attract specific funding and donations.

19. In 2017, the Barclay Review into non-domestic rates brought the availability of NDR relief into question ([Exhibit 5](#)). It estimated that overall, charitable council ALEOs save £45 million annually through relief on NDR. Had the recommendation been accepted by the Scottish Government, the impact on the viability of leisure and other charitable ALEOs would have been significant. As things now stand, the policy changes make charitable ALEOs a less attractive option for councils. We are aware of at least one council that is reconsidering its proposal to form a culture and leisure ALEO following this development.

Exhibit 5

The Barclay Review



The Barclay Review

was set up in 2017 to examine and recommend reforms to the business rates system in Scotland.

One of the Barclay Review recommendations was to end the rates relief offered to ALEOs as this was seen to be an unfair advantage in a competitive market. In its response to the review, the Scottish Government announced in November 2017 that rates relief will remain in place for qualifying facilities already operated by councils. However it indicated it would offset any further charity relief benefit for future ALEO expansion by councils, for example by limiting their grant funding.

Source: Audit Scotland

20. Councils can make a stronger business case where the benefits are clearly linked to improved outcomes for citizens and communities. That is, the choice is not based on a narrow financial advantage that may be subject to change.

21. The more recent business cases we examined do consider a wide range of financial and operational factors. Financial considerations, of NDR relief and the treatment of VAT were the most prominent features in the earlier business cases we looked at.

22. Business case assumptions may change and need to be reconsidered during the design and set-up of an ALEO. We found more effective practice where councils identified risks, and re-evaluated business case assumptions before taking a final decision.

Councils are improving how they plan for and appraise ALEOs

23. Our sample group of councils have significant experience in contracting, options appraisal and implementing change. The options appraisal and business cases we examined were comprehensive and detailed. Councils use external consultancy expertise in more complex legal and financial matters. They also draw on evidence from similar organisations that have been set up elsewhere. [Exhibit 6](#) summarises good practice we identified and highlights areas where councils could improve.

Exhibit 6

Options appraisal and business case

Effective practice



- Clearly specifying service quality, financial, operational, accountability and other factors, on which to base decisions.
- Objective process to evaluate factors for example using scoring.
- Using external expertise for more technical, legal, financial, and other operational matters.
- Including all set-up and implementation costs in the appraisal.
- Using a third party expert to verify the process and assumptions.
- Revisiting assumptions throughout the process.
- Incorporating risk management from the outset through to implementation.

Where things can improve



- Setting clear corporate guidelines for how options are to be considered.
- Being clear why the council identified its chosen range of options, and which options it may have excluded.
- Involving the public and interested communities, such as local businesses.
- Assessing the impact on local interested communities.
- Including contingency planning at the outset.

24. Councillors must provide strategic direction and understand the range of options the council is considering. Options appraisals should clearly set out the alternatives along with their respective benefits and risks. This is important as part of open and transparent decision-making and public scrutiny. We saw evidence of improving practice in this area. More recent options appraisals presented councillors with a good level of information across a range of options including contracting with private sector, or using community enterprises. However, we also found options appraisals that considered only a narrower set of options, and did not explain why options such as outsourcing had not been included.

25. Councils should also consider the risks of various options, and be clear what happens if an ALEO fails to meet its objectives. Such contingency planning should be considered at the outset. We found that while business cases tended to consider these factors in some detail, there was less evidence of contingency planning featuring at the initial options appraisal stages.

Few councils have guidelines for making service delivery choices

26. Most of our sample councils undertook options appraisals on a case-by-case basis. Few have guidelines in place to set out the council's overall approach, for example the trigger points for reviewing a service and the criteria to apply when looking at options.

27. The Highland Council has introduced its redesign review process to examine delivery options across all services. This aims to strengthen councillors' and officers' understanding of options, including ALEOs, as part of all service reviews. North Lanarkshire Council has introduced an ongoing review process to cover all its significant ALEOs over a three-year cycle. These reviews consider how the ALEO contributes to the council's priorities and offers value for money.

28. One council from our sample had expressed 'a presumption of in-house provision unless there are service performance issues' within one of its organisational change programmes. This contrasts with another council that had expressed the presumption of 'using third sector parties or ALEOs where services can be delivered safely, more cost effectively and efficiently.'

29. What is important is that councils can demonstrate that any policy position enables them to secure Best Value. This means making an objective assessment of cost, quality and other service benefits. Otherwise there is a risk the council will miss the best options to sustain or improve a service.

Councils could do more to involve communities in their choice of options

30. Councils could do more to involve local communities and businesses in their choice of options. Giving communities more say in their services is an area of growing national interest and the Community Empowerment (Scotland) Act 2015 brings new duties to public bodies. This is an area where councils are developing their practice.

31. We saw limited evidence of public opinion shaping options appraisals. The choice of option is treated mainly as a technical issue, but we would expect councils to show how they have considered the views of the public. This could include their expectations over service quality and the standard of facilities. Such dialogue can also make councils aware of options they may not have otherwise considered. [Part 4 \(page 35\)](#) of this report considers this topic further.

Some benefits may not be unique to the ALEO model itself

32. Some of the benefits associated with ALEOs may not be unique to the ALEO model itself. Councils should explore all options and understand the associated risks and alternatives. Ultimately, good management and staff commitment are key factors for success. [Appendix 3 \(page 41\)](#) outlines some of the benefits associated with ALEOs, along with alternative points to bear in mind. This provides a context for [Part 3 \(page 27\)](#) of this report which examines evidence of what ALEOs are achieving.

Part 2

How councils oversee ALEOs



Key messages

- 1** Oversight, accountability and good management are essential to deliver effective public services however councils choose to deliver them. Councils should continue to apply the principles in our Following the Public Pound Code (FtPP).
- 2** Councils have improved and strengthened their oversight of ALEOs. This includes clear roles, scrutiny that is proportionate to risk, and officers taking a stronger liaison role with ALEOs.
- 3** Councils should put in place more formal processes to demonstrate that their use of an ALEO provides Best Value. They should take steps to be more transparent about their use of ALEOs.
- 4** Councils need to set clearer criteria for councillor or officer involvement with ALEOs. These should consider the associated risks and how conflicts of interest should be dealt with. Alternative arrangements can be made to reduce the risks of conflicts of interest.
- 5** Where councils appoint representatives to ALEO boards, they should foremost consider the skills, background and experience required of the role. Training and development is important both from the perspective of the council and the ALEO.

councils have strengthened their oversight of ALEOs, but they are not without risk

Councils must apply the Following the Public Pound Code

33. Councils are ultimately accountable for how they spend public money, including the services they commission through ALEOs. This means having clear oversight and appropriate governance arrangements in place. The Following the Public Pound Code sets out the principles for how councils should do this ([Exhibit 7, page 18](#)). The Code states that having council representatives on a board as trustees or directors does not in itself achieve effective governance. Regardless of any representation on boards, councils should monitor ALEOs and insist on regular reporting from them.

Exhibit 7

Following the Public Pound



Following the Public Pound principles and ALEOs

The principles of openness, integrity and accountability apply to councils in their decisions on spending public money. These apply equally to funds or other resources which are transferred to ALEOs.

The Code sets out six principles that require councils to:

- have a clear purpose in funding an ALEO
- set out a suitable financial regime
- monitor the ALEO's financial and service performance
- carefully consider representation on the ALEO board
- establish limits to involvement in the ALEO
- maintain audit access to support accountability.

Source: Following the Public Pound Code

34. An ALEO board needs to act independently to decide how it meets its objectives including its obligations to the council. For a registered charity this means acting in the interest of the charity and promoting charitable purpose. In practice the FtPP principles require a range of measures to be in place:

- Governance documents setting out the ALEO objectives and powers, along with contractual or service agreements between the ALEO and the council.
- Ongoing performance, financial and contract monitoring; and periodic review of the ALEO's business plans and objectives by the council.
- Assurance from internal audit over the council's governance and control processes for ALEOs. ALEOs may also have their own audit or finance subcommittees.

Councils have better oversight of ALEOs, but issues can still occur

35. Councils need to understand how well ALEOs are performing, and be aware of risks and difficulties that may arise. All our sample councils had appropriate governance processes for overseeing ALEOs. More effective practice included scrutiny proportionate to the risks involved, and clear roles and responsibilities for councillor and officer oversight ([Exhibit 8, page 19](#)).

Exhibit 8

Improving practice in governance

Councils have developed governance frameworks to achieve a more proportionate level of scrutiny for ALEOs



Glasgow City Council's framework for councillor and officer oversight

Glasgow has a diverse portfolio of ALEOs. Its governance framework for ALEOs differentiates between democratic, strategic, and operational scrutiny as follows:

- Political decision-making and scrutiny: councillors oversee ALEOs through the Operational Performance and Delivery Scrutiny Committee and the Finance and Audit Scrutiny Committee.
- Strategic oversight and scrutiny: a Governance Management Group of senior officers meets with ALEO representatives on a six-monthly basis to review and discuss their financial and operational performance, business plans, and issues arising.
- There is regular liaison and monitoring between the council and ALEOs over operational issues: corporate teams within the council help to maintain the relationship between ALEOs and their client departments in the council.



Aberdeen City Council's ALEOs Assurance Hub

Aberdeen introduced a new ALEOs Assurance Hub in 2017. This draws on expertise from CIPFA and the Good Governance Institute. The Assurance Hub has a clear focus on risk management, financial management and governance.

- The council has split its ALEOs into tiers based on the level of funding they receive and the level of control the council has over them. The Hub assesses the level of oversight required for individual ALEOs and reports to the council's Audit Risk and Scrutiny Committee.
- Service directorates and committees are responsible for monitoring performance and contractual compliance.
- An ALEO Strategic Partnership Group provides advice and support to the council's ALEOs including strategic planning and resource sharing. The group comprises ALEO chief executives, and council finance, legal, and procurement officers.



North Lanarkshire Council's dedicated ALEOs committee

North Lanarkshire Council introduced a dedicated ALEOs and External Organisations Monitoring Committee in 2016. It meets in public and considers the financial management, performance, risks and governance of ALEOs.

- The frequency of ALEO monitoring reports to the committee is proportionate to risk and ranges from quarterly to annually. More detailed performance information is scrutinised by the relevant council service committee.
- Client officer roles are being reviewed, and a Monitoring Officer Working Group established to bring about consistency of approach across all areas of ALEO service delivery.

Source: Audit Scotland

36. Councils must oversee and manage many factors and be aware of the risks associated with ALEOs. Despite evidence of improving governance, we are aware of governance or operational issues that have arisen:

- Glasgow City Council's employability ALEO faced financial pressures in 2015/16 resulting from it having been required to repay European funding. As a result, it reduced its activities significantly and shed 150 posts through voluntary severance. The body has since restructured.
- East Lothian Council and the Lothians Racing Syndicate Ltd (LRS) jointly commissioned an independent governance review to evaluate the structure, composition and constitution of the Musselburgh Joint Racing Committee, and operational matters relating to the conduct of business at the racecourse. This identified options which are being considered by the council in consultation with the LRS.
- The creation of a subsidiary in 2011 by the council's ALEO, North Lanarkshire Leisure, had not been reported to a council committee. Also, the need for, and circumstances surrounding the setting up of, the company was not approved by, or reported to, the ALEO Board. There have since been a number of changes within the ALEO and North Lanarkshire Council has significantly strengthened its approach to the governance of ALEOs.
- In Stirling Council, a tender evaluation carried out in February 2017 following an options appraisal for the provision of sports and leisure services recommended the award of the contract to an external company. However, councillors decided that neither of the two bids submitted as part of the extensive tender process met the best value criteria and, as a result, the contract award was rejected. The council is now pursuing an alternative option involving reconstituting its existing sports and leisure ALEO.

Councils must have clear reasons for their appointments to ALEO boards

37. It is up to councils to decide on the most appropriate governance arrangements. They must consider very carefully the question of council representation on the ALEO board. The main consideration is what skills or experience are required of the board and who is best placed to meet these. Where councillors or officers take such positions, they should be clear about the responsibilities and requirements of the role.

38. There are risks of conflicts of interest where councillors or council officers take board positions. The Accounts Commission has highlighted that such conflicts can become starker if an ALEO encounters difficulties. The Companies Act and Charities and Trustee Investment (Scotland) Act require board members or trustees to act in the best interests of the company or trust on which they serve, and to put these interests first ([Exhibit 9, page 21](#)). But there may be times where this requirement may conflict with councillor or officer duties in the council. This can be a difficult balance where council representatives may be privy to certain information, but are prohibited from sharing or acting on it because of their role. As a small council with fewer councillors, Stirling Council told us that it can be much more difficult to manage potential conflicts.

Exhibit 9

Duties within companies and charities law



Companies Act requirements for directors include:

- act within powers
- promote the success of the company
- exercise independent judgement
- exercise reasonable care, skill and diligence
- avoid conflicts of interest
- not accept benefits from third parties
- declare any interest in a proposed transaction or arrangement.

Charities and Trustee Investment (Scotland) Act requirements for trustees include:

- act in a manner consistent with the charity's purpose
- act with the care and diligence expected of someone managing another person's affairs
- put the interest of the charity before those of any person or organisation who appoints trustees where there is a conflict of interest, or withdraw from the decision-making involved.

Source: The Companies Act (2006); Charities and Trustee Investment (Scotland) Act 2005

39. The Councillors' Code of Conduct sets out principles that councillors must follow where they take a role on outside bodies including ALEOs.⁴ The Standards Commission's Advice Note for Councillors on ALEOs provides supplementary guidance to help clarify this area of the Code. This sets out the practice required of councillors who are also board members or trustees:⁵

- Councillors who are also ALEO board members can participate in council committees, but they must declare interests.
- The Code prohibits councillors from taking 'quasi-judicial' decisions in the council that may affect any ALEO they are involved with, for example planning or licensing decisions.
- It is considered good practice for councillors not to participate in scrutiny or funding decisions within the council that may affect the ALEO they are involved with.

40. There is an ongoing debate about the advantages and disadvantages of using councillors as board members. Councillors bring their experience as elected community representatives and their knowledge of the council and its services; however, there are potential conflicts of interest between their roles on the council and the ALEO. [Exhibit 10](#) outlines some of the main advantages and disadvantages identified by our sample group of councils.

Exhibit 10

Pros and cons of councillors or officers acting as trustees or directors

Potential advantages of council nominees as board directors or trustees



- Can improve the relationship between the ALEO and the council.
- Can bring an insight into the council and its objectives and the broader community.
- Council representatives can gain valuable first-hand experience of service issues and different sectors.

Potential disadvantages of council nominees as board directors or trustees



- Can bring additional demands to their already diverse role.
- Representatives may lack the background, skills or understanding required of the role.
- Risk of conflict of interest between their role on the ALEO and their role on the council.
- Negative impact on council decision-making where councillors withdraw from committees owing to conflicts of interest.
- Exposure to legal risks and personal liability.
- Risk to continuity if councillors lose their position if not re-elected.

Source: Audit Scotland

41. We found a range of practice for councillors and officers taking trustee and director roles across our sample group:

- Across most of our sample councils, councillors and officers can take board positions on ALEOs. However, it is becoming less common to involve officers, and in Stirling and Edinburgh, for example, council officers no longer take director positions.
- Practice varied in social care ALEOs. Councillors and council officers are appointed as board directors in Glasgow's Cordia; this contrasts with the care ALEOs in Aberdeen City and Scottish Borders where councillors are not appointed as directors. In the Scottish Borders, councillors oversee the care ALEO through a dedicated Strategic Governance Group.
- OSCR recommends that the majority of trustees in a charitable ALEO should be independent of the council; we observed this to be the case across our sample group.

42. Officers and councillors holding director positions felt they could balance their dual roles, and saw this as very much part of their job. We are not aware of any significant breaches to the Councillors Code of Conduct regarding councillors' involvement with ALEOs. Our audit work in councils has emphasised the need for clear roles and responsibilities in relation to ALEOs to risk of conflicts of interest arising.

43. The City of Edinburgh Council highlighted a previous situation where an officer had been in a difficult position concerning the sale of assets from an ALEO back to the council. As an ALEO director, his aim was to achieve the best price for the company; but as the council's chief financial officer he had a duty to achieve value for money for the council. Council officer posts are no longer nominated as directors of that company.

44. We found that few councils have policies or guidelines setting out how councillors or officers should be involved with ALEOs. Stirling Council has guidelines that aim to focus councillors on their strategic role of providing direction, oversight and challenge over ALEOs. The policy restricts councillors from participating as directors on more commercial ALEOs, but allows them to be involved if the ALEO has a clear community benefit purpose that is in line with the council's objectives. [Case study 1](#) illustrates how the council applied these guidelines in the case of a joint venture company.

Case study 1



Board representation on a joint venture (JV)

The council recognised that the board of a property development JV had an imbalance of expertise: it comprised councillors and a council officer, and property professionals from the council's private sector partner. In a governance review, the council replaced the councillors and officer with independent experts with knowledge of the commercial property market. This was to reduce the risk of conflicts of interest and to improve the knowledge and experience of the board for the benefit of both the council and its JV partner.

Source: Audit Scotland

Councils should consider other approaches to limit conflicts of interest

45. Some councils have chosen not to use council representatives as board members because of the risk of conflicts of interests. Having council nominees on boards was seen to blur the relationship between the council and the ALEO. It also brings personal liabilities to those taking such roles. Councils can achieve a much clearer separation by using secondments to ALEOs.

46. Councils need to put safeguards in place where they decide to involve a council representative in a decision-making position on an ALEO. These include procedures for dealing with conflicts of interest, making training and advice available, and personal liability insurance to protect board members in their role. Employment contracts can also be used to specify an officer's responsibilities if a conflict of interest arises, however we did not hear of this being used in practice.

47. Council representatives can take a monitoring and liaison role as an alternative to taking a board position. This allows them to oversee and advise the ALEO without taking a decision-making role on the ALEO. Most of our sample group of councils had strengthened the role of such officers to give them greater seniority and influence. Their role involves managing the relationship between the council and the ALEO, and monitoring the performance of the ALEO and its compliance with its contracts or service agreements with the council. Fife Council explained how the expertise and close involvement of its officers helps it to understand local opportunities and encourage the ALEO to improve its performance.

Council appointments to ALEOs should be driven by the requirements of the role

48. We found that councillor appointments to ALEO boards tended to reflect the political balance of the council. This differs from the approach taken by ALEOs for their other board members. These appointments tend to be made through an appointments committee based on the skills, experience and other criteria required of the role. Councils should ensure that they consider the skills or background required of the role. More effective practice in this area included The City of Edinburgh Council where officers provide political groups with guidance on making appointments.

Councils and ALEOs should provide training and support to board members

49. It is important that board members have the necessary training to perform their role effectively and understand what is required of them. Councillors we spoke to recognise that training is important from both the perspective of the council and the ALEO. All the councils we spoke to provide training, for example as part of the induction for new councillors, and more bespoke training in relation to their roles on ALEOs. In Glasgow, training is mandatory for elected members appointed to ALEO boards. OSCR provides guidance on the role of charity trustees.⁶

50. We saw good examples of training for board members, reflecting the growing maturity of councils' experience in this area. Our HCW report on roles and working relationships highlights both training and appropriate behaviours as essential to good governance.⁷ It urges councils to provide councillors with training in the essential areas of scrutiny, audit, and financial decision-making. Indeed, some councillors we spoke to felt that in the case of ALEOs, training should also cover company accounts. More effective practice is described in [Exhibit 11 \(page 25\)](#).

Councils need to provide a systematic test of Best Value

51. It is possible under certain conditions for councils to procure services directly from a third party such as an ALEO without a competitive public procurement exercise.⁸ Generally, this requires the relationship between the council and the ALEO to be the same as that between the council and one of its own directorates. The ALEO must also provide most of its core activities on behalf of the council. Councils must also continue to observe procurement and competition law as part of any changes in their relationship with ALEOs, be it through contract renewal, or changes or diversification in the ALEO's activities.

Exhibit 11

Training and development for ALEOs



Provided by the council

- ✔ The council specifies advice and any necessary training for all councillors and officers who are decision-makers, advisers or observers of an external body.
- ✔ Training explores conflict scenarios, companies and charities law, and the Councillors' Code of Conduct.
- ✔ Training involves external expertise.
- ✔ All councillors are trained in essential aspects of their role in relation to scrutiny, audit and finance.



Provided by the ALEO

- ✔ Induction workshops for all board members.
- ✔ Directors' manual setting out the ALEO's aims, and the activities, responsibilities and duties of directors or trustees.
- ✔ Development programme for board directors including corporate governance standards.
- ✔ Appraising board members, and publishing their attendance record.
- ✔ Specialist training in companies and charities law.

Source: Audit Scotland

52. Councils should be able to demonstrate that their contracts or service agreements with an ALEO offer Best Value. Councils tend to do this by assessing the annual performance of the ALEO, along with its annual report and business plan. There is scope for some councils to put stronger arrangements in place for the interim review of contract performance. For example, one council we spoke to had introduced clearer performance objectives and formal review points in its contract with a joint venture ALEO. In another example, a council had revised its service agreement with a leisure trust to set out its social benefit objectives more clearly.

Councils should take steps to make ALEOs more accountable

53. Services provided directly by councils are often seen as more accountable than services contracted with external providers such as ALEOs. Councillors direct and oversee council-provided services through council committees. Where services are delivered by ALEOs this relationship becomes less direct. The council will oversee the contract or service agreement with the ALEO, but will have less day-to-day influence over the service.

54. ALEOs bring a different kind of accountability. They are, foremost, accountable to their own boards. These can include wider stakeholders including business leaders, community and service users, and employee and trade union representatives. This can allow for a more 'user-driven' form of governance, as opposed to the more representative role that councillors take on a council committee.

55. Some councillors we spoke to felt that the council relationship with ALEOs was different from relationships with a fully outsourced service. As trusted partners they felt they could contact ALEO managers for information, and call ALEO management to committee to present evidence.

56. Making information publicly available is another important aspect of accountability. Measures we identified that can improve transparency include the following:

- ALEO websites making annual reports, board minutes, and governance documents publicly available.
- ALEOs proactively publishing as much information as possible, for example covering the categories of information identified in the Model Publication Scheme.⁹
- ALEOs acting in accordance with the Freedom of Information Act that applies to councils, by responding promptly to information requests, providing information where possible and explaining why information cannot be provided.
- ALEOs adopting customer feedback and complaints-handling standards such as the Scottish Public Services Ombudsman (SPSO) guidelines.

57. Most of the leisure ALEOs across our sample group gave useful service and pricing information. However, not all included performance or user satisfaction information or minutes of board meetings. This is an area that councils should improve and specify in their service agreements with ALEOs. We found that:

- all the ALEOs included information on pricing and concessions
- all included information on Freedom of Information
- most had clear information on how to make complaints or suggestions
- only around half made board minutes available
- only around half made annual and performance reports available.

58. A council's annual accounts are a further source of public information. The governance and financial relationship between a council and its ALEOs can be complex. The Code of Practice on Local Authority Accounting encourages councils to 'tell the story' of their activities and financial performance during the year. This should cover not only the council itself, but also other third parties it is involved with, including ALEOs where they are significant to a council in terms of their risks or their financial implications.

59. The extent to which councils provided a clear commentary on their use of ALEOs varied significantly, with some councils providing only limited information. More effective practice is for councils to give a fuller overview of the ALEOs they are involved with. This could include their purpose, the extent of council ownership if any, and the financial contribution to and from the council. Most of the accounts we reviewed did not provide this level of detail. Glasgow and Fife councils had more effective practice and provided a clearer breakdown of their interests with useful supporting commentary.

Part 3

What ALEOs are achieving



Key messages

- 1** ALEOs are diverse in their range and the services they offer. Councils have used ALEOs to sustain existing services and offer additional services through reducing costs and generating income. However, financial and market pressures remain that can impact on their performance.
- 2** ALEOs have reduced the costs of sports and leisure services to councils through taxation benefits, new funding, and increased participation. Social care ALEOs have improved their care standards and reduced the costs of these services to councils. Financial pressures remain and not all social care ALEOs are achieving their financial targets. Performance in other areas such as property development has been more mixed.
- 3** We found many good examples of ALEOs providing innovation and benefit to communities. Councils need to better demonstrate how their use of ALEOs contributes to the council's priorities and improves outcomes for people.

ALEOs have brought benefits but cost pressures remain

60. The diversity of services provided by ALEOs and their individual circumstances makes it almost impossible to draw clear patterns of performance that apply in all cases. We have examined how ALEOs have contributed to improving services across a sample of ALEO services. This includes sports and leisure services where most councils use ALEOs; and social care, a service that vulnerable people and their families rely on. Our sample also includes examples from more commercial ALEOs.

61. We have based our assessment on the following sources of information:

- The Local Government Benchmarking Framework (LGBF) performance information for leisure services that applies across all Scottish councils. We have extracted data specifically for councils that operate sports and leisure ALEOs.
- Financial returns made by ALEOs to OSCR to identify broad sources of income.
- Care Inspectorate assessments to identify the quality of care for care homes, day centres and homecare services in relation to the three social care ALEOs.
- ALEO performance information and examples from across our sample councils. These include areas of service quality, efficiencies and financial performance.

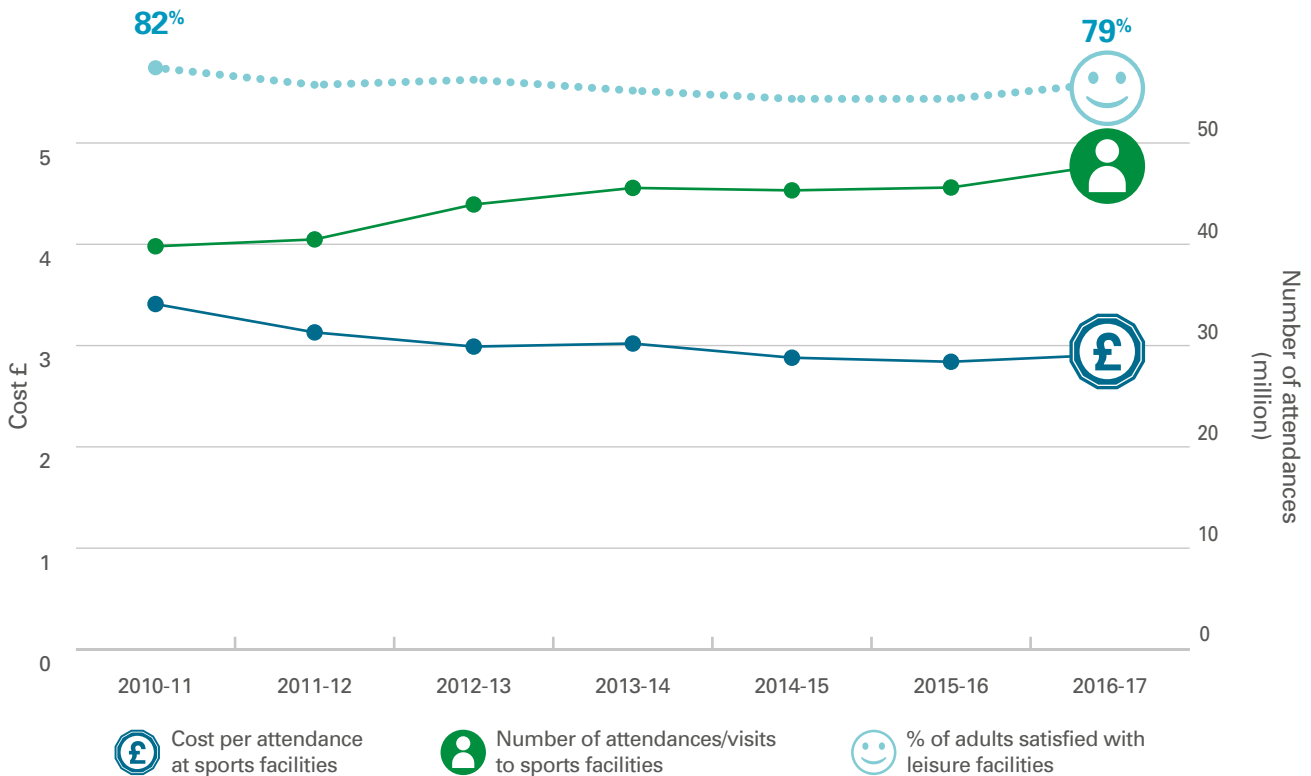
Sports and leisure ALEOs have increased uptake and reduced costs

62. In Scotland over three-quarters of councils provide sports and leisure services through an ALEO. Sports and leisure services aim to encourage sports development, physical activity and wellbeing. These are provided through facilities including sports centres, swimming pools, and outdoor sports facilities. We estimate the total turnover of leisure and culture trusts to be approximately £430 million in 2016/17. Glasgow Life is a joint leisure and culture ALEO and operates on a significantly larger scale than other ALEOS in the sector, with total turnover of around £127 million.

63. Exhibit 12 shows LGBF indicators for how the 25 ALEOs that provide sports and leisure services across Scotland have performed. This shows that from 2010/11 to 2016/17 the cost per visit to leisure facilities has fallen, while service uptake has increased. Public perceptions of the service show a slight decline:

- Net costs per visit have decreased from £3.41 to £2.91.
- Visits (per year) to sports facilities increased from 39.8 million to 47.9 million, although uptake has declined in recent years in some council areas.
- Satisfaction with sports facilities fell from around 82 per cent to 79 per cent.¹⁰

Exhibit 12 The performance of sports and leisure ALEOs



Source: Local Government Benchmarking Framework 2016/17

64. This equates to a reduction in net costs of around 15 per cent, and an increase in service uptake by 20 per cent. The trend in these broad indicators was less marked for the seven councils that directly provide sports and leisure services without using ALEOs. Here there has been a reduction in costs of nine per cent, and an increase in uptake of ten per cent; user satisfaction is lower at 66 per cent and has declined by two per cent. These councils tend to be smaller or more rural councils.

Financial benefits have been a major reason for establishing leisure ALEOs

65. Financial benefits have been a major reason for setting up charitable leisure ALEOs. This includes both taxation through NDR relief and VAT, and additional income through service uptake and new funding. We estimate that leisure and culture ALEOs generate around £61 million annually through donations, grants, fund-raising, investments, and other commercial activity.¹¹ This is equivalent to around 14 per cent of their overall income. Below are some examples of how ALEOs have reduced the costs of providing leisure services to councils include:

- The Glasgow City Council's service fee for Glasgow Life at £73 million is equivalent to around 57 per cent of the ALEO income in 2016/17, compared to around 71 per cent of income in 2008 (£69 million service fee).
- Leisure and Culture Dundee has made a cumulative saving of £15 million (2011 to 2017) allowing it to remove a £3.5 million funding gap and invest £1.2 million. Income generated by the ALEO now exceeds the funding paid by the council.
- High Life Highland has realised a saving of £9.1 million in its first five years of operation; with rates and VAT savings making up around 56 per cent of the savings, and the remainder being achieved through income and efficiencies.
- From 2008–16, Fife Council saw a 50 per cent reduction in costs, and a 50 per cent increase in service uptake for sports and leisure. The annual costs to the council fell by over £3 million, from 60 per cent of turnover to only 20 per cent.

66. Fife Council's capital investment programme has contributed to its improved performance. The council works in partnership with Fife Sports and Leisure Trust to plan and project manage this programme. This has led to £18 million of investment being targeted across sports centres and swimming pools, including easy-access changing rooms. The programme aims to ensure the investment continues to deliver financial benefits by increasing revenue as well as benefiting communities.

Councils need to improve how they measure the outcomes achieved by ALEOs

67. Measuring the impact services have on improving health, wellbeing and other outcomes is an area where the public sector is still developing its practice. It is difficult to identify the contribution of ALEOs to wider outcomes. We have therefore limited our assessment in this area to more qualitative examples of how ALEOs contribute to their social or community benefit aims.

68. As charities, ALEOs have a charitable purpose in areas such as participation in sport, health and wellbeing and encouraging volunteering. Most of our sample group of leisure or culture ALEOs were also involved in their local community planning partnership, either through subgroups or as an additional or non-statutory partner. High Life Highland (HLH) has participated as a member of the Highland Community Planning Partnership since 2015, helping to find new opportunities, for example through partnership working with the NHS. We found many good examples of ALEO initiatives to meet their wider social or community benefit aims:

- Edinburgh Leisure worked alongside a GP practice in Leith to set up referrals to a physical activity programme run by the local swimming pool, targeted at men over 50 at risk of heart disease, stroke and diabetes.
- Linking leisure and wellbeing: High Life Highland working in partnership with NHS provides physiotherapy and rehabilitation services from community leisure facilities. HLH has encouraged participation of teenage girls in exercise through its dance programme, training 300 students to lead weekly sessions involving almost 2,600 participants.
- Fife Sports and Leisure Trust introduced summer free swimming and 'Quid a Kid', an initiative which enables juniors to play racket sports for just £1.
- Leisure and Culture Dundee secured private sector sponsorship for their Park Lives outdoor activities initiative.

69. Like councils and other providers, ALEOs operate concessionary schemes. These include low-cost leisure access schemes and activities for groups such as children or older people. Some councils saw ALEOs as helping to sustain services, such as affordable swimming for school-age children, that may otherwise not be provided.

70. The ALEO model has brought benefits but challenges remain. Financial constraints are impacting on the ability of councils to fund ALEOs. In the culture sector, for example, reduced council funding has led to library closures in some communities. One leisure ALEO from our sample group was also consulting the public over the impact of reduced funding from the council. Other councils indicated that they may need to limit their funding to areas of most need. Factors we have noted that can impact on ALEOs include:

- uncertainty over future taxation and NDR benefits
- impact of reduced funding from councils on the ability of ALEOs to generate income
- need for investment in leisure facilities and their ongoing maintaining costs
- increasing competition for what are limited charitable funding opportunities.

Social care ALEOs have improved standards of care; cost pressures remain

71. The Public Bodies (Joint Working) (Scotland) Act 2014 introduced a significant programme of reform. This aims to bring health and social care services closer together, with Integration Joint Boards (IJBs) being introduced to plan and commission services in their areas. Our audit focused on the contribution of the ALEO model itself to social care services. We did not look at the wider partnership context of IJBs. Our performance audit, *Health and social care integration: Part 2*¹² will examine progress in this major reform programme including strategic planning and governance.

72. Three councils now deliver adult social care services through an ALEO. Services include older people's care, rehabilitation, and enablement to help people regain abilities they may have lost through poor health or disability:

- **Glasgow:** Cordia LLP, established 2008, about 4,000 full-time equivalent (FTE) staff.
- **Aberdeen:** Bon Accord Care Ltd, (BAC), established 2013, about 800 FTE staff.
- **Scottish Borders:** SB Cares LLP, (SBC), established 2015, about 500 FTE staff.

73. Cordia combines facilities management and catering services, along with Cordia Cares, its social care arm. Glasgow City Council has decided to bring the activities provided through Cordia back into the council. Aberdeen City and Scottish Borders councils both operate similar models for their social care ALEOs. These aim to sustain the level and quality of care services service through:

- achieving greater efficiency and flexibility through a more commercial management approach under a specialist board
- generating income through providing additional services.

74. The business cases for social care ALEOs identified potential new sources of income including providing care services as part of self-directed support (SDS), offering accredited training, and supplying aids and equipment. SDS allows clients more choice over their care services and providers, including the option to manage their own care budget.

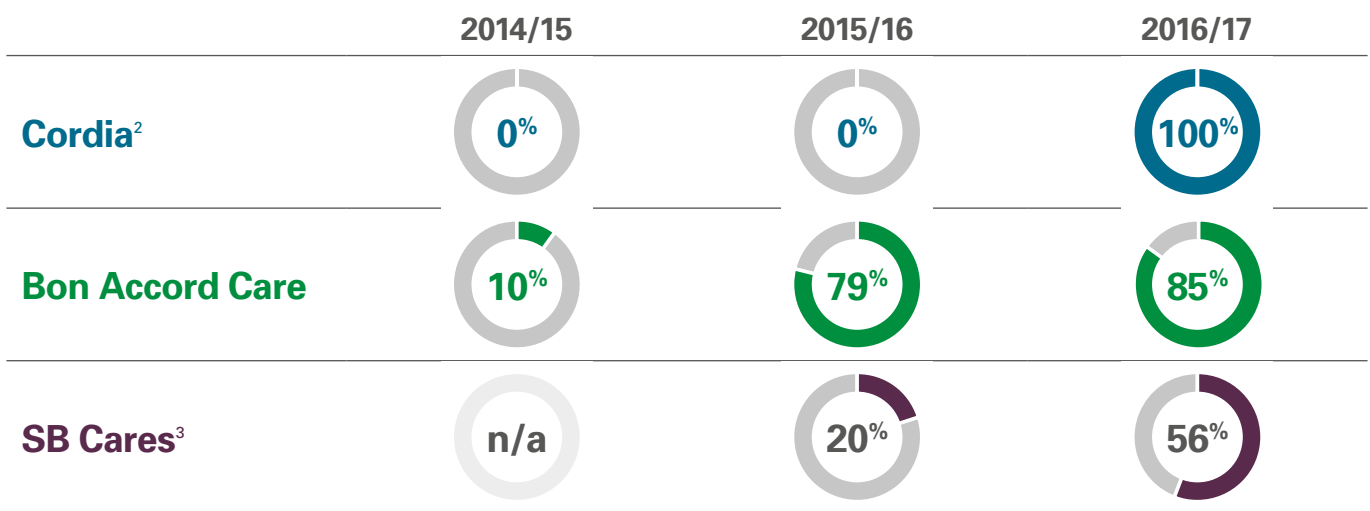
75. The councils' contracts with social care ALEOs allow for a financial contribution from the ALEO, with the ALEO setting out to achieve this through efficiencies and income generation. BAC and SBC are performing inline with their anticipated budgets. Cordia has not realised its planned contribution in recent years. This is mainly because savings from the council's transformation programme have taken longer to deliver than anticipated.

76. The social care ALEOs have increased income by offering additional services, but this is a small proportion of their total income. Social care ALEOs have not yet realised the anticipated levels of additional income from SDS.

77. The social care ALEOs have upheld and improved the quality of the services they provide. **Exhibit 13** gives an overview of Care Inspectorate (CI) grading assessments for services delivered by social care ALEOs in areas including care at home, residential care and day centres.¹³ The table summarises overall movements in the proportions of these gradings rated as good or better over the three-year period from 2014/15 to 2016/17. There has been an improving trend across the three social care ALEOs. Within this, the improvement in care at home, and care home services, is consistent with, or better than, the trend across Scotland.

Exhibit 13

Percentage of ALEO services graded as good or better across all four inspection themes.¹



Notes:

1. The CI grades registered services on four themes: Care and Support; Environment; Staffing; Management and Leadership.
2. Cordia has multiple services grouped into three area-based inspections.
3. SB Cares had no registered services until 2015/16.

Source: Care Inspectorate Datastore

78. The Scottish Health and Care Experience Survey measures user satisfaction for the parent council for the percentage of adults who:

- receive any care or support who rate it as excellent or good.
- are supported at home who agree that their services and support had an impact in improving or maintaining their quality of life.

79. The data is currently only available over two years (2014/15 and 2015/16). It shows that satisfaction levels at around 80 per cent are broadly comparable between councils that use care ALEOs and other councils.

80. We also found examples of innovative and responsive working practices across the social care ALEOs:

- Cordia worked in partnership with Glasgow City Council’s education service to develop a new food policy for Glasgow schools encouraging pupils to avoid local fast food outlets.

- BAC's enablement service has trained 187 care staff to encourage greater independence among older people and reduced demand for planned care.
- SB Cares and BAC each stepped in at short notice to take on clients from independent care providers that had failed to deliver the services required of them by the partnership.
- BAC reduced its agency staff hours by 35 per cent in 2015/16 by operating an internal staff pool arrangement to allow its staff to provide cover at short notice.

81. Councils we spoke to said they see a role for social care ALEOs to help regulate a market where low profit margins can impact on the service and its staff. They saw a role for ALEOs to stimulate the market to help meet future demands. By offering accredited training ALEOs were also seen to help uphold service quality and develop employees.

82. The ALEO operating model aims to use the workforce more flexibly to develop the services they offer. This can lead to employee terms and conditions being negotiated that differ from those of the council. We found that ALEOs do put assurances in place, for example over payment of the living wage, adopting council terms and conditions and allowing employees to access local government pension schemes.

83. It is important, however, that councils continue to oversee staffing issues, including how ALEOs comply with equal opportunities and good employment practice. They should also understand how future funding pressures may impact on the workforce. Even where services are provided through an ALEO, the council can be ultimately accountable for the treatment of staff. For example, it was ruled by a Scottish court that the employees of Cordia could compare their pay packages with employees of Glasgow City Council for the purposes of equal pay claims.

84. Healthcare Improvement Scotland (HIS) and The Care Inspectorate (CI) carry out joint inspections across Scottish local authorities of older people's health and social care services. Some recent reports have highlighted concerns over service quality, leadership and governance as some health and social care partnerships adapt to the ongoing changes in how health and social care is provided.

85. The role of social care ALEOs in the context of integrated care services is continuing to evolve. Health and social care partnerships, along with their service providers, must continue to adapt and innovate. And, as we said in our report on social work services, financial and demand pressures remain a major issue.¹⁴

Other more commercial ALEO activities

86. It is difficult to comment generally on the effectiveness of the diverse range of commercial activities that ALEOs provide. We have seen both successes and areas that have not met their objectives across our sample.

87. Councils have used more commercial arrangements, including ALEOs and joint ventures for property development and buildings maintenance activities. The downturn in the commercial property market around 2012 has reduced opportunities for property development activity. Councils across our sample group have responded to these market pressures in different ways.

88. Stirling Council is reviewing its current joint venture ALEO to bring some development sites back within the council's control and align them more closely with its City Regions Deal programme. The ALEO will focus on other more commercial development opportunities. The City of Edinburgh Council has decided to wind up Edinburgh Development Initiative, its property development ALEO, and bring its activities in-house to be closer to the council's planning and development functions.

89. Examples of the activities and contribution from what is a diverse range of other commercial ALEOs are set out below. These include both financial benefits and contributions towards council and partner priorities:

- Glasgow City Building took on 70 new apprentices in 2016/17 and employs 324 apprentices in total with over 90 per cent completing their apprenticeship. Almost three-quarters of their expenditure goes to Glasgow-based small to medium enterprises. Around 100 school pupils benefited from work experience opportunities.
- Energy and waste ALEOs in Aberdeen and Fife have reduced fuel poverty for council housing residents, with Fife Resource Solutions ALEO generating renewable power equivalent to the demands of 1,250 households.

90. Business planning is an important feature of ALEOs for them to meet their objectives and contractual obligations. ALEOs need to be commercially viable in the longer term. As an example of longer-term planning, Fife Council and its waste ALEO are working together to deliver a long-term residual waste treatment solution for post-2020. This is a critical project for both parties since landfilling municipal solid waste will be prohibited from 1 January 2021.

Part 4

The future direction of ALEOs



Key messages

- 1** Councils value ALEOs as an option to help them to sustain services and innovate. Their use of ALEOs continues to change and evolve: ALEOs are being merged, disbanded, or created in new areas such as affordable energy. There is only limited use of ALEOs to deliver shared services between councils.
- 2** Some councils are exploring alternatives to ALEOs following the Scottish Government's announcement that it would limit non-domestic rates relief for any new council charitable ALEOs. In doing so, councils should work closely with local communities and businesses.
- 3** Councils need to ensure ALEOs are sustainable in the longer term. At a time of financial constraints, market uncertainty and policy reform it is even more important that councils have clear reasons for establishing new ALEOs. They should continue to review how existing ALEOs are performing and how they fit with council and communities' priorities.

**councils
must keep
ALEOs under
review and
consider
alternatives**

ALEOs remain an important option for councils

91. Councils see arm's-length bodies as an important option that gives them room to manoeuvre in what are challenging times for local government. ALEOs can help to sustain services and bring innovation, but financial and demand pressures remain.

92. However, ALEOs are falling out of favour with some councils. Glasgow City Council has decided to bring both Cordia and its community safety ALEO back in-house. This has resulted from the council's ongoing transformation programme across all activities, and its response to wider legislative changes in community planning, community empowerment, and the integration of health and social care.

Councils are exploring new ways to realise the benefits of ALEOs


93. Any decision to continue or discontinue with an ALEO must be objective and consistent with the requirements of Best Value. It should focus on outcomes not the method of delivering the service. We have emphasised that good management is a key factor for success, whatever way services are delivered.

94. The context within which any ALEO operates can and will change with time. The Barclay Review of non-domestic rates is already changing how councils think about different options. Aberdeenshire Council has found that its grant funding

would be reduced to offset NDR relief awarded, and so its proposal to create a culture and leisure ALEO is no longer viable. It is now looking at other ways to realise some of the benefits of the ALEO model to bring:

- closer involvement from businesses and communities
- innovation and faster decision-making to realise commercial or service opportunities
- expertise in service-specific areas such as marketing.

95. Possible alternatives include enhancing existing council services by creating a separate business unit, or alternatively using a different form of social enterprise to generate and reinvest income.

96. This example highlights that councils need to continue to work closely with businesses and local communities as they develop options. [Community Empowerment \(Scotland\) Act 2015](#)  brings a much stronger impetus for communities to play a stronger part in delivering services. Indeed, councils' experience with ALEOs brings lessons that could be applied to organisations that are more closely linked to communities, for example to:

- include community, business and service user representatives on boards
- protect assets by keeping them within public ownership
- allow limited liability protection for representatives taking director roles.

97. We found that some more recent options appraisals have considered community enterprises. We also saw examples where councils are involving communities more closely. Fife Council purchased a disused military site and leased it at nominal cost to a community organisation for use as a football venue. The arrangement enables community activity to take place and is self-sufficient with no revenue cost to the council. The council has also used planning contributions paid by developers to build a community sports hub. In another example, High Life Highland ALEO took a positive role in supporting community-run organisations that were facing financial difficulties.

98. Councils have also used the ALEO model to innovate and offer new services. As an example, Aberdeen City Council's Aberdeen Heat & Power ALEO has provided district heating schemes since 2002. The council is considering creating a new Energy Services Company (ESCO) to provide a wider range of energy services across Aberdeen as a whole.¹⁵

There is limited use of ALEOs to achieve shared benefits between councils

99. Councils have made limited progress in working together to provide services jointly, and we saw limited evidence of ALEOs being used in this way. Lothian Buses is the most significant example we identified ([Case study 2, page 37](#)). Others include: Dundee Energy Recycling Limited which provides service on behalf of both Dundee and Angus councils; Cordia's social care equipment service trades with neighbouring councils; and Stirling and Falkirk jointly own an ALEO that provides Geographical Information Services (GIS).

Case study 2

Lothian Buses Limited



Lothian Buses Limited is the largest municipal bus company in the UK. It carries about 120 million passengers per year, and contributes to wider transport objectives to deliver a healthy, inclusive, safe transport system.

It is owned 91 per cent by City of Edinburgh Council; and East Lothian, Mid Lothian and West Lothian councils own the remainder. Transport for Edinburgh is the holding company for Lothian Buses Limited and Edinburgh Trams Limited.

The company operates in the main a low fare, high passenger volume inclusive fares policy with a single flat fare across much of the network. As in the rest of Scotland, senior citizens travel free through a concessionary policy operated and funded by the Scottish Government.

Lothian Buses operates about 700 buses and has a vehicle replacement programme that procures vehicles that minimise emissions including hybrid and all electric vehicles. All buses are low floor and wheel chair accessible.

The company is profitable and makes a dividend payment to its constituent councils. For Edinburgh, the principle shareholder, annual dividends have risen from around £2 million in 2010 to over £6 million in 2017. The council has no restrictions on its use of the dividends; they are currently being used in part to fund the infrastructure costs of the Edinburgh Trams Project.

Source: Audit Scotland





Councils will need to consider the benefits and risks as ALEOs evolve

100. Financial constraints may reduce the funding councils provide to ALEOs. ALEO representatives have argued that funding cuts can be double edged as they reduce their ability to generate income and achieve the benefits that setting up an ALEO was meant to make possible.

101. We have seen examples of ALEOs merging to bring related services together and save costs. Mergers between leisure and culture ALEOs are an example. As ALEOs evolve and adapt, councils will need to carefully consider their viability including their ability to operate more independently. There is also a risk that 'super-ALEOs' become so large they lose the focus and flexibility that is seen to be one of their success factors. It is important that councils keep ALEOs under review and consider alternatives where they no longer meet their intended objectives.

Endnotes



- 1 [Code of guidance on funding external bodies and following the public pound](#) , Accounts Commission and Convention of Scottish Local Authorities (CoSLA), 1996. In 2005, the Code was given statutory backing in the form of a Ministerial Direction under s51(1) and (2) of the Local Government (Scotland) Act 2003 which required every local authority to comply with the FtPP Code when entering into any arrangement or agreement with a body corporate or implementing such an arrangement.
- 2 OSCR's 2015 report *Arm's-Length External Organisations* lists the charitable ALEOs identified at that time.
- 3 The LGiSA 2003, and the provisions around Best Value, Community Planning, and the power to advance wellbeing.
- 4 *The Councillors' Code of Conduct*, Scottish Government, 2010. The Standards Commission publishes guidance for councillors on how to interpret the provisions within the Code of Conduct.
- 5 *Advice for Councillors on Arm's-Length External Organisations*, The Standards Commission, September 2016.
- 6 www.oscr.org.uk/guidance-and-forms/guidance-and-good-practice-for-charity-trustees 
- 7 [How councils work: Roles and working relationships in councils: are you still getting it right?](#) , Accounts Commission, November 2016.
- 8 Under what is known as the Teckal Exemption, codified in regulation 12 of the Public Contracts Regulations (PCR) 2015.
- 9 *Model Publication Scheme*, produced and approved by the Scottish Information Commissioner on 31 May 2017.
- 10 Scottish Household Survey data.
- 11 Financial returns submitted by charitable ALEOs to OSCR.
- 12 *Health and social care integration: Part 2*. To be published autumn 2018 on behalf of the Auditor General and the Accounts Commission.
- 13 Care Inspectorate (CI) grading assessments for registered services: care homes; support services; and housing support services (from The Care Inspectorate Datastore). The CI grades registered services on four themes: Care and Support; Environment; Staffing; Management and Leadership.
- 14 [Social work in Scotland](#) , Accounts Commission, September 2016.
- 15 The Scottish Government Scottish Futures Trust identifies Energy Services Companies (ESCOs) as a model for district heating schemes and other initiatives.

Appendix 1

Audit approach



Our audit work included a sample group of nine councils that make significant use of ALEOs, covering both urban and rural areas. We included the three councils that currently operate social care ALEOs.

Sample councils and ALEOs of interest

| | | |
|---|---|---|
| <p>Aberdeen</p> <ul style="list-style-type: none"> Bon Accord, delivers social care Aberdeen Heat & Power | <p>The City of Edinburgh Council</p> <ul style="list-style-type: none"> Edinburgh Leisure CEC Holdings, a range of property companies | <p>Dundee City Council</p> <ul style="list-style-type: none"> Leisure and Culture Dundee Dundee Energy Recycling Ltd |
| <p>Fife Council</p> <ul style="list-style-type: none"> Fife Sports & Leisure Trust Fife Resource Solutions (waste management) Fife Cultural Trust | <p>Glasgow City Council</p> <ul style="list-style-type: none"> Cordia (social care) Glasgow Life (leisure and culture) Jobs and Business Glasgow City Building | <p>The Highland Council</p> <ul style="list-style-type: none"> High Life Highland (leisure and culture) Beinn Tharsuinn Windfarm Community Limited |
| <p>North Lanarkshire Council</p> <ul style="list-style-type: none"> Culture North Lanarkshire North Lanarkshire Leisure Ltd Mears Scotland LLP (property) | <p>Scottish Borders Council</p> <ul style="list-style-type: none"> SB Cares Borders Sport and Leisure Trust | <p>Stirling Council</p> <ul style="list-style-type: none"> Active Stirling Ltd (sports and leisure) Stirling Development Agency Ltd |

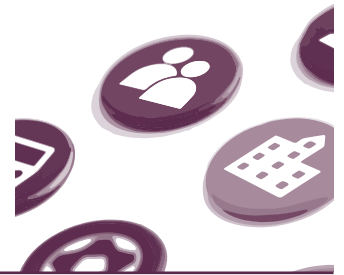
The audit work comprised document review, research and interviews with representatives from the sample group. These included officers, ALEO representatives and focus groups with elected members. Much of our on-site and research work was undertaken in late 2017.

We looked at a cross-section of ALEOs from this sample group. We did not look at:







- housing associations
- public-private partnerships, private finance initiatives or other financial partnerships
- councils' funding of the numerous smaller-scale activities delivered through the third sector and other external parties
- trading operations within councils or other partnership arrangements.

Appendix 2

The common forms of ALEO



Key features

| | | |
|---|---|---|
|  | Limited company | Can be a company limited by shares (CLS) or guarantee (CLG). The 'articles of association' set out the rules for decisions, ownership and control between the company and its 'members' who formed the company (typically the council). |
|  | Limited Liability Partnerships (LLP) | As with a company, it is a separate legal identity that offers limited liability to its members. Governed by a partnership agreement, it offers greater flexibility than a company over internal arrangements, eg for taking decisions and the treatment of profits. |
|  | Scottish Charitable Incorporated Organisation (SCIO) | A bespoke legal form for registered Scottish charities that has been available since 2011. SCIOs need only register with the Office of the Scottish Charity Regulator (OSCR). Limited companies can also be charities but must register with both OSCR and Companies House. |
|  | Community Interest Company (CIC) | A form of company (limited either by shares or by guarantee) created as a 'social enterprise' to use its profits and assets to benefit the community. Related forms are community benefit societies (CBS) and cooperative societies that serve the interests of their members. |
|  | Joint Venture (JV) | A general term for a commercial venture between partners, typically the council and the private sector. Can take different forms, eg CLS, LLP. Public-private partnerships, and private finance initiatives are also forms of JV partnerships. |
|  | Trust | A body governed by 'trustees' through a trust deed. Unlike companies, they are not registered with a regulatory body and do not offer limited liability. |

Appendix 3

Factors for councils to consider



Business case assumption

Factors for councils to consider

ALEOs bring financial benefits through tax advantages, commercial trading and new funding opportunities



ALEOs bring financial benefits through NDR relief, new funding and wider commercial trading.

Charitable status encourages donations and volunteering.

The ALEO model safeguards against contract over-pricing as any surpluses can be retained in the public sector.

However, points to bear in mind:

There are uncertainties about whether new sources of income will continue over the longer term. For example:

- Taxation benefits, eg NDR and VAT are subject to change.
- Future income is affected by market forces.
- Grants and new funding tend to be one-off, time limited or project specific; and there is increasing competition for them.

ALEOs bring strong identity, focus and responsiveness



Direction through an ALEO board can be more immediate and responsive than through a larger council body that has competing demands for attention. An ALEO's defined purpose, separate identity, and contractual obligations give a clear focus on performance. ALEO boards bring greater diversity and specialist expertise; ALEOs can compete to attract workforce talent.

However, points to bear in mind:

Councils can achieve similar benefits when ALEOs are not involved:

- Councils can create a service identity and focus, for example through setting up separate business units with a distinct brand.
- Councils already attract external expertise, eg through partnership working, and joint boards or committees.
- Outsourcing can also bring expertise and specialisms to the benefit of the service.

ALEOs can bring workforce flexibility and efficiencies




ALEOs have brought new and improved practice in areas of workforce deployment. They have negotiated more flexible employment terms, for example to extend opening hours; and make use of casual staff and volunteers.

However, points to bear in mind:

- The best performing councils also demonstrate good workforce management and practice. These features are not unique to ALEOs.
- Planned changes in an ALEO may be limited by expectations over workforce terms and conditions.
- Financial pressures in an ALEO may impact on its ability to uphold terms and conditions including access to pensions.
- If an ALEO is brought back into the council any differences in terms will need to be harmonised.

Councils' use of arm's-length organisations

This report is available in PDF and RTF formats, along with a podcast summary at: www.audit-scotland.gov.uk 

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk 

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk 
www.audit-scotland.gov.uk 

ISBN 978 1 911494 54 6

This publication is printed on 100% recycled, uncoated paper



ABERDEEN CITY COUNCIL

| | |
|---------------------------|---|
| COMMITTEE | Audit, Risk and Scrutiny |
| DATE | 25 th September |
| REPORT TITLE | Accounts Commission – Local Government in Scotland: Challenges and Performance 2018 |
| REPORT NUMBER | GOV/018/077 |
| CHIEF OFFICER | Fraser Bell |
| REPORT AUTHOR | Fraser Bell |
| TERMS OF REFERENCE | 1.3 |

1. PURPOSE OF REPORT

To provide assurance to the Committee on actions being taken or proposed to be taken to respond to the recommendations from the Accounts Commission in their report “Local Government in Scotland: Challenges and Performance 2018

2. RECOMMENDATION(S)

That the Committee:-

- 2.1 notes the report from the Accounts Commission; and
- 2.2 notes the responses from officers against the recommendations in the report.

3. BACKGROUND

- 3.1 In April 2018 the Accounts Commission published their overview report “Local Government in Scotland, Challenges and Performance 2018”. This second overview report follows on from “Local Government in Scotland: Financial overview 2016/17” and provides a high level view of:
 - 1. The challenges facing Councils in Scotland
 - 2. How Councils are responding to these challenges; and
 - 3. How service performance has been affected.
- 3.2 The report also provides a scrutiny tool for elected members to understand their own Council’s position, scrutinise performance, and assist in making difficult decisions.
- 3.3 Key messages from the report are set out below:

Key messages

1. Local government in Scotland continues to operate in a complex and changing environment that involves increasing levels of uncertainty. While details of the terms for the UK's withdrawal from the European Union are not yet clear, there will likely be significant and profound implications for our 32 councils. Meanwhile, the Scottish Government remains committed to a significant pace of public sector reform, with some major changes for local government at key stages of implementation. These events are taking place in the overall context of substantial reductions in public spending alongside increasing demand for many local public services.
2. Developing new ways of working – or transformational change – is now an essential part of the agenda for councils as they respond to these challenges. Delivering savings is becoming increasingly critical, with forecast funding gaps higher than current levels of reserves for some councils. Where councils have properly scoped, resourced and managed their transformational work, they are more likely to successfully deliver sustainable service change. Cohesive, decisive leadership is required that brings officers, councillors and their communities together to address the major challenges councils face.
3. Councils are engaging with the increasingly difficult task of managing the competing priorities of reducing costs and maintaining services for an ageing population. Under current arrangements, some councils can expect to see government funding fall further than others as their total population declines while their older population grows and demand for key services, such as social care, increases. Councils are also implementing significant policy and legislative changes, some of which increase expectations on, or the duties of, councils and many will have additional resource implications. The detail of what these changes will mean is not yet clear in some cases.
4. Councils have done a considerable amount to manage the impact of continued budget reductions, and national indicators suggest they have maintained or improved performance in a number of areas. However, there is also evidence that budget cuts are having an impact on services, and customer satisfaction levels have fallen. Some services are not keeping up with demand and there is a risk that quality is being affected. Smaller services, which often include important regulatory functions, have borne the brunt of funding reductions although the impact of this on these services is not always made clear. In making difficult choices, councils need to continue to work with communities to understand the impact of reduced spending on services and communities and to clearly report this to the public.

“Local Government in Scotland: Challenges and Performance 2018”, Pages 6-7

- 3.4 As set out in the Appendix, the Council is currently well placed to respond to the findings of the Accounts Commission. In August 2017, the Council approved a target operating model (TOM) for implementation by 2021. The TOM seeks to address the drivers for change, including legislative change and a reduction in funding, and at the same time improve the staff experience and deliver better outcomes for our customers. The implementation of the TOM will continue to progress as part of the Council's transformation programme.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The report presents actions which are planned or already underway to respond to the Accounts Commission recommendations. This provides assurance to the Committee that the challenges to the Council, and associated risks, are being effectively managed.

7. OUTCOMES

- 7.1 The Council's organisational outcomes are set out within the Local Outcome Improvement Plan. As part of the next stages of transformation, a number of projects are in preparation which will deliver the Target Operating Model, which in turn will ensure that these outcomes are met. There is detail on some of these projects in the officer responses appended.

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|-------------------------|
| Equality & Human Rights Impact Assessment | Full EHRIA not required |
| Privacy Impact Assessment | Not required |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable |

9. BACKGROUND PAPERS

Accounts Commission - Local Government in Scotland – Challenges and Performance 2018

<http://www.audit-scotland.gov.uk/report/local-government-in-scotland-challenges-and-performance-2018>

10. APPENDICES

Appendix – Recommendations and Chief Officer Responses

11. REPORT AUTHOR CONTACT DETAILS

Fraser Bell

Chief Officer - Governance

Email: frbell@aberdeencity.gov.uk

Tel: 01224 522084

Accounts Commission: Local Government in Scotland – Challenges and Performance 2018

| Councils should ensure they are continuously improving their work in key areas by: | Officer Response: |
|--|---|
| <p>1. Looking to the future:</p> <ul style="list-style-type: none"> — continuing to improve understanding on how the landscape within which their council operates may change, by considering its demographics, the public spending environment and policy changes — using this information to inform council priorities — developing long-term financial and scenario planning that takes these factors into account and considers the impact on all their services and their users — considering how to make the most of new technology, for example streamlining processes and communicating differently with service users | <p>The Council has led the development of a “Population Needs Assessment” for the City. It is intended to present this to the Strategic Commissioning Committee in September, 2018. It will be continually updated and analysed to inform and drive planning.</p> <p>Our Digital Strategy will ensure that we redesign services through a customer centric approach, using current and emergent technologies. This is supported and enabled by a council-wide strategic approach to the management of data, including the sourcing of both quantitative and qualitative data, master data management, information governance and the development of data and analytical skills.</p> <p>The Council monitors the policy and legislative agenda corporately. The Accounting Team use this process as a horizon scanning tool to identify new government guidance and consultations that may have financial implications. The Treasury Management Strategy, long term financial plans and credit rating information are updated on an annual basis and incorporate the latest information from the medium term financial plan, capital programme and all relevant forecasts and assumptions. Through links between Finance Partners / Accountants and Clusters, there is ongoing dialogue about future policy change impacting services and changes in external factors impacting budgets and forecasts.</p> |

| Councils should ensure they are continuously improving their work in key areas by: | Officer Response: |
|---|---|
| <p>2. Working with communities - so that they are actively involved in decision making, know the effect decisions are expected to have on services and communities and see the impact of community empowerment</p> | <p>A Civic Engagement project is looking at how the Council engages with communities, identifying communities and their interests – as well as gaps that the Council needs to be aware of either thematically or geographically. It is anticipated that this will provide the following outcomes:</p> <ul style="list-style-type: none"> ▪ Active participation in Council decision making and an improved, sustained conversation between the Council and citizens of Aberdeen on the direction and governance of the City. ▪ Establish a culture of citizen coproduction and collaboration which is shared across CPA and partner organisations ▪ Citizens and communities feel respected and valued. ▪ Develop a shared responsibility for decisions and implementation of these decisions. <p>The Democracy Team arranges webcasts meetings of Council and major public hearings of planning applications; as an example, there were over 7,000 viewings of the meeting which considered the application by Aberdeen Football Club for a new stadium, and 4,000 viewings of the pre-determination hearings. The public may also submit petitions to committees with different criteria for young people and adults, as well as deputation requests to address meetings of Council, committees and sub committees to present their own or community views when decisions are being taken.</p> <p>Community Councils exist in most areas of the city and the Council has recently completed its triennial review of the Scheme of Community Councils, which involved full consultation on a number of issues including boundaries, in advance of the forthcoming elections. The Community Council</p> |

| Councils should ensure they are continuously improving their work in key areas by: | Officer Response: |
|--|---|
| | Liaison Officer provides support on a daily basis to allow Community Councils to fulfill their roles and responsibilities to their communities. |
| <p>3. Focusing on the delivery of priority outcomes through:</p> <ul style="list-style-type: none"> — working with communities to understand their needs — establishing effective cross-party relationships to work together and make the sometimes difficult decisions needed to achieve the Council’s priorities — clearly linking budgets to plans and outcomes. | <p>The Target Operating Model (TOM) will introduce a Commissioning Cycle by 2021. The Commissioning Cycle when fully implemented will:</p> <ul style="list-style-type: none"> • identify the needs of Aberdeen’s population which public bodies in Aberdeen must address; • identify and plan how to address the gaps between what is currently provided and the needs of the population; • commission activities against Local Outcome Improvement Plan (LOIP) outcomes to address the gaps; and • monitor the impact of activities and the extent to which they have achieved the purpose and outcomes intended. <p>The Commissioning Cycle will therefore drive the use of the available budget against LOIP outcomes through evidenced based planning. What this means from the budgeting perspective is:</p> <ul style="list-style-type: none"> • Identification of transformation programmes and projects that align to and will promote delivery of strategic priorities. • Development of the transformation programme and specific objectives and options records for relevance to strategic planning priorities. • Decision makers consider the budget with reference to the strategic plans and are directed to the links in budget reports. • Monitoring of performance and delivery is in the context of strategic priorities. |

| Councils should ensure they are continuously improving their work in key areas by: | Officer Response: |
|--|--|
| | <ul style="list-style-type: none"> • Prioritisation methods used in decision making refer to strategic priorities. <p>Officers are developing a Strategy and Policy Framework. The Framework will ensure that all future strategies and policies are connected to each other and reflect the organisation’s planned approach to the commissioning of activities to deliver LOIP outcomes.</p> <p>Officers are also developing proposals looking at empowering and supporting communities through the development of wider Locality Plans, through the escalation of Participatory Budgeting at a local level to ensure the Fairer Scotland Duty target of 1% is available through PB exercise, and in preparing communities for this work (referred to above). This includes a target to allocate 0.5% of Council revenue funding through Participatory Budgeting exercises by April 2019; 0.75% the following year, and 1% by March 2021. Anticipated outcomes include:</p> <ul style="list-style-type: none"> • Allocation of 1% of budgets to Participatory Budgeting by 2021 • Improved perception of engagement and involvement in service design and delivery year on year • Increased use of digital platforms to deliver Participatory Budgeting • Cashable benefits • Link from Participatory Budgeting exercises and community engagement into procurement and commissioning processes and decisions <p>Member – Officer Relations Protocol was approved in 2017 which builds upon the provisions of the national Councillors’ Code of Conduct and</p> |

| Councils should ensure they are continuously improving their work in key areas by: | Officer Response: |
|--|--|
| | provides a framework for improved working relationships between members and officers and during meetings. |
| <p>4. Establishing robust change strategies and developing realistic plans for transforming services, which incorporate:</p> <ul style="list-style-type: none"> — effective leadership and good governance arrangements — robust options appraisal — strong financial management — properly scoped and resourced plans | <p>The Council recently adopted a Scheme of Governance to lay the foundation to the delivery of the Target Operating Model (TOM). This will be developed as the organisation moves to full implementation of the TOM by 2021. The Council's governance arrangements are scrutinised by internal audit, external audit and CIPFA to ensure good governance standards are maintained and improved on. Recent changes to the Committee report template have emphasised the need to link all proposals with the current Local Outcome Improvement Plan so that the rationale for officer recommendations is clear and justified.</p> <p>The Transformation Programme is currently overseen by the Strategic Transformation Committee and the Transformation Management Group. Robust option appraisal systems, highlights reports and financial monitoring systems are in place to oversee the development of the transformation programme.</p> <p>The Customer Function is delivering a leadership programme around digital and service redesign. The program is designed to provided Officers with knowledge and understanding of emergent technologies and an insight into how these technologies can be exploited to redesign our services to improve customer experience and ensure our services are accessible in a digital age. The program will support Officers to develop robust plans to ensure serves are effective, efficient and customer centric.</p> |

| Councils should ensure they are continuously improving their work in key areas by: | Officer Response: |
|--|--|
| | <p>In terms of strong financial management and planning, financial information in relation to cases for change will be collated for each annual budget process cycle and reviewed by the Accounting Team. Advice will be provided to decision makers regarding the robustness of information provided and this will be recorded as part of the collation of decision making papers. At the early stage of conception, cases for change may have many assumptions and have used a considerable number of estimation techniques, and these will be documented. As cases for change develop and are incorporated in the budget process, a more refined costing will be prepared and at the decision making point any outstanding assumptions and risks will be considered as part of the budget proposal. The Council's medium term financial strategy is aligned with the long term financial plan and meets the policies and boundaries securing the stability of finance to meet assurance requirements.</p> |
| <p>5. Ensuring change strategies are supported by:</p> <ul style="list-style-type: none"> — realistic savings plans with long-term implications and mitigation against unintended impact on other services and communities — effective workforce planning to retain and recruit people with the right skills to deliver sustainable future services — income generation plans — workforce and member support, training and development | <p>The Council has agreed a Target Operating Model with a view to implementing it in full by 2021. It is anticipated that the move to the Target Operating Model will help deliver savings of approximately £125m over five years and better outcomes for the Council's residents. The delivery of the Target Operating Model is supported by a transformation programme is overseen by a transformation management group.</p> <p>The People and Organisation cluster has a number of projects underway relating to the transformation of the Council namely: the design, development and execution of a talent management strategy which will address workforce planning, succession planning, recruitment strategy, competency management and culture change.</p> |

| Councils should ensure they are continuously improving their work in key areas by: | Officer Response: |
|--|---|
| | <p>Throughout the transition, staff will be supported with re-skilling, up-skilling and development programmes to ensure that they have the desired competency for a 21st century Council.</p> <p>Budget proposals are checked by the Accounting Team to ensure all financial implications are recognised including those across accounts and services. This includes but is not limited to capturing the revenue implications of the capital programme, ensuring any potential duplication of savings are flagged, a co-ordinated check of recharges and recharge income as well as general consistency checks.</p> |
| <p>6. Evaluating and reporting: — the impact that significant budget reductions, savings, workforce changes and service redesign are expected to have and have had on service delivery and quality — using the data collected and monitored to report publicly on the quality of services, as well as user satisfaction with those services.</p> | <p>Performance monitoring and reporting is an ongoing activity across the Council and with partners where this is appropriate. Reporting is being aligned to revised structure and governance arrangements and includes the measurable impact of all factors on service delivery and performance.</p> <p>A range of performance data, plans, inspection and scrutiny reports are publicly available through the Council's "Public Performance Reporting" online portal.</p> |

This page is intentionally left blank

ABERDEEN CITY COUNCIL

| | |
|---------------------------|--|
| COMMITTEE | Audit, Risk & Scrutiny |
| DATE | 25 September 2018 |
| REPORT TITLE | Overdue Internal Audit Recommendations |
| REPORT NUMBER | GOV/18/171 |
| CHIEF OFFICER(S) | Various as detailed in report |
| REPORT AUTHOR | Fraser Bell |
| TERMS OF REFERENCE | Remit 2.3 |

1. PURPOSE OF REPORT

The purpose of this report is to provide further information on internal audit recommendations which have not been progressed in accordance with agreed deadlines.

2. RECOMMENDATION(S)

That the Committee:-

- 2.1 Notes the responses from Chief Officers and Internal Audit as detailed; and
- 2.2 Agrees to remove the following items from the internal audit report on overdue recommendations:
 - a) AC1714 – Land and Buildings;
 - b) AC1806 – Corporate Landlord Responsibilities (2.2.4, 2.2.6 and 2.2.8);
 - c) AC1709 – Care First System;
 - d) AC1814 – Travel Costs;
 - e) AC1805 – Attendance Management;
 - f) AC1621 – ALEOs;
 - g) AC1722 – ALEOS – Management by Services (Integrated Children’s and Family Services);
 - h) AC1623 – Compliance with Procurement Legislation
 - i) AC1602 – Craft Workers Terms and Conditions;
 - j) AC1705 – Roads Payroll;
 - k) AC1808 – Vehicle Maintenance;
 - l) AC1709 – Care First System;
 - m) AC1803 – Health and Safety – SSERC;
 - n) AC1809 – Care of Children; and
 - o) AC1826 – Out of Authority Placements.

- 2.3 Agree that the following items remain listed in the internal audit report on overdue recommendations at the present time:
- a) AC1806 – Corporate Landlord Responsibilities (2.2.3, 2.3.8 and 2.3.13);
 - b) AC1812 – Financial Ledger System;
 - c) AC1722 – ALEOS – Management by Services (Integrated Children’s and Family Services);
 - d) AC1608 – Trade Waste
 - e) AC1604 – Payment Controls in Children’s Social Work
 - f) AC1811 – Placing Requests
 - g) AC1722 – ALEOs – Management by Services (Health and Social Care Partnership)
 - h) AC1617 – Self-Directed Support (Health and Social Care Partnership)

3. BACKGROUND

- 3.1 The Council’s Internal Auditor provides a report, “Internal Audit Reports – Follow-up of Agreed Recommendations” to this committee each cycle. The report provides details of progress made on the implementation of audit recommendations, highlighting those that are overdue against the due date in the original audit report.
- 3.2 At its meeting on 26 June 2018, this committee resolved “to note that where Chief Officers had not progressed audit recommendations that they would be instructed to provide a report to the Committee to explain the reasons why the deadlines had not been adhered to”.
- 3.3 This report is in response to that instruction and covers all overdue internal audit recommendations. The Chief Officer in each case has reviewed the actions being taken to progress recommendations aligned to their service area, and the report presents their views as well as those of the Chief Internal Auditor. Where there is a discrepancy between these views, the Chief Officers have provided a rationale for either retaining or removing the recommendations for committee to consider.

RESOURCES - CORPORATE LANDLORD

3.4 Report Number AC1714 – Land and Buildings

- 3.4.1 Of the 9 recommendations contained within the original report, 1 remains outstanding as follows:
- Housing stock numbers held in the above systems should be reconciled prior to providing Estates with a record of properties to be revalued (2.7.6).
- 3.4.2 **Chief Officer response** – the Housing Stock is revalued every 5 years with the last valuation having taken place in 2016/17 and the next one due in 2020/21. A reconciliation of stock numbers is undertaken as part of the revaluation process. The 2016/17 revaluation was subject to the scrutiny of the Council’s

External Auditors who did not raise any issues with the process undertaken. Given this, it is the view of the Chief Officer that this recommendation has been implemented. Notwithstanding that, the Service will always seek to improve on its processes and include the reconciliation in its review prior to the next revaluation.

Committee is asked to determine whether the recommendation can be removed.

3.5 Report Number AC1806 – Corporate Landlord Responsibilities

3.5.1 Of the 9 recommendations contained within the original report, 6 remain outstanding as follows:

- The Service should review whether management of cyclical maintenance could be delegated to one or other Service, or the two Services combined (2.2.4);
- Asset Management should work with the Health & Safety Team to align Service and Corporate Policies (2.2.6);
- The Service should set out a programme and procedures for ensuring EPC compliance, the coordinate and monitor progress with its implementation (2.2.8);
- The Service should formalise the procedures used to demonstrate compliance with its Corporate Landlord Responsibilities and other cyclical maintenance activities (2.2.3);
- The Service should ensure data regarding its Corporate Landlord Responsibilities is maintained centrally, accurately and up to date (2.3.8); and
- The Service should ensure it has assurance that all property in which the Council has an interest is statutorily compliant (2.3.13)

3.5.2 **Chief Officer response** – a full review of statutory and cyclical maintenance is being undertaken which will reach a conclusion in October 2018. This is being undertaken with the Corporate team to allow 2.2.6 to be removed. This will identify strengths, weaknesses and areas of improvement. This will make recommendations on 2.2.3, 2.3.8 and 2.3.13 which remain open until this is complete. It has been decided to keep services separate allowing 2.2.4 to be removed. A programme of Energy Performance Certificates (EPC) compliance is in place allowing 2.2.8 to be removed.

Committee is asked to determine whether or not to remove recommendations 2.2.4, 2.2.6 and 2.2.8, and is advised that 2.2.3, 2.3.8 and 2.3.13 will remain outstanding in the meantime.

RESOURCES - FINANCE

3.6 Report Number AC1709 – Care First System

3.6.1 Of the 13 recommendations contained within the original report, 1 remains outstanding for Finance as follows:

- Finance should review the instances where service users have not been reassessed and charged correctly (2.5.6 (ii))

3.6.2 **Chief Officer response** – a letter to those affected, requesting the required information has been approved and provided to all Councillors for information. Final data checks are being carried out and the letters will be issued in the week commencing 8 October 2018. Thereafter, assessments will be carried out with a view to these being completed by end December 2018. The view of Internal Audit is that they will assess progress in December before agreeing the recommendation is implemented. With this project plan now in place it is the view of the Chief Officer that this recommendation has been implemented and therefore should be removed as an outstanding recommendation. To do otherwise could lead to this recommendation remaining outstanding for a further considerable period when, with the programme in place and underway, intent to implement this action has been clearly demonstrated.

Committee is asked to determine whether the recommendation can be removed.

3.7 Report Number AC1812 – Financial Ledger System

3.7.1 Of the 14 recommendations contained within the original report, one remains outstanding as follows:

- The Service should consult with Commercial and Procurement Services to ensure that best value can be demonstrated in continuing with the current system and that procurement legislation is complied with (2.2.5)

3.7.2 **Chief Officer response** – Finance have consulted as required in the recommendation, with Commercial and Procurement Services (CPS). Work continues to be undertaken to ensure that a conclusion has been reached on best value and that procurement legislation has been complied with. The Service will report this via a Business Case to the Strategic Commissioning Committee in November 2018.

Committee is advised that these recommendations will remain outstanding in the meantime.

3.8 Report Number AC1814 – Travel Costs

3.8.1 Of the 13 recommendations contained within the original report, 3 remain outstanding as follows:

- Procedures should be put in place to ensure that the most cost-effective method of travel is approved in advance with consideration given to

restricting claims for journeys outwith the Council's boundaries to the cost equivalent of the cheapest option (2.2.9);

- The approval process for foreign travel should be reviewed and complied with (2.6.5); and
- Services should be reminded to ensure that travel applications are forwarded to the Travel Team as soon as possible to ensure that cost effective travel arrangements can be made (2.6.6)

3.8.2 Chief Officer response – these above actions have been incorporated into an update of the Council's Travel Policy, a draft version of which has been made available to Internal Audit as evidence of this. The revised policy is now subject to consultation and will be considered by the Staff Governance Committee on 1 November 2018 before final consideration by City Growth and Resources Committee. The report is on the relevant business planners. Thereafter, the policy will be communicated and promoted to staff. The view of Internal Audit is that this remains outstanding until the policy has been approved by committee. However, it is the view of the Chief Officer that the updated policy clearly shows intent to implement and therefore these could be removed as outstanding recommendations.

Committee is asked to determine whether these recommendations can be removed.

RESOURCES – PEOPLE AND ORGANISATION

3.9 Report Number AC1805 – Attendance Management

3.9.1 Of the 9 recommendations contained within the original report, 4 remain outstanding as follows:

- The Service should review, and update where necessary, the Maximising Attendance policy, guidance and training (2.1.3);
- All Services should be reminded of the Policy requirements in relation to recording absences and the management actions that need to be taken when an employee returns to work (2.2.9);
- Once the training on the Maximising Attendance policy has been reviewed and updated as necessary, HR should promote its completion amongst managers (2.3.4a); and
- HR should continue to work with Services to ensure that all staff are aware of how to access guidance and support when administering the Maximising Attendance Policy (2.3.4b)

3.9.2 Chief Officer response - these above actions have been incorporated into an update of the Council's Maximising Attendance policy, a draft version of which has been made available to Internal Audit as evidence of this. The revised policy has been consulted on and is on the business planner to be considered by the Staff Governance committee on 1 November 2018. Thereafter, it will be communicated to staff and training will be undertaken. The view of Internal Audit is that this remains outstanding until the policy has been approved by committee. However, it is the view of the Chief Officer that that the updated

policy clearly shows intent to implement and therefore these could be removed as outstanding recommendations.

Committee is asked to determine whether these recommendations can be removed.

COMMISSIONING – COMMERCIAL AND PROCUREMENT

3.10 Report Number AC1621 – ALEOs

3.10.1 Four recommendations remain outstanding as follows:

- Services should ensure that there is an up to date Service Level Agreement with each ALEO (2.2.6(a))
- Services should ensure all ALEO SLAs confirm performance reporting requirements, and state that ongoing funding is subject to evidenced satisfactory performance (2.2.6 (b))
- Services should ensure financial clauses in all SLAs accurately reflect the partners' intentions.
- Services should ensure all material ALEO SLAs contain a requirement for internal audit arrangements, and facilitate reporting of assurance through those arrangements to the Council (2.4.11)

3.11 Report Number AC1722 – ALEOs – Management by Services

3.11.1 One recommendation remains outstanding as follows:

- Education and Children's Services should review options for performance management within ALEO agreements (2.4.3)

3.12 **Chief Officer response** – the Strategic Commissioning Committee received annual reports on each of the ALEOs at its meeting on 13th September (Aberdeen Sports Village, Sport Aberdeen, Bon Accord Care and Aberdeen Performing Arts. The Committee instructed the Head of Commercial and Procurement Services to:

- (1) review and amend the SLAs to ensure that they are outcomes-focused and contain robust contract management measures; and
- (2) implement a standard annual performance report template which ALEOs will be required to submit annually containing information on their performance against the outcomes set out in the revised SLA.

The Council has set its strategic direction and will transition to the Target Operating Model by becoming a commissioning council. This will require us to put in place commissioning strategies and intentions and these will impact on each of the ALEOs, as will the budget setting process in February 2019. After this point we will have clearer organisation and political direction on KPIs aligned to outcomes and performance expectation. Thereafter we will revisit an actual update of the SLAs. Furthermore, it is within the remit of the ALEO Assurance Hub to monitor internal audit arrangements of ALEOs and to provide

assurance through reports to the Audit, Risk and Scrutiny Committee, that ALEOs had in place, or are moving towards an independent internal audit function in line with audit recommendations. Given the changing strategic picture and the approvals given by the Strategic Commissioning Committee, it is the view of the Chief Officer that these recommendations now be removed.

Committee is asked to determine whether these recommendations can be removed.

OPERATIONS – INTEGRATED CHILDREN’S AND FAMILY SERVICES

3.13 Report Number AC1623 – Compliance with Procurement Legislation

3.13.1 One recommendation remains outstanding as follows:

- Integrated Children’s and Family Services should ensure they spend on supplies, which are likely to be used by more than one school, is forecast, so appropriate Committee approval and tendering can be completed for aggregate spend.

3.13.2 **Chief Officer response** – The Service has issued a circular to schools to limit the number of suppliers for general supplies - all should now be purchased from a recognised supplier who is in the framework. The Education workplan and business cases are expected to be reported to Strategic Commissioning Committee in November, covering school spend.

Committee is asked to determine whether the recommendation can be removed.

OPERATIONS – OPERATIONS AND PROTECTIVE SERVICES

3.14 Report Number AC1602 – Craft Workers Terms and Conditions

3.14.1 Four recommendations remain outstanding as follows:

- The Service should renegotiate the Agreement based on current working practice (2.2.6)
- The Service should complete the roll out of the hand held system to ensure that periods of stand-by are covered (2.3.13)
- The Service should consider whether such payments remain appropriate (2.3.14)
- The Service should consider whether calls that have been cancelled within a short period of having been lodged should be verified to confirm the identity of the caller (2.3.16)

3.14.2 **Chief Officer response** – These four recommendations are to be subject to review and to be included in the work-plan for the delivery of the transformation programme. Given that these actions will be tracked through the transformation programme, the Chief Officer recommends that the recommendations be removed from the outstanding audit list.

Committee is asked to determine whether these recommendations can be removed.

3.15 Report Number AC1608 – Trade Waste

3.15.1 Two recommendations remain outstanding as follows:

- The Service should implement reconciliations between records of work completed, work invoiced, and income received, to ensure that income has been received for the provision of all goods and services (2.1.10)
- The Service should introduce checks to ensure the accuracy and completeness of all invoices raised (2.1.12)

3.15.2 **Chief Officer response** - The latest update from the Service is that good progress is being made after delays which were outwith the Service's control, and that the new management system is still intended to be implemented by the end of September 2018, which will enable the recommendations to be closed.

Committee is advised that these recommendations will remain outstanding in the meantime.

3.16 Report Number AC1705 – Roads Payroll

3.16.1 One recommendation remains outstanding as follows:

- The Service should review options to ensure all relevant duties (including supervision, administration and vehicle checks) can be completed within contractual hours (2.2.13)

3.16.2 **Chief Officer response** – This recommendation is to be subject to review and to be included in the work-plan for the delivery of the transformation programme. Given that this action will be tracked through the transformation programme, the Chief Officer recommends that the recommendation be removed from the outstanding audit list.

Committee is asked to determine whether the recommendation can be removed.

3.17 Report Number AC1808 – Vehicle Maintenance

3.17.1 One recommendation remains outstanding as follows:

- The Service should ensure that Service Level Agreements are in place between Fleet with all Services for which the maintenance and servicing of vehicles is undertaken, and that these are reviewed periodically (2.3.2)

3.17.2 **Chief Officer response** - The Service advise that the Chief Officer has signed off all Service Level Agreements in principle and therefore recommend that this is removed from the outstanding audit list.

Committee is asked to determine whether the recommendation can be removed.

3.18 **Report Number AC1604 – Payment Controls in Children’s Social Work**

3.18.1 One recommendation remains outstanding as follows:

- Relates to C&PS reviewing and rationalising supplier numbers to ensure that there are no duplicates (2.2.15)

3.18.2 **Chief Officer response** - The latest update from the Service is that the software update that will allow this to be implemented has recently been installed and training was being provided by the supplier in July 2018 to show staff how to undertake the agreed task. However, an amendment is required to the software before it can be used for the necessary task and this will be done by September 2018.

Committee is advised that this recommendation will remain outstanding in the meantime.

3.19 **Report Number AC1709 – Care First System**

3.19.1 One recommendation remains outstanding as follows:

- The CareFirst Team should ensure that it complies with Standing Orders and procurement regulations in terms of the Service’s Case Recording System for Social Care Clients (2.1.4)

3.19.2 **Chief Officer response** - The Strategic Commissioning Committee in June agreed to extend the Carefirst maintenance and support agreement to March 2020. An options appraisal is all but concluded and will go to the November Committee. The Chief Officer is of the view that recommendation 2.1.4 should therefore should be closed.

Committee is asked to determine whether the recommendation can be removed.

3.20 **Report Number AC1803 – Health and Safety - SSERC**

3.20.1 Four recommendations remain outstanding as follows:

- The Service should ensure that schools comply with the SSERC Safety in Microbiology Code of Practice (2.6.5).

- A standardised chemical stock list including chemical location, quantity, hazards, immersion test results, condition test results, date of last tests, date tests are due, and disposal dates should be maintained centrally (2.6.4 a)
- Academies should be advised of the requirement to review their chemical stock and update the central list (2.6.4 b)
- Training should be provided to all staff required to undertake testing or visual inspections of portable electrical appliances (2.8.3 c)

3.20.2 **Chief Officer response** – The Service acknowledges that these are outstanding. We have been unable to access the relevant trainers to deliver the required training to enable these actions to be closed off. The Chief Officer is of the view that as dates have now been confirmed to enable these actions to be closed off.

Committee is asked to determine whether these recommendations can be removed.

3.21 **Report Number AC1811 – Placing Requests**

3.21.1 Two recommendations remain outstanding as follows:

- Integrated Children’s and Family Services should prepare detailed procedures for the placing request process (2.1.3)
- The Service should rationalise application forms used to a single form. The Service will implement a new system which will enable this but is dependent on prioritisation of IT transformation projects (2.2.1)

3.21.2 **Chief Officer response** - The latest update from the Service is that processes for the new digital service have been reviewed and agreed by the Chief Education Officer and take into account the full set of recommendations from the audit report. Progress has been made since the last update on completion and stability of the system, with Head Teachers informed of the changes to take place. The implementation plan is progressing on time and launch is subject to the satisfaction of the Chief Education Officer that the system requirements have been fully realised and all final testing complete. This will be complete by January 2019. Internal testing of the full system, including back-office elements, is underway. The customer application forms have been consolidated and will be handled through a single online form.

Committee is advised that these recommendations will remain outstanding in the meantime.

HEALTH AND SOCIAL CARE PARTNERSHIP

3.22 **Report Number AC1722 – ALEOs – Management by Services**

3.22.1 One recommendation remains outstanding as follows:

- The Health and Social Care Partnership should review options for performance management within future ALEO agreements (2.4.3)

3.22.2 Chief Officer response - The Partnership are in the process of refreshing the Bon Accord Care contract. The current contract has been extended until 31st March 2019. The refreshed contract will focus on outcomes and each outcome will have a set of performance measures against it. There are a series of workshops and “task and finish” groups that have been set up to identify and agree the relevant performance measures for each outcome (taking into account what can actually be measured within current systems). The plan is to allocate a dedicated contract manager (from the Council) to each ALEO. Once the performance measures have been agreed the contract manager will (in conjunction with the Partnership) set up regular performance review meetings. The performance measures will feed into the current review being undertaken on the wider performance management framework. This will determine where the indicators are reported and how often so that the relevant people get information that help them manage and improve their service delivery.

Committee is advised that this recommendation will remain outstanding in the meantime.

3.23 Report Number AC1617 – Self-Directed Support

3.23.1 One recommendation remains outstanding as follows:

- The Service should finalise and implement the Contributing to Your Care and Support Policy and guidance (2.4.2)

3.23.2 Chief Officer response - The Committee was advised in May 2018, that work was progressing, and a working group had been established to take forward the topic of charging for the Partnership. The Partnership is piloting the Equivalency Model as a method of Resource Allocation for self-directed support. The identification of a client’s agreed budget allocation via a robust resource allocation system is a pre-requisite to enable the Partnership to move forward with the implementation of the Contributing to Your Care Policy. This will be reported and monitored through the Self-directed Support Board and full implementation was planned for September 2018.

3.23.3 Although the working group has made significant progress on establishing an Equivalency Model, all of the systems and processes are so interlinked that every time we take one step forward it impacts on many others. The definition of Personal Care has been updated and the group have had to take this into account.

3.23.4 There is another meeting of the working group planned for 17 September 2018 where we will look at the Resource Allocation Panel (RAP) processes and documentation. This will highlight the steps and paperwork that will need to be updated in order to move ahead with implementing the Equivalency Model and identifying where Contributing to Your Care needs to be updated. To some

extent progress has been constrained due to competing priorities being placed on the CareFirst Team. Robust decisions cannot be taken in the absence of the supporting data, which comes from the Carefirst Team. It is planned that the charging policy will be finalised and make its way through the necessary approval and communication processes in time for full implementation at the beginning of the next financial year i.e. 1st April 2019. The timeline for the approval of the Policy will be: submitted to the Integrated Joint Board on the 11th of December 2018 and Aberdeen City Council on the 4th March 2019.

Committee is advised that this recommendation will remain outstanding in the meantime.

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

6.1 Chief Officers have reviewed the outstanding actions and have recommended that a number of the actions be removed from the outstanding actions list. The committee can determine whether or not the assurance provided by Chief Officers in respect of completing the outstanding actions satisfactorily mitigates the risk to the Council to allow the actions to be removed from the list presented to members. Where Chief Officers have not felt able to provide satisfactory assurance to committee on the completion of outstanding actions, they have recommended that these be retained on the outstanding list for future monitoring accordingly.

| | Risk | Low (L), Medium (M), High (H) | Mitigation |
|--------------------|-----------------|--|-------------------|
| Financial | None identified | | |
| Legal | None identified | | |
| Employee | None identified | | |
| Customer | None identified | | |
| Environment | None identified | | |

| | | | |
|---------------------|--|---|--|
| Technology | None identified | | |
| Reputational | Negative impact on reputation if the Council is consistently seen to not be acting on the recommendations of Internal Audit. | L | A scrutiny process is in place through regular reporting by Internal Audit on progress in implementing audit recommendations to senior management and committee. |

7. OUTCOMES

7.1 There is no direct impact arising from this report on the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|----------------|
| Equality & Human Rights Impact Assessment | Not Required |
| Data Protection Impact Assessment | Not Required |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable |

9. BACKGROUND PAPERS

9.1 Report by the Internal Auditor – “Internal Audit Reports – Follow-up of Agreed Recommendations”

10. APPENDICES

None.

11. REPORT AUTHOR CONTACT DETAILS

Fraser Bell
 Chief Officer - Governance
frbell@aberdeencity.gov.uk
 Tel: 01224 522084

This page is intentionally left blank

ABERDEEN CITY COUNCIL

| | |
|---------------------------|--|
| COMMITTEE | Audit, Risk and Scrutiny Committee |
| DATE | 25 September 2018 |
| REPORT TITLE | Internal Audit Reports – Follow-up of Agreed Recommendations |
| REPORT NUMBER | IA/18/015 |
| DIRECTOR | N/A |
| REPORT AUTHOR | David Hughes |
| TERMS OF REFERENCE | 2.3 |

1. PURPOSE OF REPORT

- 1.1 This report advises the Committee of progress made by Services with implementing recommendations that have been agreed in Internal Audit reports.

2. RECOMMENDATIONS

- 2.1 The Committee is requested to review, discuss and comment on the issues raised within this report and the attached appendices.

3. BACKGROUND / MAIN ISSUES

- 3.1 Appendices A and B show progress made by Services with completing agreed Internal Audit recommendations, based on assurances received from officers tasked with their implementation and independent checks where appropriate. Where all recommendations contained in individual reports issued before 1 April 2018 have been completed, these are no longer shown in the appendices.
- 3.2 Where recommendations have not been completed by their original due date, reasons are provided along with the grading applied to the recommendation in the original Internal Audit report. An explanation of the gradings used is shown on the first page of appendix B. Details of overdue recommendations are now also being monitored by the Corporate Management Team.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|--|---|
| Equality & Human Rights Impact Assessment | An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. |
| Privacy Impact Assessment | Not required |
| Duty of Due Regard / Fairer Scotland Duty | Not applicable |

9. APPENDICES

- 9.1 Appendix A – Position with Agreed Recommendations – Summary.
- 9.2 Appendix B – Position with Agreed Recommendations – Cross Service.
- 9.3 Appendix C – Position with Agreed Recommendations – Commissioning.
- 9.4 Appendix D – Position with Agreed Recommendations – Customer.
- 9.5 Appendix E – Position with Agreed Recommendations – Operations.

- 9.6 Appendix F – Position with Agreed Recommendations – Resources.
- 9.7 Appendix G – Position with Agreed Recommendations – Governance.
- 9.8 Appendix H – Position with Agreed Recommendations – Health and Social Care Partnership.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01467) 537861

APPENDIX A – SUMMARY

POSITION WITH AGREED RECOMMENDATIONS AS AT 12 SEPTEMBER 2018

The following table provides a summary of progress being made by Services with completing agreed recommendations.

On 26 June 2018, the Committee was advised that, as at 14 June 2018, there were 60 recommendations which were due to have been completed by 30 April 2018 which were not fully complete. This has reduced to 28.

The total not fully complete, which had an original due date of before 31 July 2018, is 37. Full details relating to progress, on a report by report basis, are shown in appendices B to G.

| Recommendations | | | | | | | Grading of Overdue Recommendations | | |
|---------------------------------|--|--------------------------------|-------------------------------|-------------------------|-------------------------------|---|------------------------------------|-------------|-----------|
| SERVICE | Agreed in reports shown in Appendices B to H | Due for completion by 30.04.18 | Confirmed complete by Service | New in May to July 2018 | Confirmed complete by Service | Not fully complete by original due date | Major | Significant | Important |
| Cross Service | 28 | 28 | 27 | 0 | 0 | 1 | 0 | 1 | 0 |
| Commissioning | 25 | 24 | 19 | 1 | 0 | 6 | 0 | 6 | 0 |
| Customer | 16 | 4 | 4 | 4 | 4 | 0 | 0 | 0 | 0 |
| Operations | 152 | 126 | 113 | 8 | 5 | 16 | 1 | 11 | 4 |
| Resources | 77 | 49 | 41 | 23 | 18 | 13 | 0 | 12 | 1 |
| Health & Social Care | 84 | 44 | 43 | 26 | 26 | 1 | 0 | 1 | 0 |
| Total | 382 | 275 | 247 | 62 | 53 | 37 | 1 | 31 | 5 |

KEY TO COLOURING USED IN FOLLOWING APPENDICES

Recommendation Grading:

| Grading | Definition |
|-------------|---|
| Major | The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation. Financial Regulations have been consistently breached. |
| Significant | Addressing this issue will enhance internal controls. An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on a system's adequacy and effectiveness. Financial Regulations have been breached. |
| Important | Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control. |

Length of time overdue

| |
|--------------------|
| Over 12 months |
| 6 to 12 months |
| Less than 6 months |

APPENDIX B

CROSS SERVICE

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| | | | | | | | |
|---------------|--|-----------|----|----|----|---|---------------|
| AC1623 | Compliance with Procurement Legislation | June 2016 | 28 | 28 | 27 | 1 | 1 Significant |
|---------------|--|-----------|----|----|----|---|---------------|

The position with the overdue recommendation is as follows:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|---|--|-------------------------------|---|
| Integrated Children's and Family Services | The Service should ensure that spend on supplies which are likely to be used by more than one school is forecast so that appropriate Committee approval and tendering can be completed for aggregate spend (2.4.7) | Significant September 2016 | <p>As reported previously, the Service was in the process of identifying expenditure across the schools. It was anticipated that this would be completed by March 2017 and that expenditure across other Directorates would have to be considered. The Service then advised that, as there is currently no system to allow identification of collected spend on an item by item basis, it was more appropriate at that time to adopt a common sense approach to tackling the issue of compliance in overall school spend. The Service was therefore targeting the commodities that all schools would have a requirement for, eg transport for school trips. In the case of school trips, there is significant spend not currently covered by contract and the creation of a contract would significantly reduce the time taken by schools when seeking quotes for transport. The update at the September 2017 meeting of the Committee was that the Service anticipates that it will take until March 2018 to address this one issue.</p> <p>The Committee was advised in May 2018 that this work was now being progressed through the development of the newly introduced procurement work plans and that it was anticipated that the work plan would be in place by June 2018.</p> <p><i>(Continued over page.)</i></p> |

| | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|--|--------------|-------------|---------------------------|------------------------------------|----------------------------------|---|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

(AC1623 – Compliance with Procurement Legislation – Continued)

| Chief Officer | Recommendation | Grading / Due Date | Position |
|---------------|---------------------------------------|--------------------|--|
| | <i>Recommendation 2.4.7 continued</i> | | The latest update from the Service is that Commercial and Procurement Services has advised that the work plan needs to be supported by business cases and this work will take until November 2018 to complete. Staff have been reminded of the framework agreement to use for Educational materials. |

APPENDIX C

COMMISSIONING

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| | | | | | | | |
|---------------|--------------|---------------|----|----|---|----------|----------------------|
| AC1621 | ALEOs | February 2016 | 10 | 10 | 6 | 4 | 4 Significant |
|---------------|--------------|---------------|----|----|---|----------|----------------------|

The position with the overdue recommendations is as follows:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|--------------------------|--|--------------------------|--|
| Commercial & Procurement | Services should ensure that there is an up to date Service Level Agreement with each ALEO (2.2.6 (a)) | Significant June 2017 | As reported to Committee since September 2017, Commercial and Procurement Services have stated that it is anticipated it will take around 12 months to get new agreements in place. Implementation of these recommendations was, therefore, delayed until August 2018. The latest update from the Service is that reports are scheduled to go to the Strategic Commissioning Committee in September 2018 instructing the Chief Officer Commercial and Procurement Services to: review and amend SLAs with ALEOs to ensure they are outcome-focused and contain robust contract management measures and to implement a standard annual performance report template, which ALEOs will be required to submit annually for performance monitoring purposes. |
| Commercial & Procurement | Services should ensure all ALEO SLAs confirm performance reporting requirements, and state that ongoing funding is subject to evidenced satisfactory performance (2.2.6 (b)) | Significant June 2017 | |
| Commercial & Procurement | Services should ensure financial clauses in all SLAs accurately reflect the partners' intentions (2.4.9 (i)) | Significant June 2017 | |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

(AC1621 – ALEOs – Continued)

| Chief Officer | Recommendation | Grading / Due Date | Position |
|--------------------------|--|--------------------------|-----------|
| Commercial & Procurement | Services should ensure all material ALEO SLAs contain a requirement for Internal Audit arrangements, and facilitate reporting of assurance gained through these arrangements to the Council (2.4.11) | Significant June 2017 | As above. |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| | | | | | | | |
|---------------|---------------------------------------|-------------|----|----|----|----------|----------------------|
| AC1722 | ALEOs – Management by Services | August 2017 | 15 | 15 | 13 | 2 | 2 Significant |
|---------------|---------------------------------------|-------------|----|----|----|----------|----------------------|

The position with the overdue recommendations is as follows:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|---------------------------------|---|--------------------|--|
| Commercial & Procurement | Education and Children’s Services should review options for performance management within future ALEO agreements (2.4.3) | Significant | This forms part of Education and Children’s Services review of ALEO management arrangements. Two of the Sports ALEOs are being reviewed and a report was to be presented to the Finance, Policy and Resources Committee in December 2017. Following a decision at that Committee, the Service Operating Agreement in place is to be amended and will include revised performance monitoring indicators. It was anticipated that this would be completed by June 2018. The latest update from Commercial and Procurement is that reports are scheduled to go to the Strategic Commissioning Committee in September 2018 instructing the Chief Officer Commercial and Procurement Services to: review and amend SLAs with ALEOs to ensure they are outcome-focused and contain robust contract management measures and to implement a standard annual performance report template, which ALEOs will be required to submit annually for performance monitoring purposes. |
| | | September 2017 | |
| Chief Finance Officer (ACH&SCP) | The Health and Social Care Partnership should review options for performance management within future ALEO agreements (2.4.3) | Significant | The Service has advised that they are in the process of implementing a new contract, so this will not be complete until January 2019. |
| | | July 2018 | |

APPENDIX D

CUSTOMER

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|-------------------------------|---------------|---------------------------|------------------------------------|----------------------------------|---|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |
| AC1822 | YourHR | February 2018 | 8 | 5 | 5 | 0 | 0 |
| AC1825 | Housing Support Budget | April 2018 | 8 | 3 | 3 | 0 | 0 |

APPENDIX E

OPERATIONS

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| | | | | | | | |
|------------------|---|--------------|---|---|---|---|--------------------------|
| AC1602 AW | Craft Workers Terms and Conditions | October 2015 | 9 | 9 | 5 | 4 | 1 Major 3 Significant |
|------------------|---|--------------|---|---|---|---|--------------------------|

The position with the overdue recommendations is as follows:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|------------------------------------|--|--------------------|--|
| Operations and Protective Services | The Service should renegotiate the Agreement based on current working practice (2.2.6) | Major June 2016 | <p>As reported previously, the Service advised that all recommendations were being progressed through discussion and negotiation, and that it was anticipated they would all be resolved by December 2016. The Service then advised that they were discussing a renewed craft agreement with trade workers and unions. Meetings had taken place and others were due in January leading into February 2017. The Service was hopeful that an agreement could be signed as soon as possible in 2017. The June 2017 meeting of the Committee was advised that the craft agreement had to be agreed at a regional level by the unions. At that stage, until other union matters are resolved, progress had stalled but it was hoped that discussions would resume in the near future.</p> <p>The update provided to Committee in September 2017 was that this has been delayed further to June 2018.</p> <p>The Chief Officer – Operations and Protective Services will present a separate report on the Committee’s agenda of 25 September 2018 discussing options for moving the remaining four recommendations in this report forward.</p> |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| Chief Officer | Recommendation | Grading / Due Date | Position |
|---------------|----------------|--------------------|----------|
|---------------|----------------|--------------------|----------|

(AC1602AW – Craft Workers Terms and Conditions – Continued)

| | | | |
|------------------------------------|--|-------------|--|
| Operations and Protective Services | The Service should complete the roll out of the hand held system to ensure that periods of stand-by are covered (2.3.13) | Significant | As reported previously, this had been partially implemented and piloted and would be fully implemented with the new craft agreement. The June 2017 meeting of the Committee was advised that the craft agreement had to be agreed at a regional level by the unions. At that stage, until other union matters are resolved, progress had stalled but it was hoped that discussions would resume in the near future. The update provided to Committee in September 2017 was that this has been delayed further to June 2018. |
| | | June 2016 | |
| Operations and Protective Services | The Service should consider whether such payments remain appropriate (2.3.14) | Significant | As reported previously, this is being reviewed as part of the new craft agreement, as per 2.2.6 above. |
| | | June 2016 | |
| Operations and Protective Services | The Service should consider whether calls that have been cancelled within a short period of having been lodged should be verified to confirm the identity of the caller (2.3.16) | Significant | As reported previously, this was being reviewed as part of the new craft agreement, as per 2.2.6, above, and discussions will take place with housing management. The June 2017 meeting of the Committee was advised that this will be addressed when additional IT is introduced to the call out service. The update provided to Committee in September 2017 was that this has been delayed further to June 2018. |
| | | June 2016 | |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| | | | | | | | |
|---------------|--------------------|--------------|----|----|----|----------|----------------------|
| AC1608 | Trade Waste | January 2016 | 14 | 14 | 12 | 2 | 2 Significant |
|---------------|--------------------|--------------|----|----|----|----------|----------------------|

The position with the overdue recommendations is as follows:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|------------------------------------|--|-------------------------------|---|
| Operations and Protective Services | The Service should implement reconciliations between records of work completed, work invoiced, and income received, to ensure that income has been received for the provision of all goods and services (2.1.10) | Significant | The Service has advised, as reported to Committee in February 2018, that these recommendations are dependent on implementation of a new management system. This is due to go live in February 2018 for household waste and April 2018 for Trade Waste. The Committee was advised in June 2018 that development of the new system has encountered problems and, as a result, it will now take until August 2018 to implement these recommendations. |
| | | September 2016 | |
| Operations and Protective Services | The Service should introduce checks to ensure the accuracy and completeness of all invoices raised (2.1.12) | Significant September 2016 | The latest update from the Service is that good progress is being made after delays which were outwith the Service's control, and that the two recommendations will now be implemented by September 2018. |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| | | | | | | | |
|---------------|----------------------|-------------|----|----|----|---|-------------|
| AC1705 | Roads Payroll | August 2016 | 22 | 21 | 20 | 1 | 1 Important |
|---------------|----------------------|-------------|----|----|----|---|-------------|

The position with the overdue recommendation is as follows:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|------------------------------------|---|--------------------|---|
| Operations and Protective Services | The Service should review options to ensure all relevant duties (including supervision, administration and vehicle checks) can be completed within contractual hours (2.2.13) | Important | As reported previously, the Service advised that this will now form part of a wide restructure of the Roads Service which was underway. Once the two senior posts are recruited to, the working patterns will be part of the formal review for the remainder of the Service. It was anticipated that this would take to the end of December 2017 to complete. |
| | | February 2017 | |
| | | | The latest update from the Service is that the restructure is still underway and, although one of the above posts has been filled, the other and an additional senior post are unfilled. Once these posts are filled, the required work can be completed. This will now be implemented by December 2018. |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| | | | | | | | |
|---------------|----------------------------|--------------|----|----|----|---|-------------|
| AC1808 | Vehicle Maintenance | October 2017 | 20 | 14 | 13 | 1 | 1 Important |
|---------------|----------------------------|--------------|----|----|----|---|-------------|

The position with the overdue recommendations is as follows:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|------------------------------------|--|--------------------|---|
| Operations and Protective Services | The Service should ensure that Service Level Agreements are in place between Fleet with all Services for which the maintenance and servicing of vehicles is undertaken, and that these are reviewed periodically (2.3.2) | Important | The Service has advised that Service Level Agreements are with client services for signing / comment. An extension to the end of July 2018 is required to allow completion. |
| | | April 2018 | |

| | | | | | | | |
|---------------|----------------------|--------------|---|---|---|---|---|
| AC1817 | Vehicle Usage | January 2018 | 8 | 2 | 2 | 0 | 0 |
|---------------|----------------------|--------------|---|---|---|---|---|

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|------------------|---|---------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |
| AC1604 AW | Payment Controls in Children's Social Work | February 2016 | 19 | 19 | 18 | 1 | 1 Important |

Progress with the overdue recommendations is as follows:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|--------------------------|--|------------------------|--|
| Commercial & Procurement | Relates to C&PS reviewing and rationalising supplier numbers to ensure that there are no duplicates (2.2.15) | Important June 2016 | <p>As reported previously, implementation of the enhanced reporting tool that would have enabled this recommendation to be completed has been delayed. The Service was working with the provider, C&PS and ICT colleagues to resolve the issues and expected that this would be achieved by the end of November 2016. The Service then advised that this should be complete by the end of February 2017. In June 2017 the Committee was advised that implementation of the reporting tool remained ongoing and it was anticipated that this would be in place by the end of September 2017. In the interim, duplicate suppliers are being identified and dealt with as they come to light as part of normal monitoring.</p> <p>The Committee was advised in May 2018 that the software had been updated and monitoring was due to commence by the end of April 2018.</p> <p>The latest update from the Service is that the software update that will allow this to be implemented has recently been installed and training was being provided by the supplier in July 2018 to show staff how to undertake the agreed task. However, an amendment is required to the software before it can be used for the necessary task and this will be done by September 2018.</p> |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| | | | | | | | |
|---------------|--------------------------|---------------|----|----|----|---|---------------|
| AC1709 | Care First System | November 2016 | 13 | 13 | 12 | 1 | 1 Significant |
|---------------|--------------------------|---------------|----|----|----|---|---------------|

Progress with the overdue recommendations is detailed below:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|---------------|---|---------------------------|--|
| Finance | Finance should review the instances where service users have not been reassessed and charged correctly (2.5.6 (ii)) | Significant March 2017 | <p>As reported to Committee in June 2017, the Service advised that further investigation of the work required in order to complete this action has identified that there is considerably more involved than was first anticipated. A significant project was now underway involving Housing, Social Care and Finance to address the past issues and streamline the process to ensure that every applicant is charged accordingly under a set of procedures with specific timelines. The first draft of the Project plan was approved at CMT in April 2017 and further work was ongoing. It was likely that this would not be completed before 30 June 2018.</p> <p>The Committee was advised in June 2018, that initial plans for the implementation of this project were replaced by a trial of a Digital solution. The trial was not completed due to the lead person leaving. A revised project plan is currently being drawn up and is subject to agreement of chief officers. Given the likely implementation timescales this project may not now be completed before December 2018.</p> <p>The latest update from the Service is that letters requesting the information required to carry out assessments will be issued to those affected in the week commencing 8 October 2018 with the intention that all assessments be complete by December 2018, subject to the information being received.</p> |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| | | | | | | | |
|---------------|----------------------------------|----------------|----|----|----|----------|----------------------|
| AC1803 | Health and Safety - SSERC | September 2017 | 17 | 16 | 12 | 4 | 4 Significant |
|---------------|----------------------------------|----------------|----|----|----|----------|----------------------|

Progress with the overdue recommendations is as follows:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|---|---|--------------------|---|
| Integrated Children's and Family Services | The Service should ensure that schools comply with the SSERC Safety in Microbiology Code of Practice (2.6.5). | Significant | <p>The Service has stated that the following plan has been put in place:</p> <ol style="list-style-type: none"> 1. Check that each school has appropriately trained staff to prepare and manage the microbiological samples. 2. Check that each school has the correct risk assessments in place which cover the items as described by SSERC. 3. Check that a process is in place where only the trained staff undertake the tasks in the event of absence for whatever reason of the qualified technician etc 4. Meet with and write to the faculty heads and business support managers or persons responsible for the management of the technicians at each school identifying their responsibilities for the management of compliance within each establishment. 5. Under take spot checks on the process being used at each school. <p>Part 1 is almost complete, and the Service has researched the availability of training. Whilst recognising that this will be an on-going process to ensure compliance, Internal Audit will treat the recommendation as complete once items 1 to 4 have been completed.</p> <p>The Committee was advised in February 2018, that work is continuing with the above plan. A further update has been provided to Internal Audit which gives assurance of continuing progress being made and the recommendation will be fully implemented by August 2018. (Continued over page.)</p> |
| | | September 2017 | |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|---|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| Chief Officer | Recommendation | Grading / Due Date | Position |
|---|---------------------------------------|--------------------|---|
| <i>(AC1803 – Health and Safety - SSERC – Continued)</i> | | | |
| | <i>Recommendation 2.6.5 continued</i> | | <p>The most recent update from the Service is that the safety in microbiology training is now complete. The Service expects to receive outstanding risk assessments from schools by the end of September 2018.</p> <p>The Service has drafted a document in conjunction with the corporate Health and Safety Team which sets out the responsibilities of each key post holder in schools with regards to ensuring compliance with health and safety procedures and arrangements when trained staff are absent. This document needs to be signed off by SMT within Integrated Children’s and Family Services before it is issued to schools. It is anticipated that this will be done by October 2018.</p> |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| Chief Officer | Recommendation | Grading / Due Date | Position |
|---------------|----------------|--------------------|----------|
|---------------|----------------|--------------------|----------|

(AC1803 – Health and Safety - SSERC – Continued)

| | | | |
|---|--|---------------|---|
| Integrated Children's and Family Services | A standardised chemical stock list including chemical location, quantity, hazards, immersion test results, condition test results, date of last tests, date tests are due, and disposal dates should be maintained centrally (2.6.4 a) | Significant | The Service has confirmed, as reported to Committee in February 2018, that they have been looking at this and identified that some schools have already purchased dedicated software which is only licensed for single site use, and use different networks and servers. Work is continuing to establish the most suitable form for recording this data in a secure and efficient manner. As the staff who will complete this work are currently ensuring that pupils class work and examination practices are dealt with, and dealing with other recommendations from this report, the recommendation will be implemented over the summer break and concluded by August 2018. The latest update from the Service is that School Technicians do not work over the summer holidays. Stock lists will be provided by the end of August, transferred to a standardised format, and returned by the end of September 2018. |
| | | November 2017 | |
| Integrated Children's and Family Services | Academies should be advised of the requirement to review their chemical stock and update the central list (2.6.4 b) | Significant | The Service has advised that this cannot be completed until 2.6.4 a, above, is implemented. |
| | | November 2017 | |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| Chief Officer | Recommendation | Grading / Due Date | Position |
|---------------|----------------|--------------------|----------|
|---------------|----------------|--------------------|----------|

(AC1803 – Health and Safety - SSERC – Continued)

| | | | |
|---|--|---------------|--|
| Integrated Children’s and Family Services | Training should be provided to all staff required to undertake testing or visual inspections of portable electrical appliances (2.8.3 c) | Significant | The Service has advised, as reported to Committee in February 2018, that training is being provided by SSERC and, as the earliest that they can provide it is April 2018, will require an extension until the end of May 2018. The latest update from the Service, as advised to Committee in May 2018, is that SSERC currently have some capacity issues. The Service anticipates provisional dates for PAT testing by the end of April. This should be concluded by September 2018. |
| | | November 2017 | |

| | | | | | | | |
|---------------|-------------------------|---------------|---|---|---|----------|---|
| AC1809 | Care of Children | February 2018 | 9 | 9 | 9 | 0 | 0 |
|---------------|-------------------------|---------------|---|---|---|----------|---|

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| | | | | | | | |
|---------------|-------------------------|---------------|---|---|---|---|---------------|
| AC1811 | Placing Requests | November 2017 | 9 | 7 | 5 | 2 | 1 Significant |
| | | | | | | | 1 Important |

Progress with the overdue recommendations is as follows:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|---|--|--------------------|---|
| Integrated Children's and Family Services | The Service should prepare detailed procedures for the placing request process (2.1.3) | Significant | As reported to Committee in May 2018, the Service had advised that in considering the design of the electronic processing of school placing requests, process mapping was undertaken as part of the Digital School Placings project. The Service had not yet finalised the detailed procedures for the full process, however with the work that has been completed so far in the mapping of current processes, together with more defined and prescriptive procedures arising from the recommendations of the audit report and being implemented by the Service, it is anticipated that this action could be completed by 31 July 2018. <i>(Continued over page.)</i> |
| | | January 2018 | |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

(AC1811 – Placing Requests – Continued)

| Chief Officer | Recommendation | Grading / Due Date | Position |
|---|--|-------------------------|---|
| | <i>Recommendation 2.1.3 continued</i> | | The latest update from the Service is that processes for the new digital service have been reviewed and agreed by Education and take into account the full set of recommendations from the audit report. Progress has been made since the last update on completion and stability of the system, with Head Teachers informed of the changes to take place. The implementation plan is progressing on time and launch is subject to the satisfaction of Education that the system requirements have been fully realised and all final testing complete. This will be complete by January 2019. |
| Integrated Children's and Family Services | The Service should rationalise application forms used to a single form. The Service will implement a new system which will enable this, but is dependent on prioritisation of IT transformation projects (2.2.1) | Important April 2018 | The Service has advised, as reported to Committee in June 2018, that the application process will be digitised and this will meet the recommendation. It is anticipated that the form and full system being ready for testing from 31 July 2018 with full implementation from January 2019. This timescale will enable implementation of a robust training programme. The latest update from the Service is shown against recommendation 2.1.3, above. Internal testing of the full system, including back-office elements, is underway. The customer application forms have been consolidated and will be handled through a single online form. |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|---------------------------------------|---------------|---------------------------|------------------------------------|----------------------------------|---|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |
| AC1815 | Pre-School Commissioned Places | December 2017 | 6 | 5 | 5 | 0 | 0 |
| AC1826 | Out of Authority Placements | April 2018 | 6 | 5 | 5 | 0 | 0 |

APPENDIX F

RESOURCES

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| | | | | | | | |
|---------------|---------------------------|---------------|---|---|---|----------|----------------------|
| AC1714 | Land and Buildings | February 2017 | 9 | 9 | 8 | 1 | 1 Significant |
|---------------|---------------------------|---------------|---|---|---|----------|----------------------|

Progress with the overdue recommendation is detailed below:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|--------------------|--|-------------------------|--|
| Corporate Landlord | Housing stock numbers held in the above systems should be reconciled prior to providing Estates with a record of properties to be revalued (2.7.6) | Significant May 2018 | Progress with this is being discussed with the Chief Officer – Corporate Landlord. |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| | | | | | | | |
|---------------|------------------------------|-------------|---|---|---|---|------------------------------|
| AC1805 | Attendance Management | August 2017 | 9 | 9 | 5 | 4 | 3 Significant 1 Important |
|---------------|------------------------------|-------------|---|---|---|---|------------------------------|

The position with the overdue recommendations is as follows:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|-------------------------|--|--------------------|---|
| People and Organisation | The Service should review, and update where necessary, the Maximising Attendance policy, guidance and training (2.1.3) | Important | As reported to Committee in May 2018, the Service has advised that a revised draft has been compiled but will need to be agreed with Service teams and trade unions before being approved by Committee. This will be complete by the end of September 2018. |
| | | February 2018 | |
| People and Organisation | All Services should be reminded of the Policy requirements in relation to recording absences and the management actions that need to be taken when an employee returns to work (2.2.9) | Significant | As for recommendation 2.1.3, above. |
| | | March 2018 | |
| People and Organisation | Once the training on the Maximising Attendance policy has been reviewed and updated as necessary, HR should promote its completion amongst managers (2.3.4a) | Significant | As for recommendation 2.1.3, above. |
| | | March 2018 | |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

(AC1805 – Attendance Management – Continued)

| Chief Officer | Recommendation | Grading / Due Date | Position |
|-------------------------|--|---------------------------|-------------------------------------|
| People and Organisation | HR should continue to work with Services to ensure that all staff are aware of how to access guidance and support when administering the Maximising Attendance Policy (2.3.4b) | Significant March 2018 | As for recommendation 2.1.3, above. |

| | | | | | | | |
|---------------|--|----------------|---|---|---|---|---------------|
| AC1806 | Corporate Landlord Responsibilities | September 2017 | 9 | 9 | 5 | 4 | 4 Significant |
|---------------|--|----------------|---|---|---|---|---------------|

The position with the overdue recommendations is as follows:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|--------------------|--|---------------------------|---|
| Corporate Landlord | Asset Management should work with the Health & Safety Team to align Service and Corporate Policies (2.2.6) | Significant March 2018 | The latest update from the Service is that the Council has recently amended their corporate landlord model. A full review of policy around key issues is being taken forward. The target completion date for this work is to report to the Public Protection Committee before the year end. |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|---|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

(AC1806 – Corporate Landlord Responsibilities – Continued)

| Chief Officer | Recommendation | Grading / Due Date | Position |
|--------------------|---|--------------------------|---|
| Corporate Landlord | The Service should formalise the procedures used to demonstrate compliance with its Corporate Landlord Responsibilities and other cyclical maintenance activities (2.2.3) | Significant June 2018 | The Service has advised a full review of statutory and cyclical maintenance is being undertaken which will reach a conclusion in October 2018. This will identify strengths, weaknesses and areas of improvement. |
| Corporate Landlord | The Service should ensure data regarding its Corporate Landlord Responsibilities is maintained centrally, accurately and up to date (2.3.8) | Significant June 2018 | The Service has advised a full review of statutory and cyclical maintenance is being undertaken which will reach a conclusion in October 2018. This will identify strengths, weaknesses and areas of improvement. |
| Corporate Landlord | The Service should ensure it has assurance that all property in which the Council has an interest is statutorily compliant (2.3.13) | Significant June 2018 | The Service has advised a full review of statutory and cyclical maintenance is being undertaken which will reach a conclusion in October 2018. This will identify strengths, weaknesses and areas of improvement. |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| | | | | | | | |
|---------------|--------------------------------|------------|----|----|----|----------|----------------------|
| AC1812 | Financial Ledger System | March 2018 | 14 | 14 | 13 | 1 | 1 Significant |
|---------------|--------------------------------|------------|----|----|----|----------|----------------------|

The position with the overdue recommendations is as follows:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|---------------|---|--------------------------|--|
| Finance | The Service should consult with Commercial and Procurement Services to ensure that best value can be demonstrated in continuing with the current system and that procurement legislation is complied with (2.2.5) | Significant June 2018 | C&PS is working with the Service to ensure procurement regulations and legislation are complied with. A business case will be reported to the November 2018 Strategic Commissioning Committee. |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| | | | | | | | |
|---------------|---------------------|---------------|----|----|---|----------|----------------------|
| AC1814 | Travel Costs | November 2017 | 13 | 12 | 9 | 3 | 3 Significant |
|---------------|---------------------|---------------|----|----|---|----------|----------------------|

The position with the overdue recommendations is as follows:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|---------------|---|--------------------|--|
| Finance | Procedures should be put in place to ensure that the most cost effective method of travel is approved in advance with consideration given to restricting claims for journeys outwith the Council's boundaries to the cost equivalent of the cheapest option (2.2.9) | Significant | The Service has advised, as reported to Committee in June 2018, that implementation of this recommendation is dependent upon the review of the Travel Policy which has not yet been completed. Timescales for completion of the review have not yet been determined. A further update will be provided once this has been resolved. The latest update from the Service is that the updated policy will be presented to the Staff Governance Committee in November 2018. |
| | | March 2018 | |
| Finance | The approval process for foreign travel should be reviewed and complied with (2.6.5) | Significant | The Service has advised, as reported to Committee in June 2018, that implementation of this recommendation is dependent upon the review of the Travel Policy which has not yet been completed. Timescales for completion of the review have not yet been determined. A further update will be provided once this has been resolved. The latest update from the Service is that the updated policy will be presented to the Staff Governance Committee in November 2018. |
| | | March 2018 | |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

(AC1814 – Travel Costs – Continued)

| Chief Officer | Recommendation | Grading / Due Date | Position |
|---------------|---|---------------------------|--|
| Finance | Services should be reminded to ensure that travel applications are forwarded to the Travel Team as soon as possible to ensure that cost effective travel arrangements can be made (2.6.6) | Significant March 2018 | The Service has advised, as reported to Committee in June 2018, that implementation of this recommendation is dependent upon the review of the Travel Policy which has not yet been completed. Timescales for completion of the review have not yet been determined. A further update will be provided once this has been resolved. The latest update from the Service is that the updated policy will be presented to the Staff Governance Committee in November 2018. |

| | | | | | | | |
|---------------|---------------------|------------|---|---|---|---|---|
| AC1818 | Capital Plan | April 2018 | 7 | 7 | 7 | 0 | 0 |
|---------------|---------------------|------------|---|---|---|---|---|

| | | | | | | | |
|---------------|--------------------------|---------------|---|---|---|---|---|
| AC1819 | Capital Contracts | February 2018 | 8 | 4 | 4 | 0 | 0 |
|---------------|--------------------------|---------------|---|---|---|---|---|

| | | | | | | | |
|---------------|---------------------|------------|---|---|---|---|---|
| AC1820 | PECOS System | March 2018 | 8 | 8 | 8 | 0 | 0 |
|---------------|---------------------|------------|---|---|---|---|---|

APPENDIX G

HEALTH AND SOCIAL CARE

PARTNERSHIP

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|--------------|-------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |

| | | | | | | | |
|---------------|------------------------------|--------------|----|----|----|---|---------------|
| AC1617 | Self-Directed Support | October 2016 | 21 | 21 | 20 | 1 | 1 Significant |
|---------------|------------------------------|--------------|----|----|----|---|---------------|

Progress with the overdue recommendations is detailed below:

| Chief Officer | Recommendation | Grading / Due Date | Position |
|---|---|--------------------|---|
| Head of Strategy and Transformation (ACC H&SCP) | The Service should finalise and implement the Contributing to Your Care and Support Policy and guidance (2.4.2) | Significant | <p>As reported to Committee in June 2017, the Service advised that draft guidance has been produced and was being reviewed. The policy and guidance will not be implemented until the end of October 2017.</p> <p>The Committee was advised in November 2017 that this will now be completed by April 2018 to allow a review of the charging process through the budget process and to consider implications of the Carers Act.</p> <p>The Committee was advised in May 2018, that work was progressing and a working group had been established to take forward the topic of charging for the Partnership. The Partnership is piloting the Equivalency Model as a method of Resource Allocation for self-directed support. The identification of a client's agreed budget allocation via a robust resource allocation system is a pre-requisite to enable the Partnership to move forward with the implementation of the Contributing to Your Care Policy. This will be reported and monitored through the Self Directed Support Board and full implementation was planned for September 2018.</p> <p>The latest update from the Service is that this will now take until March 2019 to complete due to other work priorities.</p> |
| | | March 2017 | |

| Report Number | Report Title | Date Issued | Number of Recommendations | | | | Grading of overdue recommendations |
|---------------|-------------------------------|----------------|---------------------------|------------------------------------|----------------------------------|--------------------------------------|------------------------------------|
| | | | Agreed in Report | Due for implementation by 31.07.18 | Confirmed Implemented by Service | Not implemented by original due date | |
| AC1801 | Adult Client Transport | September 2017 | 13 | 12 | 12 | 0 | 0 |
| AC1813 | Financial Assessments | February 2018 | 15 | 8 | 8 | 0 | 0 |
| AC1828 | Care Management | April 2018 | 13 | 7 | 7 | 0 | 0 |
| AC1821 | Social Work Payroll | January 2018 | 22 | 22 | 22 | 0 | 0 |

Exempt information as described in paragraph(s) 14 of Schedule 7A of the Local Government (Scotland) Act 1973.

Document is Restricted

This page is intentionally left blank

Exempt information as described in paragraph(s) 14 of Schedule 7A of the Local Government (Scotland) Act 1973.

Document is Restricted

This page is intentionally left blank