

## **Final Internal Audit Report**

# **Transfer of the Management of Development Funding (TMDF)**

10 July 2024

PL2401

Overall Assessment Reasonable Assurance

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This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2024/25 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2024. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

Overall Assessment Reasonable Assurance

#### Overall opinion and summary of findings

There is a generally sound system of governance, risk management and control in place for managing the transfer of management development funding (TMDF) process. Some scope for improvement was identified, which if not addressed, may put at risk the achievement of objectives in the area audited. The following improvement actions are recommended:

- the payment authorisation process should be reviewed to ensure there is clear evidence of payment authorisation on the HARP system and the authorisation is checked prior to processing the payment
- reasonable timescales should be established for ensuring Scottish Government (SG) signage is mounted at development sites in a timely manner and evidence of signage erection is retained
- guidance should be established for completing Registered Social Landlord (RSL) profile sheets.

#### Areas of good practice identified

- an effective process has been established to reconcile payments data between four sources prior to financial drawdown from SG
- there is consistent reporting to the SG and evidence to demonstrate scrutiny of profile sheets in progress meetings
- robust user access controls have been established to ensure movers and leavers access to the HARP system is deactivated.

#### **Audit Assessment**

#### See Appendix 1 for Control Assessment and Assurance Definitions

Audit Area	Control Design	Control Operation	Findings	Priority Rating
1. Grant Payment			Finding 1 – Recording authorisations of payments to RSLs	High Priority
2. Application of Grant			N/A – No issues noted	N/A
3. Programme Management			Finding 2 – Mounting of Development Site Signage	Low Priority
4. Monitoring & Reporting			Finding 3 – Completeness and accuracy of TMDF reporting	Low Priority
5. Records Management			See findings 1 and 3	Low Priority

# **Management Response to Executive Summary**

We welcome the findings of the audit and are committed to addressing the risks highlighted. We're grateful for Internal Audit raising the potential payment authorisation risk and in utilising the HARP system to address this. The Council's approach to payment authorisations and grant offers is in line with the agreed Scheme of Delegation and any grant offer exceeding £7m requires Scottish Government sign-off, payments in HARP system cannot exceed the amount of the grant offer to the RSL. In line with the recommendations of this audit, the Council will implement the agreed management actions below and will discuss with Scottish Government whether any further amendments to the HARP system are required. In addition to the controls that the Council and Scottish Government have, RSLs have their own controls in place. Therefore, officers in the Housing service consider the overall risk of fraudulent activity in this area to be low.

## **Background and scope**

The City of Edinburgh Council (the Council) receives an annual development funding grant from the Scottish Government (SG) for the Affordable Housing Supply Programme (AHSP). The purpose of the funding is to provide assistance for housing under section 92 of the Housing (Scotland) Act 2001.

Development funding received from the SG in 2023/24 totalled £52.713 million and is paid in instalments following receipt of draw down notices from the Council by specified dates. The terms of the grant offer specify that the Council must manage the AHSP, and disbursement of the grant to Registered Social Landlords, in accordance with the grant procedures issued by the Scottish Ministers, and the procedures set out in the Council's Local Housing Strategy.

The SG's grant offer requires the Council to include the management of development funding in its Internal Audit plan once every two years, and to submit the audit report to the Scottish Ministers.

#### Scope

The objective of this review was to assess the adequacy of key controls established to support management of transfer of development funding from the Council to registered social landlords, in line with the Scottish Government requirements.

The review also provided assurance in relation to the following Corporate Leadership Team (CLT) risks and Business Plan Outcomes:

#### **Risks**

- Regulatory and Legislative Compliance
- Financial and Budget Management
- Fraud and Serious Organised Crime

#### **Business Plan Outcomes**

 People have decent, energy efficient, climate proofed homes they can afford to live in.

#### **Limitations of Scope**

The following areas were specifically excluded from the scope of our review:

 Processes established to identify and escalate breaches of the application of the Transfer of Management Development Funding (TMDF) grant, as they have been reviewed as part of the 2023-24 Annual Validation audit.

#### **Reporting Date**

Testing was undertaken between 2 April and 4 June 2024.

Our audit work concluded on 4 June 2024, and our findings and opinion are based on the conclusion of our work as at that date.

# **Findings and Management Action Plan**

### Finding 1 – Recording authorisations of payments to RSLs

Finding Rating High Priority

Payment requests from Registered Social Landlords (RSLs) must be authorised in line with agreed authorisation thresholds.

Consolidated authorisations for multiple RSLs are provided via email and these emails are saved to the Council shared drive by Housing colleagues. Discussion with management highlighted that since consolidated authorisations contain commercially sensitive information about other RSLs, authorisation emails are not saved to the HARP system, which is also accessible to RSLs. Instead, Housing Officers note authorisations in a comment box on the authoriser's behalf and update a manual payment spreadsheet to note the authorisation.

Further discussion with management also highlighted that Finance colleagues do not have access to the authorisation emails and do not perform any additional checks to confirm the authorisation.

As there is a lack of system based segregation of duties, it is possible for a HARP user to check a RSL payment request (which averaged £371,182 in 2023/24), note the authorisation, update the payment spreadsheet, and then pass the request to Finance colleagues to process the payment without intervention.

#### Risks

- **Financial and Budget Management** there is a risk that erroneous and unauthorised payments are made to the Registered Social Landlords.
- Fraud and Serious Organised Crime there is a risk that fraudulent payments can be made to the Registered Social Landlords.

## Recommendations and Management Action Plan: Recording authorisations of payments to RSLs

R	ef.	Recommendation	Agreed Management Action	Action Owner / Lead Officers	Timeframe
1	.1	The Council should enquire with the Scottish Government, owners of the HARP system, to explore the possibility of whether the system has functionality that allows authorisation to be processed on the system or functionality for authorisation emails to be saved on the system in a secure, private area.	The Council will explore both suggested options with Scottish Government. However, the implementation of the procedure in management action 1.2 will be prioritised to resolve the risks identified.	Owner: Service Director, Housing and Homelessness Leads: Senior Housing Development Officers	30/10/2024
1	.2	In the interim, and should a system based solution not be possible, finance colleagues should be provided with access to authorisation emails and pre-payment authorisation review checks should be introduced to ensure adequate segregation of duties.	The Council will develop a procedure that will require responsible officers and authorising managers within Housing & Homelessness to include relevant colleagues from the Finance & Payments teams in all future AHSP grant payment authorisation emails. This procedure will be implemented upon receipt of the 2024/25 TMDF grant offer from Scottish Government.	Owner: Service Director, Housing and Homelessness Leads: Senior Housing Development Officers	30/10/2024

The conditions of the Scottish Government's (SG) grant offer state that the Council must ensure that SG funding of housing provision is acknowledged by including its logo on all signage at development sites.

The Council has a documented procedure to ensure a lead officer makes Registered Social Landlords aware of site signage requirements and for ensuring that evidence of site signage being mounted is provided to the Council. However, the procedure does not provide timescales for completing checks to ensure site signage has been mounted.

A review of a sample of two sites found that signage had been requested for both sites but only after being prompted by the audit. For one site selected, site signage had not been mounted on site by the contractor approximately 3 months after site signage had been provided to the RSL.

#### Risks

Programme and Project Delivery – there is a risk that the Council does
not meet the conditions of the Scottish Government's grant offer, if checks
are not completed and within in a timely manner, to ensure site signage
has been mounted at development sites.

### Recommendations and Management Action Plan: Mounting of Development Site Signage

Ref.	Recommendation	Agreed Management Action	Action Owner and Lead Officers	Timeframe
2.1	The Council's procedure for ensuring site signage includes the Scottish Government's logo should be reviewed with clear timescales established for requesting and obtaining evidence of signage being mounted, including timescales for follow-up and escalation when the signage has not been erected as required.	Updates will be made to site signage procedure to include timescale of 8 weeks from delivery of signage to the site for the service to contact the RSL/Council Housebuilding Team to request that evidence be provided that signage has been erected on site.  The senior officer will review outstanding signage on a monthly basis with the responsible officer.  In the event this evidence has not been provided within 8 weeks of signage delivery this will be escalated; there will be written notification to the responsible RSL Development Director to provide the evidence within 10 working days. Repeated failures to provide evidence will be raised with the RSL as a breach of grant conditions which would also be reported to Scottish Government.	Owner: Service Director, Housing and Homelessness Leads: Senior Housing Development Officers	30/10/2024

The Council is required to monitor and report to Scottish Government (SG) on the number of housing units started and completed, in alignment with the forecasted number indicated in the SG's grant offer.

Registered Social Landlords (RSLs) are expected to provide the Council with complete and accurate information on units started and completed via the HARP system. Management advised that RSLs are effective at providing timely information through HARP about spend data, but information provided on units starts and completions is often incomplete on HARP and must be requested via meetings, calls and emails. This leads to inaccurate monthly reporting to the SG, however any variations noted are adjusted in the following month's reports.

Discussion with management highlighted that while there are contractual requirements (via grant offer letter) for the Council to provide accurate monthly information to the SG, there are no similar agreements requiring RSLs to provide this information to the Council.

In addition, there is no documented guidance for updating the RSL Profile Sheets - spreadsheets used to monitor programme delivery that are provided to SG as part of monthly reporting and are used as part of the reconciliation process prior to drawdown from SG.

Currently, data within RSL Profile Sheets can be changed by any Housing Officer with access to the shared drive.

#### **Risks**

- Programme and Project Delivery inaccurate information on the number of units started and completed is provided to the Scottish Government
- **Service Delivery** lack of guidance and absence of key officers, may result in RSL Profile Sheets being updated inconsistently or inaccurately.

## Recommendations and Management Action Plan: Completeness and accuracy of TMDF reporting

Ref.	Recommendation	Agreed Management Action	Action Owner/ Lead Officers	Timeframe
3.1	The Council should engage with the Scottish Government and raise the data quality issues arising from RSLs not currently completing the processes established to ensure complete and accurate data on units started and completed is provided through HARP.  Discussions with the SG should also consider whether agreements should be established with RSLs to require them to provide the Council with timely and accurate information as part of grant funding conditions.	The Council will seek confirmation from Scottish Government if additional grant offer letter clauses could be added to any new grant offer letters, as well as including timescales for major milestone reporting on both HARP and to the Council to ensure full and accurate data is available on projects.  If it is confirmed that it is not possible to amend the clauses, the council will seek guidance from Scottish Government on what best practice steps they can advise to ensure timely return of project data.	Owner: Service Director, Housing and Homelessness Leads: Senior Housing Development Officers	30/10/2024

3.2	Guidance for updating RSL Profile Sheets should be developed and reviewed upon substantive changes to the process.	Guidance will be developed on completion of the main programme Profile Sheets, including how to highlight any key changes made and noting the date this was carried out.  Officers working on the programme will continue to archive the Profile Sheets each month to ensure both a clear audit trail that provides evidence of changes from the start of the financial year and to guard against data being lost.	30/10/2024
3.3	RSL Profile Sheets should be password protected and reviewed to consider where data can be secured, and automation applied to ensure the integrity of data is protected.	The Programme lead will create password protection on main RSL Profile Sheet with access restricted to staff working directly on TMDF and authorising senior managers as required.	30/10/2024

# **Appendix 1 – Control Assessment and Assurance Definitions**

Control Assessment Rating		Control Design Adequacy	Control Operation Effectiveness
Well managed		Well-structured design efficiently achieves fit-for purpose control objectives	Controls consistently applied and operating at optimum level of effectiveness.
Generally Satisfactory	SOLING ADEIGN SCHIEGE CONTROL ONIGOTIVES I CONTROLE CONCIETANTIV SONIEG		Controls consistently applied
		Conformance generally sound, with some opportunity to enhance level of conformance	
Major Improvement Opportunity Design is not optimum and may put control objectives at risk Non-conformance may put		Non-conformance may put control objectives at risk	
Control Not Tested	N/A	N/A Not applicable for control design assessments  Control not tested, either due to ineffective design or control audit	

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

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

# **Appendix 2 – Areas of Audit Focus and Control Objectives**

Audit Areas	Control Objectives
Grant Payment	<ul> <li>Draw down notices and supporting evidence are reviewed and approved prior to submission to the Scottish Government (SG).</li> <li>Where funding has not been fully utilised, the underspend is less than 10% of the amount drawn and is agreed between all parties.</li> </ul>
Application of Grant	<ul> <li>The Council has established processes to ensure that the units completed during financial year 22/23 and 23/24 is as specified in table 4 of the SG's grant offer letter and any required changes are notified to the SG.</li> <li>The Council has established processes to ensure that the number of units started during financial year 22/23 and 23/24 is as specified in table 5 of the SG's grant offer letter, and any required changes are notified to the SG.</li> </ul>
Programme Management	<ul> <li>The Council works in partnership with registered social landlords to develop and implement effective strategies for local areas, consistent with the Council's Local Housing strategy.</li> <li>There are procedures to ensure that the SG's funding is acknowledged by including its logo on signage at development sites.</li> </ul>
Monitoring and Reporting	<ul> <li>Expenditure for 2023/24 does not exceed the allocation provided to the Council by the SG, and any carry forward into 2024/25 does not exceed 80% of the 2024/25 Resource Planning Assumption (RPA). (RPA is the indicative amount of future grant to be provided to the Council by Scottish Ministers).</li> </ul>
	<ul> <li>There are established procedures to provide complete and accurate monthly reporting data to the SG, including but not limiting to grant funding spend, unit approvals, unit completions, or any other ad-hoc data requested by the SG.</li> </ul>
General Data Protection Regulation (GDPR)	The Council has established processes to ensure that access to commercially sensitive data and personal data (if any) is restricted in accordance with the General Data Protection Regulation (GDPR), and the Council's records management requirements.