Governance, Risk and Best Value Committee

10.00am, Thursday 3 March 2016

Internal Audit plan 2016/17

Item number	7.1
Report number	
Executive/routine	
Wards	

Executive summary

This report summarises Internal Audit's annual planning process for the Internal Audit Plan for the period 1 April 2016 to 31 March 2017 (2016/17 plan).

Internal Audit is continuing to work towards completing the 2015/16 plan in advance of our annual report which we expect to make to Committee in June 2016.

The Internal Audit plan remains flexible, to accommodate changes in the Council's risk profile.

Links

Coalition pledges	
Council outcomes	.
Single Outcome Agreement	

Report

Internal Audit plan for 2016/17

Recommendations

1.1   It is recommended that the Committee notes the Internal Audit plan for the period 1 April 2016 to 31 March 2017.

Background

2.1   The Internal Audit plan is risk based and focuses on the governance, risk and controls within the Council. The work performed by Internal Audit supports Internal Audit's annual report. The work of Internal Audit also informs the annual Governance Statement in the financial statements.

2.2   In line with the requirements of the Public Sector Internal Audit Standards (PSIAS), the audit plan has been developed using a risk based methodology to ensure that assurance activity is focussed on the key areas of risk for the Council.

Main report

Internal Audit planning

3.1   The Governance, Risk and Best Value (GRBV) Committee's remit includes agreeing internal audit plans and ensuring internal audit work is properly planned with due regard to risk, materiality and coverage for the 2016/17 period.

3.2   Internal Audit planning:

3.2.1   optimises the use of audit time and matches the internal audit team's skill sets to individual internal audit reviews;

3.2.2   determines the requisite level of audit resource required for each planned review;

3.2.3   ensures that maximum benefit is obtained by the Council from the resources available;

3.2.4   focuses on strategic risks facing the Council and internal audit requirements, including key financial controls, governance and risk management; and

3.2.5   ensures that audit coverage is sufficient to provide an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

Draft Internal Audit Plan

3.3   The draft plan was developed using the Council's Departmental risk registers to identify the most significant areas of inherent risk facing the Council. Internal Audit then considered the level of control mapped against these risks to determine areas where assurance would be appropriate. To complement this process, Internal Audit launched a consultation programme with members of the Council's Senior Management Team and the members of GRBV in order to identify any other areas where it may be appropriate for assurance to be sought.

3.4   The areas identified from this scoping exercise were filtered through a risk base lens to ensure that the most pertinent areas of risk were incorporated, whilst also maintaining an Internal Audit footprint across the Council.

3.5   In addition, a number of operational factors were incorporated into the building of the plan, including from a resourcing perspective, the requirement for Internal Audit support to the Tattoo, the LVJB, the LBCJA, SEStran and an anticipated request to provide internal audit services to the Edinburgh Integrated Joint Board for the provision of Health & Social Care.

3.6   The plan has been prepared assuming a total of 1,222 Internal Audit days for the period, based on 43 individual reviews for City of Edinburgh Council. This is broadly similar to the 2015/16 plan which included 43 individual reviews. Should the number of Internal Audit staff change during the period and/or the required skills mix change the plan may need to be revisited.

3.7   The plan contains 4 currently un-allocated reviews. It is Internal Audit's expectation that, similar to previous years, the requirement to perform unplanned ad-hoc reviews will arise in 2016/17.

3.8   The full plan for the period is attached at Appendix 1: Internal Audit Risk Assessment & Plan 2016/17.

Measures of success

4.1   Alignment of the Internal Audit Plan to the key risks faced by the Council to ensure governance is improved, service areas take responsibility for corrective action and confidence in the management of risk is increased.

Financial impact

5.1   No direct financial impact.

Risk, policy, compliance and governance impact

6.1 The Internal Audit plan sets out the areas of focus for Internal Audit activities for 2016/17. Internal Audit provides assurance over the governance and control environment operating in the Council.

Equalities impact

7.1 There are no adverse equalities impacts arising from this report.

Sustainability impact

8.1 There are no adverse sustainability impacts arising from this report.

Consultation and engagement

9.1 The internal audit team consulted with the risk team, senior management and the elected members of the GRBV Committee.

Background reading / external references

None

Magnus Aitken

Chief Internal Auditor

Links

Coalition pledges	
Council outcomes	
Single Outcome Agreement	
Appendices	Appendix 1 - Internal Audit plan for the year April 2016 to March 2017

The City of Edinburgh Council

Internal Audit Risk Assessment and Plan 2016/17
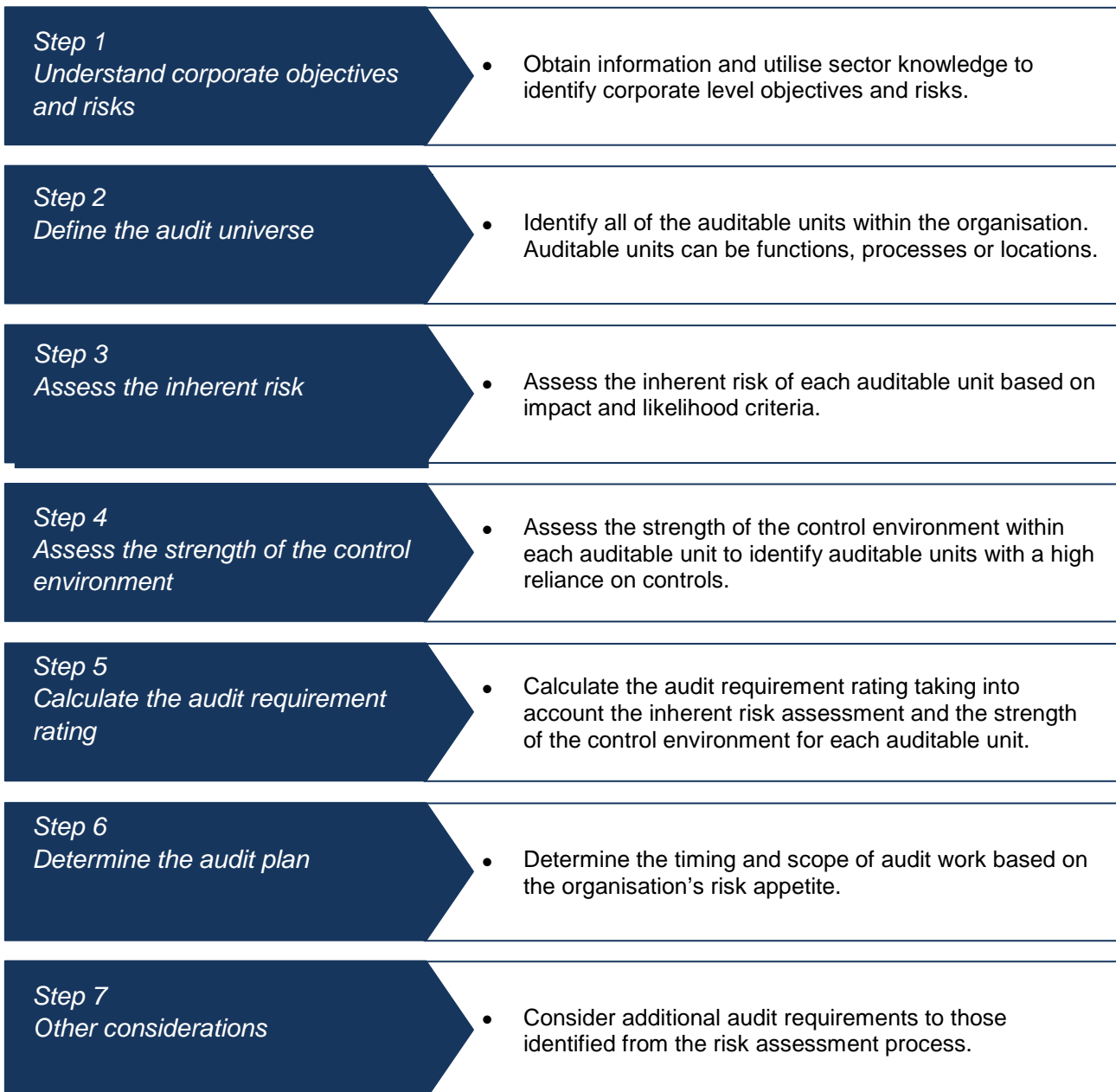
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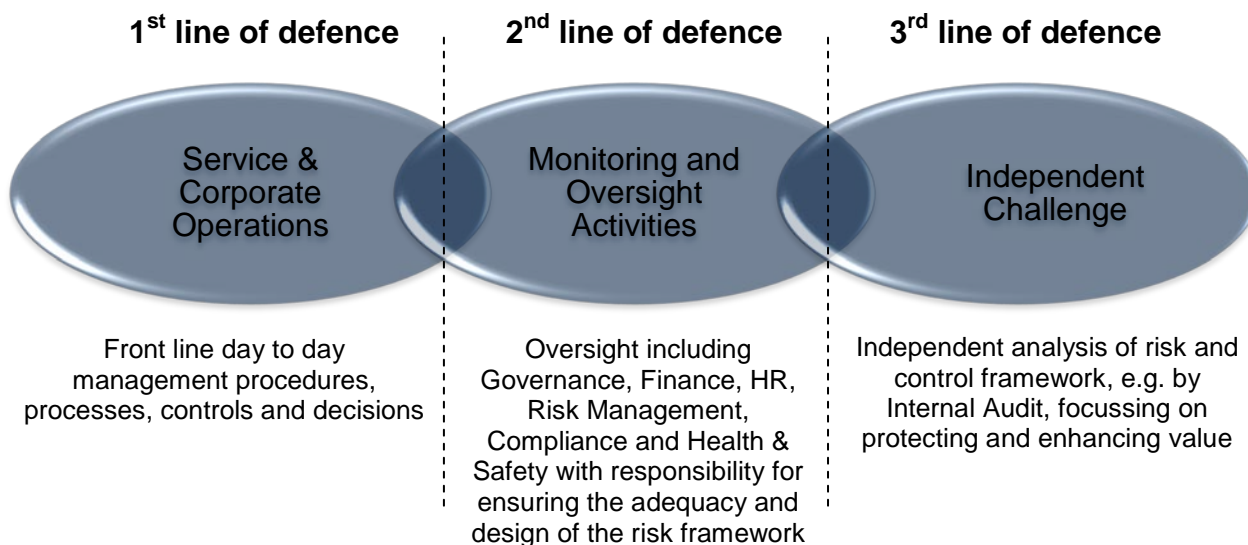# Contents

1. Introduction and Approach

Introduction

This document sets out the risk assessment and the 2016-17 internal audit plan for The City of Edinburgh Council.

Approach

The internal audit service will be delivered in accordance with the Internal Audit Charter. A summary of our approach to undertaking the risk assessment and preparing the internal audit plan is set out below. The internal audit plan is driven by The City of Edinburgh Council's organisational objectives and priorities, and the risks that may prevent The City of Edinburgh Council from meeting those objectives. A more detailed description of our approach can be found in Appendix 1 and 2.

Step 1
Understand corporate objectives and risks

- Obtain information and utilise sector knowledge to identify corporate level objectives and risks.

Step 2
Define the audit universe

- Identify all of the auditable units within the organisation. Auditable units can be functions, processes or locations.

Step 3
Assess the inherent risk

- Assess the inherent risk of each auditable unit based on impact and likelihood criteria.

Step 4
Assess the strength of the control environment

- Assess the strength of the control environment within each auditable unit to identify auditable units with a high reliance on controls.

Step 5
Calculate the audit requirement rating

- Calculate the audit requirement rating taking into account the inherent risk assessment and the strength of the control environment for each auditable unit.

Step 6
Determine the audit plan

- Determine the timing and scope of audit work based on the organisation's risk appetite.

Step 7
Other considerations

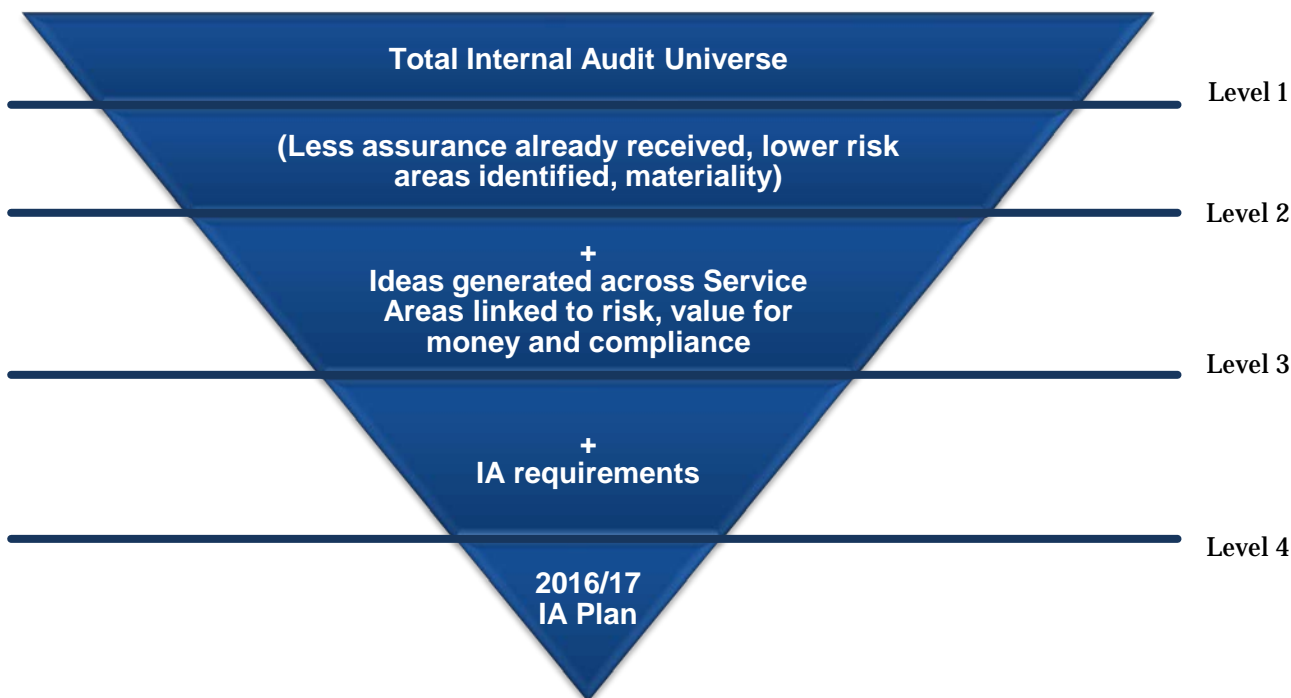- Consider additional audit requirements to those identified from the risk assessment process.

This approach takes into account the role of Internal Audit, as one of the Council's assurance providers from the 3rd line of defence:

1st line of defence	2nd line of defence	3rd line of defence
Service & Corporate Operations	Monitoring and Oversight Activities	Independent Challenge
Front line day to day management procedures, processes, controls and decisions	Oversight including Governance, Finance, HR, Risk Management, Compliance and Health & Safety with responsibility for ensuring the adequacy and design of the risk framework	Independent analysis of risk and control framework, e.g. by Internal Audit, focussing on protecting and enhancing value

Basis of our plan

The level of available resources for the internal audit service for 1 April 2016 to 31 March 2017 is 1,222 and therefore the plan does not purport to address all key risks identified across the audit universe as part of the risk assessment process. Accordingly, the level of internal audit activity represents a deployment of limited internal audit resources.

Taking into account the above, the plan is drafted as follows:

Total Internal Audit Universe — Level 1

(Less assurance already received, lower risk areas identified, materiality) — Level 2

+ Ideas generated across Service Areas linked to risk, value for money and compliance — Level 3

+ IA requirements — Level 4

2016/17 IA Plan

As set out in Public Sector Internal Audit Standards, the focus of internal audit's strategy and programme is planned around a risk-based approach. This underpins its value.

The annual Internal Audit Plan is based on a risk assessment of the audit universe in the organisation (operational, financial and other), undertaken before the beginning of the year and primarily based on the following:

- The Council's current Risk Registers;
- Regular liaison meetings with the Chief Risk Officer, Service Area directors and other senior management;
- Discussions with the members of the Governance, Risk and Best Value Committee;
- New projects/initiatives undertaken by the Council;
- Prior year Internal Audit findings; and
- Requirements of PSIAS (Governance, Risk Management, Internal Control).

The internal audit plan for 2016/17 therefore represents a balance between compliance, value add based on risk assessment and input from management (members of SMTs, CMT and GRBV).

Basis of our annual internal audit conclusion

Internal audit work will be performed in accordance with methodology aligned to Public Sector Internal Audit Standards (PSIAS). As a result, our work and deliverables are not designed or intended to comply with any other auditing standards.

Our annual internal audit opinion will be based on and limited to the internal audits we have completed over the year and the control objectives agreed for each individual internal audit. The agreed control objectives will be reported within our final individual internal audit reports.

In developing our internal audit risk assessment and plan we have taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the audit universe and key risks. We do not believe that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion.

Other sources of assurance

In developing our internal audit risk assessment and plan we have taken into account other sources of assurance and have considered the extent to which reliance can be placed upon these other sources. Other sources of assurance for each auditable unit are noted in our Risk Assessment in section 3 of this document, and a summary is given below.

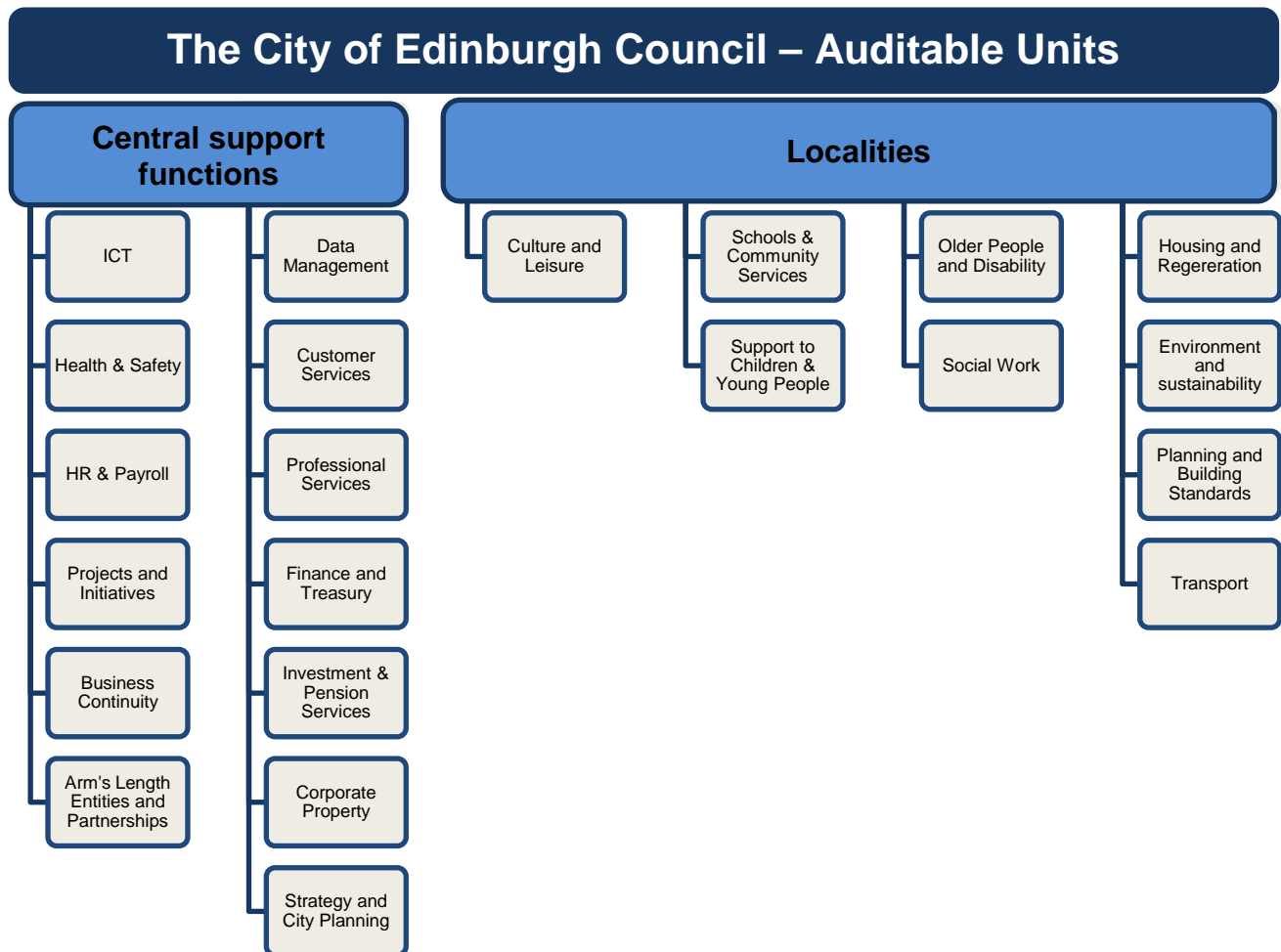The other sources of assurance for The City of Edinburgh Council are as follows:
- External inspections such as those undertaken by the Care Inspectorate, Child Protection Inspection Unit, Education Scotland and Audit Scotland.
- External audit
- Information Commissioner reviews and inspections

We do not intend to place reliance upon these other sources of assurance for our opinion. However they will be considered in assessing the strength of the control environment for each auditable unit.

2. Audit universe, corporate objectives and risks

Audit universe

The diagram below represents the high level auditable units within the audit universe of The City of Edinburgh Council for 2016/17. This has been re-asessed for this to reflect the transformation that the Council is undergoing, resulting in the elimination of Procurement, Community Safety & the Health & Social Care Integrated Joint Board as separately identifiable units and the addition of Data Management.

The City of Edinburgh Council – Auditable Units		
Central support functions	**Localities**	

Central support functions:
- ICT
- Health & Safety
- HR & Payroll
- Projects and Initiatives
- Business Continuity
- Arm's Length Entities and Partnerships
- Data Management
- Customer Services
- Professional Services
- Finance and Treasury
- Investment & Pension Services
- Corporate Property
- Strategy and City Planning

Localities:
- Culture and Leisure
- Schools & Community Services
- Support to Children & Young People
- Older People and Disability
- Social Work
- Housing and Regereration
- Environment and sustainability
- Planning and Building Standards
- Transport

Localities Model

The locality services will be grouped and managed under four geographic localities (NE, NW, SE and SW) common to both Council and other public sector organisations within Edinburgh. The Localities will be supported by the 12 existing Neighbourhood Partnerships.

Although localities are not identified as distinct audit units, audit work completed in the year will take cognisance of the potentially different risk profiles of the localities.

Health and Social Care Integration

Note that we are not representing joint body assurance as a result of the Health and Social Care Integration with NHS Lothian. However we anticipate that the Audit Committee of the Integration Joint Board will direct us to perform a number of audits. We have included 3 reviews in our plan that the Integration Joint Board can instruct to ensure that we have the capacity to fulfill this requirement.

3. Risk assessment

Risk assessment results

Each auditable unit has been assessed for inherent risk and the strength of the control environment, in accordance with the methodology set out in Appendix 1 and 2. The results are summarised in the table below.

Ref	Auditable Unit	Inherent Risk Rating	Control Environment	Colour code	Frequency	No of audits (16/17)	No of audits (15/16)	No of audits (14/15)	Other Assurance / Notes
Central Support Functions									
A	**Council wide and Resources**					**17**	**18**	**28**	
A.1	ICT	5	2	🔴	1	3	1	6	Note 3 reviews in 14/15 were c/fwd from 13/14 plan
A.2	Health and Safety	5	3	🔴	1	1	1	2	H&S perform independent audit work and school audits
A.3	HR & Payroll	5	3	🔴	1	2	-	4	Payroll Internal Audit work for 2015/16 covered by continuous testing of key financial controls
A.5	Projects & Initiatives	5	3	🔴	1	1	1	1	
A.6	Business Continuity	4	4	🟡	2	-	1	-	ISO external certification
A.7	Arm's Length Entities and Partnerships	5	3	🔴	1	1	1	-	
A.8	Data	5	2	🔴	1	1	n/a	n/a	Identified as a new audit unit for 2016/17
A.9	Customer Services	4	4	🟡	2	1	-	4	
A.10	Professional Services	4	4	🟡	2	1	1	1	
A.11	Finance & Treasury	5	4	🔴	1	1	4	6	Audit Scotland external audit and Best Value report Ongoing fraud detection and investigation support.
A.12	Investment & Pension Services	4	4	🟡	2	3	3	2	Internal Audit reviews are required to be completed annually
A.13	Corporate Property	5	2	🔴	1	2	4	2	Schools audits include Health & Safety assurance work
A.14	Strategy and City Planning	4	2	🟡	2	-	1	-	

Ref	Auditable Unit	Inherent Risk Rating	Control Environment	Colour code	Frequency	No of audits (16/17)	No of audits (15/16)	No of audits (14/15)	Other Assurance / Notes
Localities									
B	**Communities and Families**					**6**	**6**	**6**	
B.1	Schools & Community Services	5	3	🔴	1	4	3	4	Includes 15 visits to schools, early years centres and community centres under the Schools Assurance Framework
B.2	Support to Children & Young People	5	4	🔴	1	2	3	2	Assurance also gained from Care Inspectorate and Child Protection Inspection Unit visits
C	**City Insight and Planning**					**1**	**-**	**-**	
C.1	Culture and Leisure	3	3	🟡	3	1	-	-	
D	**Social Work**					**1**	**1**	**2**	
D.1	Social Work	5	2	🔴	1	1	1	2	ICT review of SWIFT (14/15 and 15/16)
E	**Health, and Social Care**					**6**	**5**	**3**	
E.1	Older People and Disability	5	2	🔴	1	2	2	1	
F	**Place**					**5**	**5**	**11**	
F.1	Housing and Regeneration	4	3	🟠	2	1	1	4	
F.2	Environment and Sustainability	4	3	🟠	2	3	1	3	
F.4	Planning & Building Standards	4	4	🟠	2	-	1	-	
F.5	Transport & Infrastructure	5	3	🔴	1	1	2	2	
G	**Other/Miscellaneous**					**4**	**4**	**5**	
G.1	Lothian Valuation Joint Board	2	4	🟢	-	1	1	1	Required to be completed annually.
G.2	Lothian & Borders Criminal Justice Authority	2	4	🟢	-	1	1	1	Required to be completed annually.
G.3	SEStran	2	4	🟢	-	1	1	1	Required to be completed annually.
G.4	Tattoo	2	4	🟢	-	1	1	1	Required to be completed annually
G.5	Integrated Joint Board	5	2	🔴	1	3	2	-	3 reviews held for work instructed by IJB audit committee
	TOTALS					**39**	**38**	**53**	

Key to frequency of audit work

Audit Requirement Rating	Frequency
🔴	Annual
🟠	Every two years
🟡	Every three years
🟢	No further work

The audit requirement rating drives the frequency of internal audit work for each auditable unit.

There is an internal audit budget of 1,222 days which means the frequency with which internal audits are scheduled has been flexed. The audit plan is a rolling programme aiming to ensure all auditable units are subject to an internal audit at least once in a three year cycle.

4. Annual plan and internal audit performance

Annual plan and indicative timeline

The internal audit plan has been split out as shown below to reflect the core areas of our Internal Audit programme determined by Council Management, risk registers, corporate priorities and Internal Audit standards.

Through discussions with Heads of Service, Directors and members of the Governance, Risk and Best Value Committee we developed a full suite of potential internal audit reviews based on our risk assessment and suggestions provided by each service.

This was then presented to the CMT to determine the reviews of highest priority and to help finalise the planned reviews, which are presented to the Governance, Risk and Best Value Committee on the following pages in the table below.

There are 43 Internal Audit reviews scheduled for 2016/17 (including contingency for additional currently unplanned reviews) compared with 42 reviews originally included under the 2015/16 audit plan. One of the planned reviews is the schools audit programme which involves visits to 15 schools. Each proposed review for 2016/17 is included in the table below and has been cross referenced to the corresponding key corporate and service area level risks, which are included within Appendices 3 and 4.

Auditable Unit	Description	Q1	Q2	Q3	Q4	Days	Link to Risk	Fraud (H/M/L)
Council-Wide and Resources								
ICT	Monitoring of Contract Payments Review the processes and controls in place to monitor payments under the new ICT contract.				✓	25	CLT4 CLT6	High
ICT	ICT Disaster Recovery Review of the Council's disaster recovery arrangements.			✓		25	CLT4 CLT10 R7	Low
ICT	External Vulnerability Assessment The review will consider the security in place and the vulnerability to external threats for key ICT systems.				✓	25	CLT2	High
Health and Safety	Health & Safety Review the development and progress of the Health and Safety Annual Plan and follow up medium and long-term findings from the 2014 review.			✓		20	CLT8 CLT12 R5 R8 CF4 HSC6 P1	N/A
HR & Payroll	Mandatory Training Review the processes and controls in place to monitor and enforce completion of mandatory training, including monitoring of key performance indicators.		✓			20	P5 CF5	Medium

Auditable Unit	Description	Q1	Q2	Q3	Q4	Days	Link to Risk	Fraud (H/M/L)
HR & Payroll	Leavers Process Review progress in implementing redesigned leavers process, including interim measures to manage the return of Council-owned equipment.		✓			20	CLT2	High
Projects	Savings realisations Assess progress in achieving planned 2016/17 savings.			✓		30	CLT5 CLT6 CLT9 R1 R2 R4 R10 HSC2 P4 P9	Low
Arm's Length Entities and Partnerships	Service Level Agreements Review arrangements with external bodies which receive administrative support from the Council.	✓				25		Low
Data	Information Commissioner's Office audit follow up Assess progress in implementing findings from the 2015/16 ICO audit.			✓		25	CLT2 HSC7 R3	High
Customer Services	Online customer services Review progress in implementing Revenue and Benefits services.		✓			25	CLT4	High
Professional Services	Risk Management Review the Council's risk management process.	✓				20	Required for audit opinion	Low
Finance	Continuous controls over key financial systems Testing of key controls within the Council's key financial systems using continuous auditing and data techniques to interrogate complete populations of data where controls are automated.	✓	✓	✓	✓	30	CF7	Fraud
Pensions	External vulnerability assessment The review will consider the security in place and the vulnerability to external threats for online modules which are externally accessible by Employers & Members of the Fund.		✓			20	CLT2	High

Auditable Unit	Description	Q1	Q2	Q3	Q4	Days	Link to Risk	Fraud (H/M/L)
Pensions	**Investments managed internally** The review will assess the processes and controls in place around internally managed funds and review the procedures in place to monitor investment performance. This will include the management of funds invested within private equity investment vehicles.	✓				20	CLT11	Medium
Pensions	**Governance of LPFE** LPFE is the Lothian Pension Fund service company which employs senior management within the Fund. The review will assess the governance arrangements & mechanisms in place to ensure conformance with external reporting & compliance requirements. The review will also consider the internal reporting mechanisms in place & supervision provided by the Pension Committee to ensure that Best Value is achieved.		✓			20	CLT11	Low
Corporate Property	**Property Maintenance** Review adequacy of the framework and controls for the identification of repairs required, prioritisation of resources and contract management.			✓		30	CLT1 CLT11 R5 R6 P1 P7	Medium
Corporate Property	**Facilities Management** Review processes and controls in place to track savings targeted through the new facilities management service.				✓	30	CLT9 CLT11 CF1 P4	Medium
Communities and Families								
Schools & Community Service	**Child protection** Review the effectiveness of the framework in place to ensure the Council meets its child protection obligations.	✓				30	CLT8 CF3 HSC5	Low
Schools & Community Service	**Contest strategy** Review the development and implementation of the anti-radicalisation strategy.		✓			25	CF3 CF6	Low
Schools & Community Service	**Complaints process** Review processes and controls in place to manage and respond to complaints.	✓				20	CF8	Medium

Auditable Unit	Description	Q1	Q2	Q3	Q4	Days	Link to Risk	Fraud (H/M/L)
Schools & Community Service	**Rotational schools audits** Follow up of self-assessments covering health and safety, financial management, child protection, workforce controls, resilience, and information security in schools and community centres.	✓	✓	✓	✓	75	CLT8 CLT12 CF1 CF4 CF7 CF10	High
Support to Children & Young People	**Contract management of care providers** Assess the processes in place to monitor the performance of external care providers. Consider the procedures used for the appointment and removal of external care providers.		✓			25	CLT11 CF3	High
Support to Children & Young People	**Named Person** Review implementation of the 'named person' requirements under the Children and Young People's Act.				✓	25	CLT8 CLT11 CF3	Low
City Insight and Planning								
Culture and Leisure	**Grants management** Assess the processes and controls in place to manage grants to third parties. Consider the procedures used to award grants and to monitor compliance with terms and conditions.	✓				20	CLT5 CLT6 CLT11	High
Social Work								
Social Work	**Pre-employment verification** Assess the processes and controls in place to ensure that satisfactory disclosure checks have been obtained for permanent and agency staff.	✓				20	CLT8 CLT11 CF3 HSC5	Medium
Health and Social Care*								
Older People	**Care home contracting** Assess the processes in place to monitor the performance of care home providers. Also review the monitoring of payments to care home providers.		✓			30	CLT3 CLT11 HSC3	High

* The two planned Health & Social Care reviews have included in the audit plan on the assumption that the Council will be directed by the Edinburgh Integrated Joint Board for Health & Social Care to provide Care at Home Services & Residential Care Home places.

		Q1	Q2	Q3	Q4	Days	Risks	Rating
Older People	**Care at Home contract** Assess the processes and controls in place to manage contractor performance and monitor payments under the new Care at Home contract.			✓		30	CLT3 CLT7 CLT11 HSC1 HSC4	High
Place								
Housing & Regeneration	**Licensing** Assess the processes and controls in place around civic licensing, including income collection.	✓				25	P3 P4 P9	Medium
Environment and Sustainability	**Recycling targets** Review arrangements in place to meet recycling targets. Assess effectiveness of processes and controls in place to monitor and measure performance.	✓				25	CLT11 P6	Medium
Environment and Sustainability	**Mortuary services** Review adequacy of arrangements in place to manage capacity.			✓		25	CLT11 P2	Low
Environment and Sustainability	**Monitoring of air quality** Review effectiveness of processes and controls in place to monitor and measure air quality.	✓				25	CLT 11	Medium
Transport	**Infrastructure inspections** Review adequacy of programme of inspections of public infrastructure such as bridges.		✓			25	CLT8 CLT11 P1	Low
Other Organisations								
LVJB	Lothian Valuation Joint Board - provision of internal audit services			✓		15	N/A	N/A
SEStran	SEStran - provision of internal audit services			✓		15	N/A	N/A
LBCJA	LBCJA – provision of internal audit services				✓	15	N/A	N/A
Tattoo	Tattoo - provision of internal audit services			✓		15	N/A	N/A
Integration Joint Board	IJB – provision of internal audit services		✓			25	N/A	N/A
				✓		25		
					✓	25		
Miscellaneous								
Internal Audit	4 additional ad hoc reviews added in the year – management/IA discretion	✓	✓	✓	✓	100	N/A	N/A
Internal Audit	Contingency	✓	✓	✓	✓	20	N/A	N/A
Internal Audit	Corporate governance work at LVJB, LBCJA and SEStran				✓	15	N/A	N/A

Internal Audit	Cycling, Walking, Safer Streets Grant , Carbon Reduction Commitment Scheme and Management of Development Funding grants	✓				15	N/A	N/A
Internal Audit	Follow up of outstanding actions	✓	✓	✓	✓	55	N/A	N/A
Internal Audit	Fraud Support	✓	✓	✓	✓	15	N/A	N/A
Internal Audit	GRBV Reporting	✓	✓	✓	✓	15	N/A	N/A
Internal Audit	Internal Audit Annual Plan 2017/18				✓	15	N/A	N/A

Appendix 1: Detailed methodology

Step 1 - Understand corporate objectives and risks

In developing our understanding of your corporate objectives and risks, we have:

- Reviewed your strategy, organisational structure and corporate risk register;
- Drawn on our knowledge of the local government sector; and
- Met with a number senior management, members of the Governance, Risk and Best Value Committee members and other Councillors.

Step 2 - Define the Audit Universe

In order that the internal audit plan reflects your management and operating structure we have identified the audit universe for The City of Edinburgh Council made up of a number of auditable units. Auditable units include functions, processes, systems, products or locations. Any processes or systems which cover multiple locations are separated into their own distinct cross cutting auditable unit.

Step 3 - Assess the inherent risk rating

The internal audit plan should focus on the most risky areas of the business. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise. The criteria used to rate impact and likelihood are recorded in Appendix 2.

The inherent risk assessment is determined by:

- Mapping the corporate risks to the auditable units;
- Our knowledge of your business and its sector; and
- Discussions with management.

Impact Rating	Likelihood Rating				
	5	4	3	2	1
5	5	5	4	4	4
4	5	5	4	4	3
3	4	4	3	3	2
2	4	3	3	2	2
1	3	3	2	2	1

Step 4 - Assess the strength of the control environment

In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit (1=poor controls to 5=strong controls). This is assessed based on:

- Our knowledge of your internal control environment;
- Information obtained from other assurance providers; and
- The outcomes of previous internal audits.

Step 5 - Calculate the audit requirement rating

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas with high reliance on controls or a high residual risk.

Inherent Risk Rating	Control Design Indicator				
	1	2	3	4	5
5					
4					
3					
2					
1					

Step 6 - Determine the audit plan

Your risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

In some cases it may be possible to isolate the sub-processes within an auditable unit which are driving the audit requirement. For example, an auditable unit has been given an audit requirement rating of 5 because of inherent risks with one particular sub-process, but the rest of the sub-processes are lower risk. In these cases it may be appropriate for the less risky sub-processes to have a lower audit requirement rating be subject to reduced frequency of audit work. These sub-processes driving the audit requirement areas are highlighted in the plan as key sub-process audits.

Step 7 - Other considerations

In addition to the audit work defined through the risk assessment process described above, we may be requested to undertake a number of other internal audit reviews such as regulatory driven audits, value enhancement or consulting reviews. These have been identified separately in the annual plan.

Appendix 2: Risk assessment criteria

Determination of Inherent Risk

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

Impact rating	Assessment rationale
5	Critical impact on operational performance; or Critical monetary or financial statement impact; or Critical breach in laws and regulations that could result in material fines or consequences; or Critical impact on the reputation/brand of the Council which could threaten its future viability.
4	Major impact on operational performance; or Major monetary or financial statement impact; or Major breach in laws and regulations resulting in significant fines and consequences; or Major impact on the reputation or brand of the Council.
3	Moderate impact on the Council's operational performance; or Moderate monetary or financial statement impact; or Moderate breach in laws and regulations with moderate consequences; or Moderate impact on the reputation of the Council.
2	Minor impact on the Council's operational performance; or Minor monetary or financial statement impact; or Minor breach in laws and regulations with limited consequences; or Minor impact on the reputation of the Council.
1	Insignificant impact on the Council's operational performance; or Insignificant monetary or financial statement impact; or Insignificant breach in laws and regulations with little consequence; or Insignificant impact on the reputation of the Council.

Likelihood rating	Assessment rationale
5	Has occurred or probable in the near future
4	Possible in the next 12 months
3	Possible in the medium term (2-5 years)
2	Possible in the longer term (5-10 years)
1	Unlikely in the foreseeable future

Appendix 3: Corporate Risks

Corporate level objectives and risks have been determined by The City of Edinburgh Council. The prioritised inherent risks facing the Council as at December 2015 are recorded in the table below and have been considered when preparing the internal audit plan. The internal audit plan within Section 4 details how each of the planned reviews can be cross referenced to a related corporate level risk of the Council.

Corporate Leadership Team Prioritised Inherent Risks

Ref	Corporate Leadership Team	16/17	15/16	Comments
CLT1	*Maintenance of Capital Assets* - Risk that the Council does not have sufficient resources to structure and maintain a capital portfolio that is fit for purpose and meets health and safety standards now and in the future.	✓	✓	
CLT2	*Cyber Security and Data Privacy* - Risk that the Council's ICT infrastructure is overly exposed to cyber-attacks by external parties or former employees who may still have access to Council systems resulting in loss of data and significant reputational damage.	✓	✗	
CLT3	*Integrated Care Programme* - Risk over the affordability and delivery of the Adult Social Care, particularly in light of expected demographic changes, could impact the outcomes and care for the people of Edinburgh.	✓	✓	
CLT4	*ICT Infrastructure* - Risk that the ICT infrastructure is not fit for purpose and doesn't meet the present or future needs of the Council through the transition phase to the new ICT provider impacting the Council's ability to deliver services as expected.	✓	✓	
CLT5	*Transformational Change Agenda* - Risk that the Council's transformational change agenda is not implemented effectively with support from Elected Members and Trade Unions resulting in the Council failing to meet service delivery outcomes impacting cost reductions and staff morale.	✓	✓	
CLT6	*Savings Targets* - Risk that the Council does not generate sufficient savings to meet budgets in the short and longer term resulting in under delivery of key services.	✓	✓	
CLT7	*Planning for Increased Demand* - Risk of a lack of strategic planning in relation to increasing demand for critical services, taking into account the growth in the City's population as well as changing demographics, leading to a shortfall in funding and a lower quality of service.	✓	✓	
CLT8	*Public Protection* - Risk that the public in general and service users in particular experience harm and/or negative outcomes through either a lack of adequate resource or process failure.	✓	n/a	New risk identified for 2016/17
CLT9	*Workforce Planning* - The organisational model to deliver critical services is not optimised to allow the Council to build a flexible, motivated and high performing workforce, resulting in inefficient service delivery and budget overspend.	✓	✓	
CLT10	*Service Provider Degradation* - Risk of ICT disruption and outages for the remainder of the existing outsourced provider contract impacts 'business as usual' and the Council's ability to deliver all requirements as expected.	✓	✓	
CLT11	*Delivering Council Commitments* - Risk that the Council does not appropriately prioritise resource to meet its statutory, legal and other stated delivery commitments resulting in potential harm to service users and significant reputational damage.	✓	✓	
CLT12	*Health and Safety Management* - Risk that Health and Safety policy and culture are not clearly understood and embedded in a consistent manner within the organisation, leading to a lack of accountability and responsibility which could result in avoidable harm.	✓	✓	

Appendix 4: Service Area Risks

Service level objectives and risks have been determined by The City of Edinburgh Council's Senior Management Teams. Key risks identified by the Service Area Senior Management Teams that have contributed to the risk based approach to the 2015/16 Internal Audit Plan are recorded in the tables below and are referenced in the Annual Plan of Internal Audits in Section 4.

Resources Prioritised Inherent Risks

Ref	Resources Key Risks	2016/17	2015/16	Comments
R1	*Management of Staff* - Risk that there is an inability to manage staff costs to deliver savings (e.g. non redundancy) through the transformation programme and restructuring.	✓	✓	
R2	*Transformation* – Risk of delays in the in delivering key elements of the transformation programme results in failure to maintain and deliver services.	✓	✓	
R3	*Management Information* - Risk of a lack of consistent and timely management information means managers do not have clear and accurate information on which to base decisions.	✓	✓	Accuracy and availability of management information assessed in most audits.
R4	*Stakeholders Expectations* - Risk that stakeholders expect that transformation is all that is necessary to accomplish future savings targets.	✓	✓	
R5	*Capital Estate* - Risk that there is a lack of a structured review programme to ensure the capital estate meets health and safety standards.	✓	✗	
R6	*Capital Estate* - Risk that there are insufficient resources to ensure the capital estate is fit for purpose in the future.	✓	✓	
R7	*ICT Outages and Disruption* - Risk of ICT disruption and outages for the remainder of the existing ICT contract impacts 'business as usual' and the Council's ability to deliver its statutory requirements.	✓	✗	
R8	*Health and Safety* - Risk that there are inadequate processes and procedures in place to meet the requirements of the Corporate Health and Safety Policy could expose staff and/or service users to risk of harm.	✓	✓	
R9	*Business Continuity Planning* - Risk of a lack of clarity by Senior Management on the Business Continuity framework leads to an increased risk of significant disruption to individual services in the event of an incident.	✗	✓	
R10	*Skills and Capacity* - Risk that the Council has limited capacity/skills to deliver key both transformational change projects.	✓	n/a	New risk identified for 2016/17

Communities and Families Prioritised Inherent Risks

Ref	Children & Families Risks	2016/17	2015/16	Comments
CF1	*Integrated Property Facilities Management* - Risk that lack of properly resourced and effective Integrated Property Facilities Management resulting in shortcomings in service delivery.	✓	✓	
CF2	*Local Development Plan - Educational Infrastructure* - Risk that insufficient funding will be secured from developer contributions to fully fund the educational infrastructure requirements which would be required to support the additional pupils generated from the significant housing development identified in the second Local Development Plan.	✗	✓	
CF3	*Protection of vulnerable children* - Risk of harm/exploitation in relation to the protection and safety of vulnerable children and young people (including those in our care).	✓	✓	
CF4	*Health and Safety compliance* - Risk that non-compliance with Health and Safety legislation leads to employee / service user injury and/or regulatory fines	✓	✓	
CF5	*Mandatory Learning* - Risk that approaches to mandatory learning are neither proportionate nor robust resulting in training not being in place to manage risks. Management of mandatory learning and the tools to assist this need to be fit for purpose to manage the risk.	✓	n/a	
CF6	*Contest Strategy* - Risk that there is not a robust enough approach to ensure awareness of Contest and the associated Police Scotland Prevent strategy to ensure staff know how to identify potential or actual radicalisation	✓	n/a	
CF7	*Budget management* - Risk that inadequate management of current and future budgets results in inability to maintain and deliver statutory, education and care service obligations with consequent impacts on service users	✓	✓	
CF8	*Organisational change* - Risk that significant organisational change has negative impact on staff with associated negative impact on service users and potential increased financial costs to the organisation	✓	✓	
CF9	*Fraud* - Risk of financial loss and reputational damage as a result of significant fraud/bribery/corruption	✓	✓	
CF10	*Infection control* - Risk that infection is not prevented or in the case of an outbreak not adequately controlled – or that cleaning regimes are reduced or inadequate - across the network of schools and establishments	✗	✓	

Health and Social Care Prioritised Inherent Risks

Ref	Health and Social Risks	2016/17	2015/16	Comments
HSC1	*Service delivery* - Failure to procure a new fit for purpose Care at Home contract during 2015/16	✓	✓	
HSC2	*Integration* - Interim management arrangements for the Integration Joint Board put at risk the effective delivery of safe services; the achievement of agreed savings targets and the constructive engagement of staff	✓	✓	3 reviews held for IJB's audit committee to direct.
HSC3	*Service delivery* - Reduced service budgets and increasing volume of demand and complexity mean we cannot meet all the assessed needs of the people of Edinburgh	✓	✓	
HSC4	*Service delivery* - Care at Home contract payment rate is insufficient to allow for recruitment/ retention of care staff in numbers required to meet demand. Resulting lack of capacity will lead to increases in levels of unscheduled care, delayed discharge from hospital and increases in community waiting lists	✓	✓	
HSC5	*Service delivery* - Risk of harm to communities and individuals caused by failure to provide effective care and protection to people receiving health and social care service	✓	✓	
HSC6	*Health and Safety* - Personal injury or loss arises out of failure to meet Health and Safety requirements	✓	✓	

Note: The Edinburgh Intergration Joint Board for Health & Social Care is in the process of pulling together its own risk register prior to the transfer of responsibilities. Is is anticipated that the Council's risk environment and registers will change subsequent to the transfer, to reflect the change of responsibilities.

Place Prioritised Inherent Risks

Ref	Place Risks	2016/17	2015/16	Comments
P1	Due to insufficient inspections and maintenance, there is a risk of escalating structural degradation leading to failure of one or more structures potentially resulting in death or severe injury to the public and major service disruption.	✓	✓	
P2	The City Mortuary operates close to maximum capacity and as a result of large scale incident or sudden increase in demand we would be unable to meet statutory obligations and incur substantial financial and reputational loss.	✓	n/a	New risk identified for 2016/17
P3	Insufficent clarity and communication of Counter-Fraud and Anti-Bribery responsibilities and processes may lead to inadequate prevention, detection and enforcement. This would likely result in the Council failing to meet legislative requirement under the Anti Bribery Act, as well as significant financial loss and reputational damage to the Council.	✓	✓	Continuous testing of key financial controls addresses risk of fraud.
P4	Inadequate or poorly communicated change management plan and transitional arrangements may result in failure to fully meet budgetary reduction requirements and service delivery falling below acceptable standards.	✓	✓	
P5	Delivery and enforcement issues for Mandatory Training within the Council are resulting in a lack of staff awareness around key responsibilities and processes. This may result in the Council failing to meet legislative requirements, as well as significant financial loss and reputational damage to the Council.	✓	n/a	New risk identified for 2016/17
P6	Significant growth within the City and increased service demand has resulted in substantial service pressures with risk that we are unable to meet future growth demand (LDP and Waste)	✓	✓	
P7	Capital investment process does not capture all assets and their lifecycle costs (e.g. assets donated to schools) leading to unplanned increased pressure on R&M budget.	✓	n/a	New risk identified for 2016/17
P8	The high level of temporary positions, structural reorganisation, increased workload and uncertainty is impacting upon staff morale and could result in inconsistencies and inefficient use of resources.	✗	✓	
P9	Service demand exceeds capacity to deliver due to budgetary cuts and reduced investment in resources and infrastructure.	✓	✓	
P10	Increased service pressures, adverse economic conditions and reduced investment in training leads to appropriately trained and skilled staff falling below the minimum acceptable levels required to deliver the service.	✗	✓	