

Governance, Risk and Best Value Committee

10.00am, Thursday, 9 March 2017

Internal Audit Quarterly Update Report: 1 October – 31 December 2016

Item number	7.3
Report number	
Executive/routine	
Wards	

Executive summary

Internal Audit has made reasonable progress in the third quarter of the audit year. This report provides details of the activity from 1 October – 31 December 2016.

Links

Coalition pledges	PO30
Council outcomes	CO25
Single Outcome Agreement	

Internal Audit Quarterly Update Report: 1 October – 31 December 2016

1. Recommendations

- 1.1 Committee is requested to note the progress of Internal Audit in issuing 13 internal audit reports during the quarter and to note the areas of higher priority findings for reviews issued in this quarter.
- 1.2 Committee is requested to refer the report noted in Appendix 1 as potentially being of interest to the Audit and Risk Committee of the Edinburgh Integrated Joint Board (IJB) to that Committee.

2. Background

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

3. Main report

Audit Findings for the period

- 3.1 Internal Audit has made reasonable progress in the third quarter of the audit year with 13 reports being issued for the quarter. These reports contain a total of three High, 23 Medium and nine Low findings.
- 3.2 The status of outstanding recommendations from reports issued prior to this period is discussed in the report 'Internal Audit follow-up arrangements: status report from 1 October 2016 to 31 December 2016'.
- 3.3 Appendix 1 provides a summary of reports and the classification of findings in the period. A copy of all final reports is available to members.
- 3.4 Appendix 2 provides a summary of the High Risk findings and associated management actions.

External assessment

- 3.5 The Public Sector Internal Auditing Standards (PSIAS) that govern our activities requires that the service undergo an external quality assessment (EQA) every five years. In order to obtain this, the Internal Audit function joined the 'Partnering Scheme' promoted by the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), which is a sub-group of CIPFA.
- 3.6 Under the SLACIAG scheme, the service areas are subject to an EQA by the Chief Internal Auditor of North Lanarkshire, which was undertaken between November 2016 and January 2017. This is an important mile stone in our development as an organisation that is dedicated to continuous improvement.
- 3.7 The outcome of the EQA was positive with Internal Audit assessed as **fully conforming** with the PSIAS. A copy of the EQA report received is enclosed as Appendix 3.
- 3.8 The EQA made three recommendations for improvement. These were all classified as minor. Two of these items can be addressed by making modest changes to documentation in the reporting to this Committee. Internal Audit intends to make these changes.
- 3.9 The final recommendation is in connection with the lack of current Service Level Agreements (SLA)s with Joint Bodies. This is something that Internal Audit recognises and was reported on in our Annual Report in June 2016. Internal Audit are currently in the processes of implementing an SLA governing the internal audit activities that are undertaken for the Edinburgh Integration Joint Board (EIJB). The draft SLA has been approved by the both the Council's and NHS Lothian's legal teams. It will be signed and put in place imminently. It is our intention to use this as a template for the other joint bodies.

4. Measures of success

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

5. Financial impact

- 5.1 None.

6. Risk, policy, compliance and governance impact

- 6.1 If Internal Audit recommendations are not implemented, the Council will be exposed to the risks set out in the relevant detailed Internal Audit reports. Internal Audit recommendations are raised as a result of control gaps or

deficiencies identified during reviews therefore overdue items inherently impact upon compliance and governance.

- 6.2 To mitigate the associated risks, the Committee should review the progress of Internal Audit and the higher classified findings, and consider if further clarification or immediate follow-up is required with responsible officers for specific items.

7. Equalities impact

- 7.1 No full ERIA is required.

8. Sustainability impact

- 8.1 None.

9. Consultation and engagement

- 9.1 None.

10. Background reading/external references

- 10.1 None.

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Chief Internal Auditor

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Links

Coalition pledges	PO30 - Continue to maintain a sound financial position including long-term financial planning
Council outcomes	CO25 - The Council has efficient and effective services that deliver on objectives
Single Outcome Agreement	
Appendices	Appendix 1 – Summary of Internal Audit report findings issued for period of 1 October 2016 – 31 December 2016. Appendix 2 – Summary of High Risk Findings and Management Actions for period of 1 October 2016 – 31 December 2016. Appendix 3 – EQA Final Report – 27 January 2017

Summary of Internal Audit reports issued for period 1 October 2016 – 31 December 2016

Internal Audit reports				
Title of Review	High Risk Findings	Medium Risk Findings	Low risk Findings	Advisory Comment
Online Customer Services – HMO Licensing – RES 1607	2	1	-	-
Lothian Pension Fund - 3rd Party ICT Supplier Risk – RES 1614*	1	1	-	-
Health & Social Care: Pre-Employment Verification – SW1601#	-	6	-	-
Risk Function: Governance, Strategy & Process - RES 1608	-	3	1	1
Non-Housing Invoicing – MIS 1601	-	3	-	-
Mortuary Services – PL 1603	-	3	2	-
Care Home Debt Management – HSC 1601#	-	2	2	
Management of Care Providers – CF1620	-	2	3	-
Lothian Pension Fund – Governance of LPF Group – RES 1613	-	1	1	2
Facilities Management (Transformation Programme) - RES 1616	-	1	-	-
Recording of Annual Leave & Sickness – CG 1516#	-	-	-	-

<i>Total</i>	3	23	9	3
Other Internal Audit Reports				
Review Recommend: Essential Learning – RES 1602#	N/A	N/A	N/A	N/A
Children & Families Assurance Framework+	N/A	N/A	N/A	N/A

* This review was subject to scrutiny by the Pensions Audit Sub-Committee and was considered by them (as a B agenda item) in December 2016. It is included within this appendix for the information of the GRBV members and given its status, the high risk finding is not detailed in appendix 2 of this report.

These reviews may be of interest to members of the Audit and Risk Committee of the Edinburgh Integrated Joint Board and it is proposed that these reviews are referred to that Committee.

+ This report was subject to scrutiny in February's GRBV Committee meeting.

City of Edinburgh Council

Internal Audit

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

(1 October 2016 – 31 December 2016)

Contents

Section 1 – Online Customer Services – HMO Licensing 2

Section 1 – Online Customer Services – HMO Licensing

RES 1603

Total number of findings

	Critical	High	Medium	Low
Total	-	2	1	1

Background

The Enterprise Integration (EI) Workstream is a flagship project for the Council and a key work stream within Transformation Programme. The EI Workstream project aims to make better use of digital services so that customers have more choices for how they access services, and services are available at times that suit them and on devices that suit them.

The EI Workstream project will bring 150+ transactions online, with a support structure of on-line kiosks and customer service advisers in community hubs. High volume, low value transactions such as reporting missed bin collections have been online since 2014. Council Tax transactions could be completed online from January 2015, and the implementation of Benefits modules is underway. There is a phased approach for remaining transactions in 2016/17 and 2017/18.

At the time of audit in August and September 2016, the project was significantly delayed and the project plan was being reset.

The review focused on the HMO licensing work stream, which was due to go live in Autumn/Winter 2016.

Scope

The scope of this review will be to assess the design and operating effectiveness of the Council's controls relating to the implementation of Enterprise Integration work stream for HMO licensing.

The sub-processes and related control objectives included in the review are:

- Project Delivery;
- Key Processes;
- Staff Engagement; and
- Customer Engagement.

Testing will focus on project governance and process design for the licensing work stream of the EI programme.

Summary of High Risk Findings

Communication with key stakeholders

Communication with the Head of Service and Service Manager for Licensing about the development and delivery of the HMO Licensing work stream has been irregular and limited to date.

There was a 2-week consultation period in winter 2015 at the beginning of the project, but there has been limited communication since. There is no representative from the service area on the Project Board, and key programme documents have not been shared with the service area including:

- The Project Initiation Document (PID);
- The design document (which maps both the existing and the proposed processes);
- ICT and Transformation Service Level Agreements;
- Risk registers (with no process of escalation of the risks from the Service Area to the programme);
- Agendas and minutes from Project Board and other key group meetings; and
- Support available to the service area during and post-implementation.

There is no stakeholder engagement stage incorporated in the project plan.

We note that the design document for the HMO licensing online platform states that '[the] Licensing Team [is] to own policy and guidance documents development to accommodate an online platform.' It is unclear how they can do this effectively without involvement in its design and implementation.

Delivery of Licensing work stream

There is an EI Project Board which includes representatives from the Council, CGI and Agilisys which oversee the implementation of the EI programme and all work streams. This Board monitors the project plan (which is being reset due to delays) and the status of all work streams.

However, we were unable to obtain detailed project plans for the HMO Licensing work stream including:

- A project timetable and key milestones;
- A risk register; and
- Contingency plans for the 'go live' date and early stages of implementation.

We note that this is the first time the supplier has designed HMO Licensing software, and it is only the second work stream due to be delivered in the EI programme. As such there is a higher degree of risk attached to this project (as illustrated problems developing key interfaces which support automation), and close project management is essential.

Recommendations and Agreed Management Action for High Risk Findings

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
<p>Communication with key stakeholders</p> <p>The Project Board should include representatives from the live Service Area projects to ensure all critical documentation is shared and service and legislative requirements are considered, managing stakeholder expectations at each stage of the project. The Project Board may decide that this is most effectively managed through the creation of working groups for key work streams.</p>	<p>As part of the Programme 'reset', the programme governance and model used for business engagement is being reviewed, clarified and improved. This will include standardised documentation.</p> <p>When the detailed plan is received from CGI/Agilisys in April 2017 Working Groups for each "release" will be convened to include Subject Matter Experts from each of the relevant service areas. Re-engagement across senior and frontline stakeholders is currently</p>	<p>31 May 2017</p>	<p>Not due</p>

Recommendations	Agreed Management Actions	Target Date	Status of Actions Due
	<p>being planned to refresh the message and planned outcomes of the Programme, to support buy-in across the organisation.</p> <p>Responsible Officer: Programme Manager – Channel Shift</p>		
<p>Delivery of Licensing work stream</p> <p>The Project Board should include representatives from the live Service Area projects to ensure all critical documentation is shared and service and legislative requirements are considered, managing stakeholder expectations at each stage of the project. The Project Board may decide that this is most effectively managed through the creation of working groups for key work streams.</p>	<p>We recommend that key project documentation is maintained for each work stream including:</p> <ul style="list-style-type: none"> • A project timetable and key milestones; • A risk register, for HMO Licensing, with 'red' risks to be escalated to the EI project risk register; and • Contingency plans for the 'go live' date and early stages of implementation. <p>The Project Board may wish to consider setting up working groups for key work streams to ensure regular oversight of the project at a more granular level than the Project Board can achieve.</p> <p>Responsible Officer: Programme Manager – Channel Shift & the Enterprise Architect</p>	31 May 2017	Not due

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



SCOTTISH LOCAL AUTHORITIES

Chief Internal Auditors' Group

To:	HEAD OF LEGAL AND RISK (as Chief Officer with line management responsibility for Internal Audit) COUNCILLOR JOANNA MOWAT, (as Chair of the Governance, Risk and Best Value Committee (GRBV) - the Council Committee with oversight responsibility for internal audit matters)	CITY OF EDINBURGH COUNCIL EXTERNAL QUALITY ASSESSMENT OF THE INTERNAL AUDIT SERVICE FINAL REPORT
From:	KEN ADAMSON, HEAD OF AUDIT AND INSPECTION, NORTH LANARKSHIRE COUNCIL	
Date:	27 January 2017	

1 **Purpose of Report**

- 1.1 To report to the results of a recently completed External Quality Assessment Review (EQAR) of the extent to which the Council's internal audit service is complying with the requirements of the Public Sector Internal Audit Standards (PSIAS).

2 **Background**

- 2.1 The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector* (PSIAS).
- 2.2 The PSIAS sets out a range of key requirements with which internal audit functions and organisations are expected to comply covering a broad range of relevant areas including:
- Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards (covering areas such as responsibility, independence, proficiency and quality); and
 - Professional Standards (covering areas such as managing activity, nature of work undertaken, engagement planning, performing the engagement, communicating results, monitoring progress and risk management).
- 2.3 The PSIAS requires the 'Chief Audit Executive (CAE)', the Council's Chief Internal Auditor, to carry out an annual internal self-assessment against the PSIAS and develop a quality assurance and improvement plan (QAIP) based on the outcome.
- 2.4 The PSIAS also requires the self-assessment to be subject to an External Quality Assessment Review (EQA) at least once every five years, by appropriately qualified and independent reviewers. The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) have developed a "peer review" framework as a cost effective means of complying with this requirement. City of Edinburgh Council has previously agreed to participate in this workstream.

3. Scope of review and work undertaken

- 3.1 The EQAR was undertaken by the Head of Audit and Inspection from North Lanarkshire Council. The review, which took place between November 2016 and January 2017, was based on an updated self-assessment completed by the City of Edinburgh Council Internal Audit team in October 2016.
- 3.2 The review methodology included a detailed consideration of the latest self-assessment and supporting evidence completed by audit management. Discussions were also held with key stakeholders (including the Chair of the GRBV Committee, the Head of Legal and Risk and the Council's s95 officer) to obtain a fuller understanding of how Internal Audit operates and interacts with key stakeholders.
- 3.3 Detailed additional testing was undertaken using a standard checklist and involved a review of a range of Internal Audit guidance and process documents, consideration of the Council's governance arrangements in relation to Internal Audit, examination of a sample of 2016-17 audit files and consideration of Internal Audit outputs.
- 3.4 The review focused on the operation of the internal audit service and did not undertake any specific work to assess the effectiveness of the GRBV Committee.

4. Results of the EQA review

- 4.1 The overall conclusion arrived at following completion of the comprehensive EQA checklist and based on the results of the work undertaken, is that in my opinion the City of Edinburgh Council Internal Audit Service **fully conforms** with the PSIAS.
- 4.2 Our detailed assessment in respect of each of the individual elements of the PSIAS is summarised in Appendix 1 of this report.
- 4.3 We have identified a range of good practice examples including well documented and embedded internal audit methodologies, a robust and transparent audit planning methodology and effective reporting arrangements.
- 4.4 There were no issues identified on which we have raised significant recommendations. We have raised a small number of suggested improvement actions for the Chief Internal Auditor to consider, although these are relatively minor suggestions and none of the issues raised are considered to be material in relation to PSIAS or to our assessment. Suggested improvement actions are included at Appendix 2. These should in due course be added to the QAIP and progress addressing them reported to the GRBV Committee.
- 4.5 I would like to thank all those involved for the co-operation and assistance received during the course of the review.

Ken Adamson
Head of Audit and Inspection
North Lanarkshire Council

For further information please contact Ken Adamson, Head of Audit and Inspection, North Lanarkshire Council on 01698 302188

Appendix 1 EQAR Summary of Assessment

Assessment Area	Fully conforms	Generally conforms	Partially conforms	Does not conform
<u>Section A - Definition of Internal Auditing:</u> Key areas within the standards that contribute towards the assessment of whether or not the Internal Audit activity meets the definition of Internal Auditing.	√			
<u>Section B - Code of Ethics:</u> Key areas within the standards that contribute towards the assessment of whether or not individual auditors comply with the Code of Ethics.	√			
Section C - Attribute Standards				
<u>1000 Purpose, Authority and Responsibility:</u> The standard sets out that the purpose, authority and responsibility of the internal audit activity must be defined in an Internal Audit Charter. It should define the nature of assurance services and consulting activities as well as internal audit's position in the organisation and relationships between the Chief Audit Executive and the Board.	√			
<u>1100 Independence and Objectivity:</u> The standard sets out the organisational and reporting lines expected to promote and preserve the organisational independence of the internal audit activity. It also sets out the arrangements expected to achieve individual objectivity and for dealing with potential and actual conflicts of interest.	√			
<u>1200 Proficiency and Due Professional Care:</u> The standard sets out the necessary requirements to ensure that the internal audit team possesses the knowledge, skills and other competencies to effectively carry out their professional responsibilities applying due professional care.	√			
<u>1300 Quality Assurance and Improvement Programme:</u> The standard sets out the necessary requirements for the internal and external assessment of performance and compliance against the PSIAS and the arrangements for reporting on results and disclosure of non-performance.	√			

Appendix 1 (continued) EQAR Summary of Assessment

Assessment Area	Fully conforms	Generally conforms	Partially conforms	Does not conform
Section D - Performance Standards				
<u>2000 Managing the internal Audit Activity:</u> The standard sets out the necessary requirements for the overall management of the internal audit activity, the preparation of the risk based Audit Plan including delivery and reporting of the Audit Plan.	√			
<u>2100 Nature of Work:</u> The standard sets out the internal audit activity that needs to be undertaken to evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.	√			
<u>2200 Engagement Planning:</u> The standard sets out the requirements necessary to develop and plan for each engagement including the objectives, scope, timing and resource allocations.	√			
<u>2300 Performing the Engagement:</u> The standard sets out the requirements necessary to gather, document, analyse and evaluate evidence to achieve the engagement objectives. Supervision arrangements and records management are also covered.	√			
<u>2400 Communicating Results:</u> The standard sets out the requirements necessary for the communication of results for individual engagements and the overall annual opinion.	√			
<u>2500 Monitoring Progress:</u> The standard sets out the expected arrangement for monitoring the implementation of agreed actions or the acceptance of the risk of not implementing.	√			
<u>2600 Communicating the Acceptance of Risks:</u> The standard sets out the expected arrangement for the escalation of unacceptable risk to the Board.	√			

Appendix 2 Recommendations arising from EQAR

Assessment Area	Recommendation	Management comments	Responsible officer and date
1100	<p>Reporting and management arrangements appear adequate and effective in ensuring that Internal Audit can fulfil its responsibilities and support and preserve the CAE's independence and objectivity. No real or apparent impairment was identified.</p> <p>The CAE may wish to consider providing specific assurance to the GRBV Committee within the Annual Report that there has been no impairment during the year to the organisational independence of the function and/or no significant threats to the independence of the internal audit activity, such as inappropriate scope or resource limitations.</p>	<p>Our view is that we cover this point implicitly in our annual report when we confirm compliance with the PSIAS, an impairment (perceived or actual) to Independence or an unacceptable scope limitation would be outwith the PSIAS.</p> <p>However we accept that an explicit statement to this effect in our annual report would be beneficial and we will ensure such a statement is included within the annual report for 2016/17 when it is presented at the June GRBV Committee.</p>	Chief Internal Auditor 30 June 2017
2000	<p>The Internal Audit Annual Plan contains documented risk assessment and planning methodology which includes narrative relating to other forms of assurance and how these will be treated by the function.</p> <p>The CAE may wish to consider whether scope exists to explain more clearly to the GRBV how other forms of assurance impact on his assessment of the strength of the control environment for each auditable unit.</p>	<p>We agree with this recommendation and have added additional narrative to the 2017/18 Annual Plan to explain in greater detail how other sources of assurance impact the control environment assessment for each auditable unit.</p>	Chief Internal Auditor 30 April 2017
2200	<p>The service delivers internal audit services to a relatively small number of outside bodies; although standard audit methodologies are used which appear PSIAS compliant and the CAE has largely addressed any potential weaknesses or issues which might arise, the Service's QAIP has identified the need to formalise Service Level agreements (SLAs) with outside bodies.</p> <p>The CAE should seek to ensure SLAs are agreed with all outside bodies to which internal audit services are delivered which address relevant roles and responsibilities and key operational arrangements.</p>	<p>We recognise this issue and highlighted it in our annual report for 2015/16. We are seeking to address this and currently are in the final stages of agreeing a draft SLA for the EIJB (it has been approved by the Council's legal team and is undergoing final review by the NHS legal team).</p> <p>Once we can get the EIJB SLA agreed, it is our intention to use this as a template for the other JB's. Given the timing of the audit cycle for the other JB, it will be Q4 of 2017/18 before these can be put in place.</p>	Chief Internal Auditor EIJB: 30 June 2017 Other JB's: 31 March 2018