

Governance, Risk and Best Value Committee

10.00am, Tuesday 20 March 2018

Internal Audit Annual Plan 2018-19

Item number	7.2
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

The purpose of this paper is to present the draft Internal Audit (IA) plan and supporting risk assessment for the period 1 April 2018 to 31 March 2019 (the 2018/19 plan) to the Committee for approval.

It is Internal Audit's opinion that the draft plan will provide the appropriate level of assurance on the control frameworks designed to manage the Council's most significant risks, and that the plan can be delivered by currently available and planned Internal Audit resources.

A total of 48 reviews are included in the draft 2018/19 plan, including 9 audits to be delivered for arms-length and external organisations.

The current co-source arrangement with PwC will continue be used in 2018/19, where the required skills sets are not available within the IA team.

No reliance will be placed on assurance reviews performed by other second and third line of defence assurance providers to support the 2018/19 Internal Audit Annual Opinion.

Internal Audit Annual Plan 2018-19

1. Recommendations

- 1.1 The Committee is requested to review and approve 2018/19 Internal Audit plan and supporting risk assessment.

2. Background

- 2.1 The IA plan is driven by Public Sector Internal Audit Standards (PSIAS) requirements; the Council's organisational objectives and priorities; and an assessment of the risks that could prevent the Council from meeting those objectives and providing services to citizens.
- 2.2 The approach applied in developing the plan considered the outcomes of work performed by across the Council by other second and third lines of defence assurance providers, and the extent to which reliance can be placed upon them.
- 2.3 The Audit Scotland Code of Audit Practice 2016 has also been considered and a coordinated and integrated approach with Scott Moncrieff (the Council's External Auditors) has been applied in developing the plan.
- 2.4 The risk assessment that supports development of the Internal Audit annual plan and drives the frequency of coverage across service areas is based upon a review of the Council's current risk registers; ongoing Internal Audit attendance at quarterly CLT and Directorate Risk Committee meetings; knowledge of new projects and initiatives undertaken by the Council; consideration of prior year Internal Audit findings; and consideration of the current open and overdue Internal Audit recommendations position.
- 2.5 Adequacy and capability of Internal Audit resources has also been reviewed to confirm that sufficient resources, skills and capability are available to support delivery of the plan.

3. Main report

- 3.1 The internal audit plan reflects the key areas of Internal Audit focus for 2018/19 and is based upon the PSIAS; the Council's organisational objectives and priorities; and an assessment of the CLT risks that could prevent the Council from meeting those objectives and providing services to citizens.

- 3.2 The plan includes an increased number of Council-wide and multiple service area reviews. These have been included to provide assurance on the key controls established to manage the most significant risks associated with services and processes that span across the Council.
- 3.3 A total of 48 reviews are included in the 2018/19 Internal Audit plan. Of these, 39 will be delivered across the Council reflecting a decrease of one audit in comparison to the 2017/18 plan.
- 3.4 As in 2017/18, 9 audits will be delivered for arm's length and external organisations: 3 for the Lothian Pension Fund, and the remaining 6 for the Lothian Valuation Joint Board (1); SEStran (1); the Edinburgh Royal Military Tattoo (1) and the Edinburgh Integration Joint Board (3).
- 3.5 The plan also includes two key Internal Audit activities: the monthly follow-up process (circa 10% of total plan days); and time for internal Internal Audit quality assessment. The last external quality assessment (EQA) was performed in 2016/17, and the next will be completed in 2021/22, in compliance with the five-year EQA cycle requirement specified in the PSIAS.
- 3.6 Some specialist skills will be required during the year and PwC will be requested to deliver 5 specialist audits. This will leave a balance of 43 audits to be delivered by the Council's Internal Audit team requiring a total of 1,345 audit days.. Contingency time (70 days) has also been reflected within the plan, although as with 2017/18 the audit plan may need to be reviewed during the year to deal with any changes in resource availability or areas of risk requiring reactive focus.
- 3.7 The Council has commenced recruitment for two additional members of staff to further reduce reliance on external providers. This approach will increase internal delivery capacity, allowing increased focus on supporting and validating implementation of management actions whilst maintaining broadly the same audit coverage as in the 2017/18 plan year.
- 3.8 A 'reserve list' of audits has also been prepared that have not been included in the plan. Where any planned audits cannot be completed (for example, where a decision has been taken that a major project will not progress), the risks associated with the areas included on the reserve list will be considered and an alternative audit selected.
- 3.9 Whilst assurance work performed by other second and third line assurance providers have been considered as part of the risk assessment processes, Internal Audit will not place reliance upon these other sources of assurance to support the 2018/19 annual Internal Audit Opinion.
- 3.10 Additional key points to note in relation to the plan are:
 - 3.10.1 Ongoing focus on major projects with four project governance assurance reviews included in the plan;
 - 3.10.2 Follow-up days have increased from 55 to 140 with the objective of supporting Service Areas in effectively implementing agreed management

actions by the agreed implementation dates and reducing the volume of overdue Internal Audit recommendations; and

3.10.3 A 'validation' audit has been introduced to assess whether management actions implemented to address historic control gaps raised by Internal Audit have been sustained and remain effective.

3.10.4 The plan also includes indicative quarterly timeframes for reviews, however some reviews (for example Payroll) require to be completed within a specific quarter to enable external audit to work with or place reliance upon Internal Audit.

3.11 A summary of specific service area coverage in comparison to 2017/18 is detailed below. Please note that specific service area coverage will increase as a result of the increased number of Council -ide and thematic reviews.

Directorate	2018/19 reviews	2017/18 reviews	Comments
Council Wide	8	5	Council wide reviews will predominantly focus on Health and Social Care; Safer and Stronger Communities; Place; and Resources (Customer)
Major Project Reviews	4	5	
Resources	11	10	
Chief Exec / Strategy and Insight	3	3	
Communities and Families	2	3	Whilst the volume of reviews has decreased, adequate assurance will be provided by inclusion in planned Council Wide reviews
Health and Social Care	1	3	Covered by Council Wide Reviews
Place	10	8	Includes 2 annual reviews of Scottish Government and Department for Transport
Safer and Stronger Communities	-	3	Whilst the volume of reviews has decreased, adequate assurance will be provided by inclusion in planned Council Wide reviews
Totals	39	40	

4. Measures of success

- 4.1 Delivery of a risk based plan that provides assurance on the key risks facing the Council and supports the 2018/19 Internal Audit Annual Opinion.

5. Financial impact

- 5.1 No direct financial impact.

6. Risk, policy, compliance and governance impact

- 6.1 The IA plan has been prepared in compliance with the annual planning requirements specified by the Public Sector Internal Audit standards.

7. Equalities impact

- 7.1 None.

8. Sustainability impact

- 8.1 None.

9. Consultation and engagement

- 9.1 The Corporate Leadership Team; Senior Management; political groups; and elected members of the Governance, Risk and Best Value Committee have been consulted and engaged when developing the plan.

10. Background reading/external references

- 10.1 [Public Sector Internal Audit Standards](#)


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11. Appendices

Appendix 1 – Internal Audit Annual Plan 2018-19

The image is a cover page for a draft internal audit annual plan. It features a scenic view of the Scott Monument in Edinburgh, Scotland, set against a clear blue sky with a few white clouds. The monument is a tall, dark Gothic-style tower with intricate carvings and a pointed top. In the foreground, there is a lush green lawn with a large field of colorful flowers, including purple and yellow blooms. Several bare trees are scattered across the middle ground, and a few people can be seen walking on a path in the lower left. The overall atmosphere is bright and pleasant.

The City of Edinburgh Council

Draft Internal Audit Annual Plan 2018/19

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1. Introduction and Approach

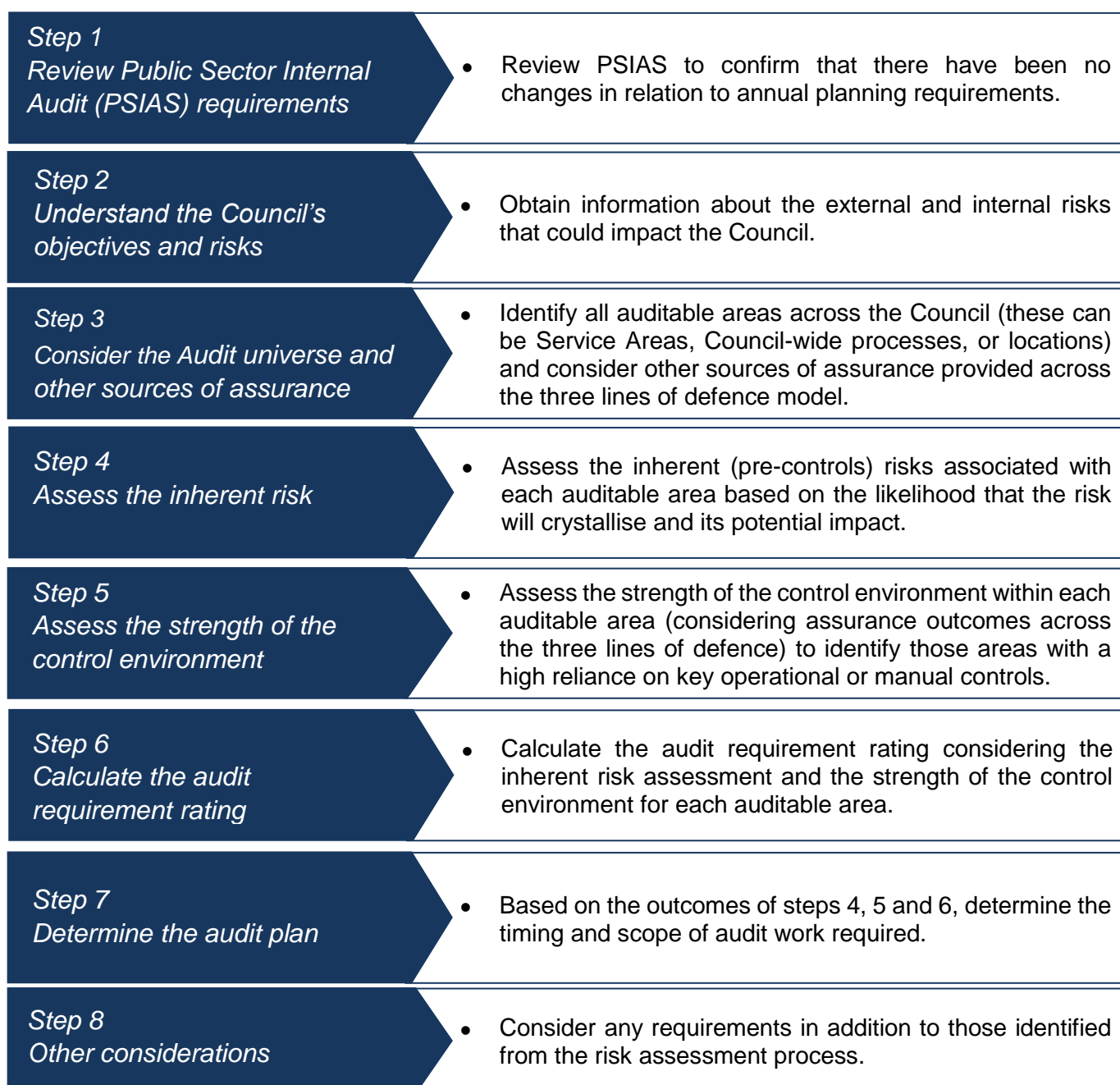
1.1 Introduction

This document sets out the scope of the Internal Audit (IA) 2018/19 annual plan and supporting risk assessment for The City of Edinburgh Council (the Council). The objective of the plan is to deliver assurance on the design adequacy and operating effectiveness of the key controls established across Council Service Areas to mitigate the Council's most significant risks.

1.2 Approach

A summary of the approach applied when assessing the Council's key risks and preparing the annual plan is set out below in Figure 1. The IA plan is driven by Public Sector Internal Audit Requirements (PSIAS); the Council's organisational objectives and priorities; and an assessment of the risks that could prevent the Council from meeting those objectives and providing services to citizens. A more detailed description of our approach can be found in Appendices 1 and 2.

Figure 1: Approach applied in developing the 2018/19 IA Annual Plan



1.3 Public Sector Internal Audit Standards Requirements – Step 1

The IA plan has been developed based on the requirements of the Public Sector Internal Audit Standards (PSIAS) which specify that:

- the Chief Internal Auditor (CIA) must develop a risk based plan that is consistent with the organisation's goals, and determines the priority of IA activity;
- the plan must be based on a documented risk assessment, undertaken at least annually, with input from senior management and the board;
- the CIA must consult with senior management and the board to obtain an understanding of the organisation's strategies, key business objectives, and associated risks and risk management processes;
- the plan must consider the requirement to produce an annual internal audit opinion;
- the plan must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to organisational objectives and priorities;
- the CIA must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval;
- the CIA must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan;
- the plan must explain how internal audit's resource requirements have been assessed. Where the CIA believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board; and
- the CIA must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.

1.4 Understand the Council's Objectives and Risks – Step 2

The annual Internal Audit Plan is based on an annual assessment of the key risks across the Council's Service Areas (the audit universe). The outcomes of the risk assessment process are included at Section 2.

The risk assessment process involved attendance at relevant risk and governance meetings, combined with stakeholder engagement across the Council to understand their perspective on the Council's objectives and new and emerging risks.

Meeting attendance and documentation review:

- Review of the Council's current Risk Registers (Corporate Leadership Team; Directorate; and Service Areas);
- Ongoing IA attendance at quarterly CLT and Directorate Risk Committee meetings;
- Regular meetings with the Chief Risk Officer, Executive Directors, and Heads of Service to identify any new and emerging risks.
- Knowledge of new projects/initiatives undertaken by the Council;
- Consideration of prior year Internal Audit findings; and
- Consideration of the status of open and overdue IA recommendations.

Stakeholder engagement:

- Elected members from all political groups
- Directors and Heads of Service;
- Members of the Governance, Risk, and Best Value Committee; and

- External audit (Scott Moncrieff).

Further details on the risk based approach and methodology applied are included at Appendices 1 and 2.

1.5 The Audit Universe and other assurance providers – Step 3

The Council's audit universe is essentially its entire organisational structure. For completion of the risk assessment and development of the annual plan, the structure has been divided into central support service areas within Resources and Strategy and Insight and citizen support service areas that provide services directly to the citizens of Edinburgh found in all Directorates.

1.5.1 Localities Model

Both the Health and Social Care Partnership and Place operate locality models, where services provided by the Council are grouped and managed under four geographic localities (North East; North West; South East; and South West) that are common to both the Council and other public and third sector organisations across Edinburgh. Localities are also supported by the 12 existing Neighbourhood Partnerships.

Whilst Localities have not been identified as distinct auditable areas within the plan, audit work performed will cover how Council services are provided across the four Localities and will consider the potentially different risk profiles across the Localities.

1.5.2 Major Project Assurance Reviews

The Portfolio and Governance team within Strategy and Insight are in the process of developing a new approach to the management of change to ensure effective oversight of the Council's Portfolio of Change and application of a consistent project management approach across all significant projects. To confirm that the new approach has been implemented effectively and is being consistently applied, IA will perform a number of project governance and management reviews of major projects as part of the 2018/19 plan. These projects have not been included as auditable areas for the purposes of the risk assessment supporting the plan. Further details of the projects to be reviewed are included at section 3.5.4.

1.5.3 Centre visits

A further review of Care Homes has also been included in the 2018/19 IA plan. This will focus specifically on the three Care Homes that were rated as 'red' following our review of the Council's ten Care Homes completed in 2017/18 in conjunction with Health and Safety and Information Governance, and will assess whether the operational control weaknesses identified have been satisfactorily addressed.

1.5.4 Lothian Pension Fund

The Council's IA team also provides audit services to the Lothian Pension Fund. This comprises three audits each year and a total of 60 audit days. These audits will be performed for the Pensions Audit and Sub Audit committees and will not be subject to scrutiny by GRBV.

1.5.5 Edinburgh Integration Joint Board

Audit services are also provided by the Council's IA team to the Edinburgh Integration Joint Board (EIJB) This comprises three audits each year and a total of 75 audit days. These audits are performed for the EIJB and will not be subject to scrutiny by GRBV. However, it is expected that the EIJB Audit & Risk Committee would refer any relevant internal audit reports to GRBV under the existing reciprocal referral arrangements.

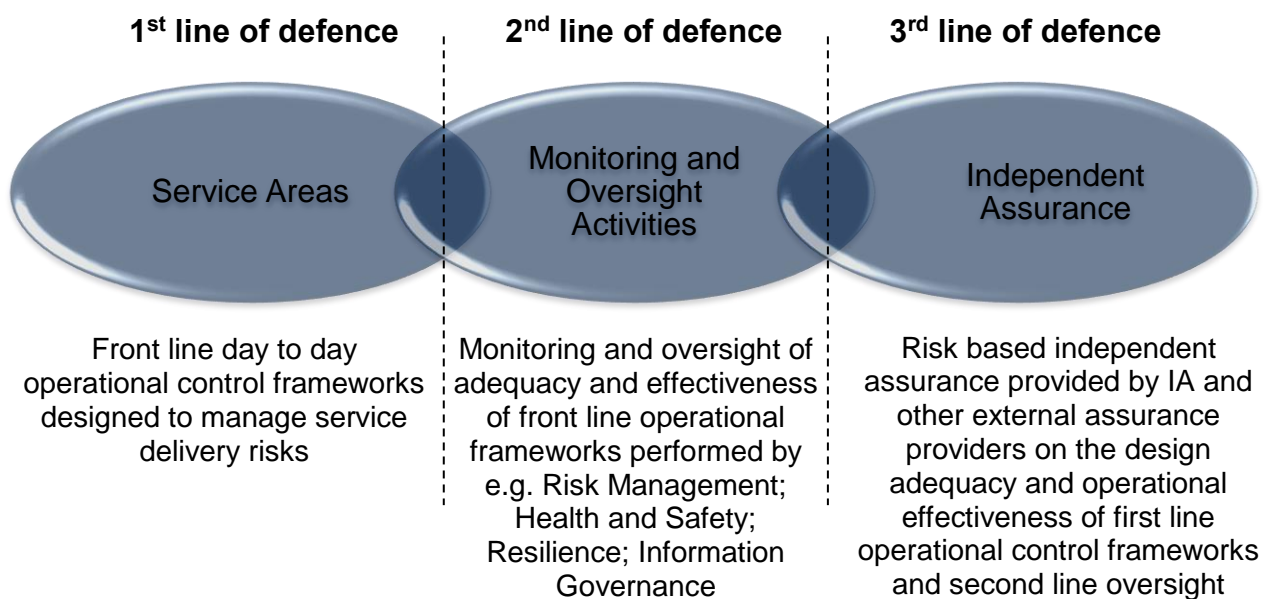
1.5.6 Other Organisations

Assurance is also provided by the Council's IA team to three external arm's length organisations (the Lothian Valuation Joint Board; the Royal Edinburgh Military Tattoo; and the South East of Scotland Transport Partnership (SEStran)). This involves one audit for each organisation and a total of 45 audit days.

1.5.7 The Three Lines of Defence Model

The approach applied in developing the plan also considers Internal Audit's role as one of the Council's 3rd line of defence independent assurance providers. The diagram below outlines the three lines of defence assurance model.

Figure 2: The Three Lines of Defence Model



1.5.8 Other sources of assurance – 2nd and 3rd Lines of Defence

In developing the IA risk assessment and plan we have considered other sources of assurance provided to the Council across the second and third lines of defence and have assessed the extent to which reliance can be placed upon them. These include:

- **Second Line** - Risk Management; Health and Safety; Information Governance; Resilience; Portfolio and Governance; and Quality, Governance and Regulation.
- **Third Line** - Care Inspectorate; Child Protection Inspection Unit; Education Scotland; Scottish Government; and the Information Commissioner.
- **Third Line** - External audit performed by Scott Moncrieff.

IA does not place reliance upon these other sources of assurance to support the annual opinion. However, the outcomes of reviews performed by the second and third lines were considered when assessing the strength of the control environment for each auditable area as part of the risk assessment process.

1.5.9 Coordinated and Integrated approach with External Audit

The Audit Scotland Code of Audit Practice 2016 notes (at section 33) that it is important that external auditors coordinate their work with IA; Audit Scotland; other external auditors; and relevant scrutiny bodies to recognise the increasing integration of service delivery and partnership working within the public sector.

A coordinated and integrated approach also supports achievement of value for money by removing unnecessary duplication, and will provide a clear programme of assurance for the Council.

To support this objective, three specific audit reviews have been identified where a coordinated and integrated approach will be applied, with internal and external audit (Scott Moncrieff) working together to deliver assurance. These reviews include a review of the Tram extension project; systems access controls; and a review of the Enterprise Resource Planning (ERP) system project. A further two reviews have been identified (payroll, and payments and charges) where Scott Moncrieff will endeavour to place reliance on the work performed by IA for their 2018/19 financial statements review.

2. Risk assessment – Steps 4 to 6

2.1 Risk assessment results

Each auditable area across the Council has been assessed for inherent risk based on the impact and likelihood that the risk will crystallise, and the strength of the control environment which is based on completed IA reviews; the current open and overdue audit recommendations profile; and the outcomes of reviews performed by other second and third line assurance providers.

Inherent risk and control effectiveness has been scored by Internal Audit, and an audit requirement rating and frequency calculated in accordance with the detailed methodology set out in Appendices 1 and 2. The audit requirement rating drives the frequency of internal audit work for each auditable area. The audit plan is a rolling programme which aims to ensure that auditable units are subject to an internal audit at least once in a three-year cycle based the highest risk auditable areas.

Ref	Auditable Area	Inherent Risk	Control Effectiveness	Audit Requirement Rating	Frequency	Included in 2018/19 Plan	Included in 2017/18 Plan	Included in 2016/17 Plan	Other Assurance / Notes
Key to audit requirement rating: ● Annual; ● Every 2 years; ● Every three years; ● No assurance work required									
Central Support Service Areas									
A	Resources								
A.1	ICT	5	2	●	1	Y	Y	Y	Audit Scotland external audit performed by Scott Moncrieff.
A.2	Health and Safety	5	3	●	1	Y	Y	Y	Second Line Health and Safety Assurance Programme
A.3	Risk Management	4	2	●	2	N	N	Y	Due for review in 2018/19, but will be included in 2019/20 plan.
A.3	HR & Payroll	5	2	●	1	Y	Y	Y	Audit Scotland external audit performed by Scott Moncrieff.
A.4	Finance and Treasury	4	3	●	2	N	Y	Y	Audit Scotland external audit performed by Scott Moncrieff.
A.5	Procurement	4	3	●	2	Y	N	Y	

Ref	Auditable Area	Inherent Risk	Control Effectiveness	Audit Requirement Rating	Frequency	Included in 2018/19 Plan	Included in 2017/18 Plan	Included in 2016/17 Plan	Other Assurance / Notes
A.6	Investment and Pensions	5	3	●	1	Y	Y	Y	External audit performed by Scott Moncrieff, and regulatory compliance reviews performed by external consultants.
A.7	Insurance Services	2	3	●	0	N	N	N	Low risk – no IA coverage required
A.8	Customer	4	3	●	2	Y	N	Y	
A.9	Business Support	4	2	●	2	Y	Y	N	Will be included in 2018/19 Council Wide reviews
A.10	Properties and Facilities Management	5	3	●	1	Y	Y	Y	
B	Strategy and Insight								
B.1	Information Governance	5	3	●	1	Y	Y	Y	Information Commissioner's Office
B.2	Performance and Business Analytics	4	3	●	2	Y	Y	Y	
B.3	Portfolio and Governance	5	2	●	1	Y	Y	Y	
B.4	Resilience	5	3	●	1	Y	Y	N	ISO external certification
B.5	Corporate Governance	2	3	●	0	N	N	Y	
Citizen Support Service Areas									
C	Communities and Families								
C.1	Schools & Community Services	5	3	●	1	Y	N	Y	School inspections undertaken by Education Scotland; internal reviews performed by Quality, Governance, and Regulation.

Ref	Auditable Area	Inherent Risk	Control Effectiveness	Audit Requirement Rating	Frequency	Included in 2018/19 Plan	Included in 2017/18 Plan	Included in 2016/17 Plan	Other Assurance / Notes
C.2	Children's Services	5	3	●	1	Y	Y	Y	Care Inspectorate inspections; internal reviews performed by Quality, Governance, and Regulation. Will be included in 2018/29 Council Wide review of Emergency Prioritisation.
C.3	Operational Support	3	3	●	3	Y	N	N	Included as schools major project review for 2017/18.
D	Health and Social Care								
D.1	Accommodation	5	2	●	1	Y	Y	Y	Care Inspectorate inspections. Care homes follow-up review included in 2017/18 plan.
D.2	Assessment, Support, Planning, and Review	5	2	●	1	Y	Y	Y	Care Inspectorate inspections; internal reviews performed by Quality, Governance, and Regulation.
D.3	Community Based Support	4	3	●	2	N	Y	Y	Internal reviews performed by Quality, Governance, and Regulation.
D.4	Community Alarm and Telecare	4	3	●	2	Y	N	N	Included within scope of emergency prioritisation review in 18/19 plan.
D.5	Rights and Protection	5	3	●	1	Y	Y	N	Internal reviews performed by Quality, Governance, and Regulation. Will be included in 2018/19 Council Wide reviews.
D.6	Sensory Support - Disabilities	2	3	●	0	N	N	N	Care Inspectorate inspections
E	Place								
E.1	Waste and Cleansing	5	3	●	1	Y	Y	Y	
E.2	Scientific, Bereavement and Registration Services	5	3	●	1	Y	Y	Y	Included in scope of emergency prioritisation review.

Ref	Auditable Area	Inherent Risk	Control Effectiveness	Audit Requirement Rating	Frequency	Included in 2018/19 Plan	Included in 2017/18 Plan	Included in 2016/17 Plan	Other Assurance / Notes
E.3	Edinburgh Roads Services	5	2	●	1	Y	N	Y	
E.4	Fleet and Workshops	4	2	●	2	Y	Y	N	
E.5	Parks, Greenspace, and Cemeteries	3	3	●	3	Y	N	N	Will be included in scope of Health and Safety Life Safety review.
E.6	Transport Infrastructure – street lighting, traffic signals, structures and flood prevention	5	4	●	1	Y	Y	Y	Due for review in 2018/19, but will be included in 2019/20 plan.
E.7	Culture	3	4	●	3	N	N	Y	Due for review in 2018/19, but will be included in 2019/20
E.8	Transport Network – road safety; public transport; citywide networks and parking and traffic regulation	3	3	●	3	Y	N	N	
E.9	Citywide Transport and Planning	3	3	●	3	N	N	N	Due for review in 2018/19, but will be included in 2019/20 plan.
E.10	Planning and Building Standards	4	2	●	2	Y	Y	N	
E.11	Sustainability	3	3	●	3	Y	N	Y	
E.12	Housing Management and Development	3	3	●	3	N	Y	Y	
E.13	Regulatory Services	4	3	●	2	Y	N	Y	
E.14	Economic Development	3	3	●	3	N	N	N	Due for review in 2018/19, but will be included in 2019/20 plan.
E.15	Housing Property	4	3	●	2	N	Y	Y	
F	Safer and Stronger Communities								

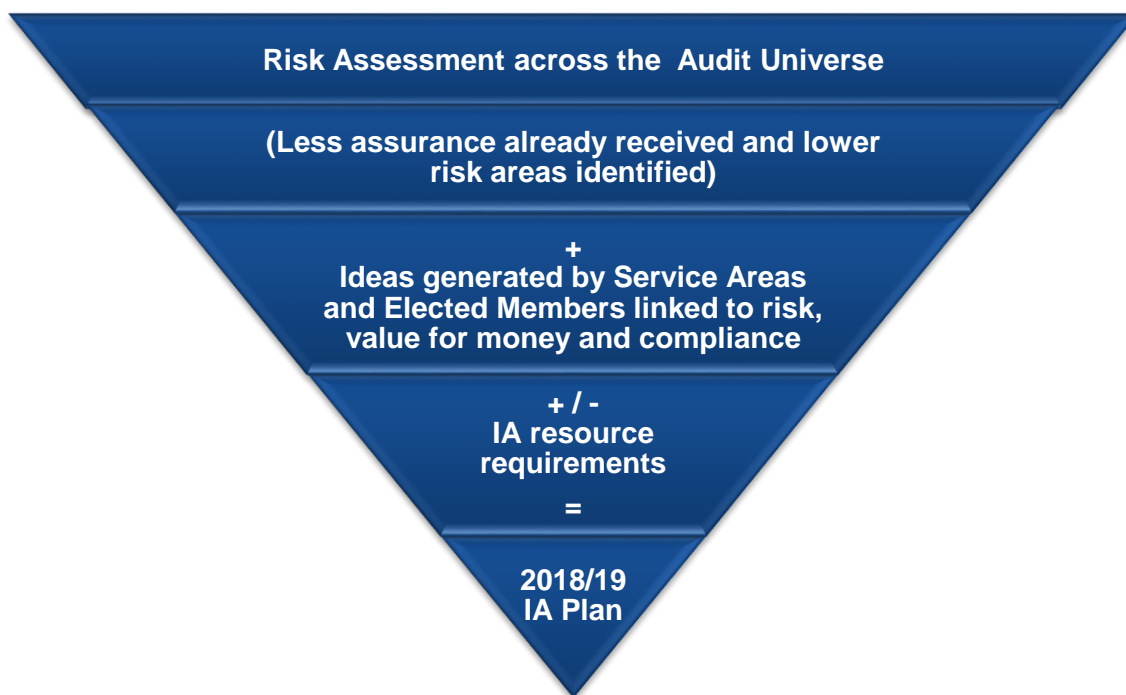
Ref	Auditable Area	Inherent Risk	Control Effectiveness	Audit Requirement Rating	Frequency	Included in 2018/19 Plan	Included in 2017/18 Plan	Included in 2016/17 Plan	Other Assurance / Notes
F.1	Homelessness and Housing Support	5	3	●	2	Y	Y	N	Care Inspectorate inspections. Council Wide review for 2017/18.
F.2	Community Justice	2	3	●	0	N	Y	N	Internal reviews performed by Quality, Governance, and Regulation.

3. Annual Internal Audit plan – Step 7

3.1 Developing the IA annual plan

The next stage of the process following completion of the risk assessment is to build the annual IA plan, and figure 3 below illustrates how this is achieved.

Figure 3: IA annual planning process



3.2 Internal Audit Resources

As part of the annual planning process, the level of IA resources, experience and skills was considered. The overall capacity of currently projected available IA resources for 1 April 2018 to 31 March 2019 is 1,936 days. Allowing for time reserved to support team training and personal development; performance management, ongoing enhancement of our audit system, and governance and committee reporting activities, approximately 1,345 days (compared with 1,317 in 2017/18) are available to support delivery of the plan.

A co-source arrangement is also in place with PwC, with the potential to use them to support up to eight specialist audits where the required skills sets are not available within the IA team.

The current structure and arrangements provide sufficient capacity and capability to enable delivery of the proposed audit plan and provision of an appropriate level of assurance over the Council's most significant risks to support the annual Internal Audit opinion.

Any resourcing concerns that occur during the year will be discussed initially with the Head of Legal and Risk and the Executive Director of Resources; the CLT; and the relevant Convenors. If resourcing issues remain unresolved following these discussions, the matter will be highlighted to a full GRBV Committee Meeting.

3.3 Basis of our annual internal audit opinion

In developing the annual plan, we have considered the PSIAS requirement to produce an annual Internal Audit Opinion by determining the necessary level of internal audit coverage to provide assurance over the Council's audit universe and key risks.

Our annual Internal Audit Opinion will be based on and limited to the outcomes from internal audits completed during the year, and the reported overdue IA recommendations position as at 31 March 2019, with no reliance placed on assurance provided by other parties.

Internal audit work supporting the annual Opinion will be performed in accordance with our IA methodology which is aligned to PSIAS requirements. Consequently, our work and deliverables are not designed or intended to comply with any other auditing standards.

We do not believe that the current level of available IA resources will impact adversely on the provision of the annual Internal Audit Opinion for 2018/19.

3.4 Other considerations

In addition to the audit work defined through the risk assessment process described above, we may be requested by, for example, GRBV Committee; a specific regulatory body: the Scottish Government; or the Council's statutory Monitoring Officer to complete additional reviews. Where this occurs, the Audit Plan will be reviewed to assess which audits can be cancelled to accommodate the additional request. All significant changes made will be risk based and subject to review by the CLT and GRBV Committee.

3.5 Internal Audit Annual Plan 2018 – 19

3.5.1 Plan Summary

The internal audit plan detailed below reflects the key areas of IA focus for 2018/19 and is based upon the PSIAS; the Council's organisational objectives and priorities; and an assessment of the CLT risks that could prevent the Council from meeting those objectives and providing services to citizens. Each proposed review for 2018/19 has been cross referenced to the corresponding key CLT risks, and the latest CLT risk register is also included at Appendix 4 for reference.

The plan includes an increased number of Council-wide reviews and multiple Service Area reviews that will focus predominantly on Health and Social Care; Safer and Stronger Communities; Place; and Resources (Customer). These have been included to provide assurance on the key controls established to manage the most significant risks associated with services and processes that span across the Council.

A total of 48 reviews are included in the 2018/19 IA plan. Of these 39 will be delivered across the Council reflecting a decrease of one audit in comparison to the 2017/18 plan.

As in 2017/18, 9 audits will be delivered for arm's length and external organisations: 3 for the Lothian Pension Fund, and the remaining 6 for the Lothian Valuation Joint Board (1); SEStran (1); the Edinburgh Royal Military Tattoo (1) and the Edinburgh Integration Joint Board (3).

The plan also includes two key IA activities: the monthly follow-up process (circa 10% of total plan days); and time for internal IA quality assessment. The last external quality assessment (EQA) was performed in 2016/17, and the next will be completed in 2021/22, as per the five-year EQA cycle requirement specified in the PSIAS.

PwC will be requested to deliver 5 specialist audits, leaving a balance of 43 audits to be delivered by the Council's IA team, using a total of 1,345 audit days based on currently available IA resources (refer section 3.2 above). Contingency time (70 days) has also been reflected in the plan.

A 'reserve list' of audits has also been prepared (refer Appendix 3), that have not been included in the plan. Where any planned audits cannot be completed (for example, a decision has been taken that a major project will not progress), the risks associated with the areas included on the reserve list will be considered and an alternative audit selected.

Additional key points to note in relation to the plan are:

1. Ongoing focus on major projects with four project governance assurance reviews included in the plan;
2. Follow-up days have increased from 55 to 140 with the objective of supporting Service Areas in effectively implementing agreed management actions by the agreed implementation dates and reducing the volume of overdue IA recommendations; and
3. A 'validation' audit has been introduced to assess whether management actions implemented to address historic control gaps raised by IA have been sustained and remain effective.

A summary of specific Service Area coverage in comparison to 2017/18 is detailed below. Please note that specific Service Area coverage will increase as a result of Council wide and thematic reviews.

Directorate	2018/19 reviews	2017/18 reviews	Comments
Council Wide	8	5	Council wide reviews will include all major service areas of the Council.
Major Project Reviews	4	5	
Resources	11	10	
Chief Exec / Strategy and Insight	3	3	
Communities and Families	2	3	Covered by Council wide Reviews
Health and Social Care	1	3	Covered by Council wide Reviews
Place	10	8	Includes 2 annual reviews of Scottish Government and Department for Transport
Safer and Stronger Communities	-	3	Covered by Council wide Reviews
Totals	39	40	

3.5.3 Coordinated and Integrated approach with External Audit

As noted at section 1.5 above, a coordinated and integrated approach will be adopted with IA and Scott Moncrieff working together to deliver assurance on three reviews: the Tram extension project; systems access controls; and a review of the Enterprise Resource Planning (ERP) system project. A further two reviews have been identified (payroll, and payments and charges) where Scott Moncrieff will endeavour to place reliance on the work performed by IA for their 2018/19 financial statements review.

3.5.4 Internal Audit Annual Plan 2018 - 19

Auditable Area	Description	Q1	Q2	Q3	Q4	Audit Days	Link to Risk	Fraud (H/M/L)
* Audit reviews where timing is specifically aligned to enable external audit to work with or place reliance on IA								
Council-Wide – 8 reviews								
All major Service Areas of the Council	(1) <u>Quality, Governance, and Regulation</u> Review the adequacy and effectiveness of the second line quality, governance, and regulation team, and assess their effectiveness in supporting the Chief Social Worker's annual attestation.	✓				25	CLT1	Medium
	(2) <u>Payments and Charges</u> Review will assess the design adequacy and control effectiveness to support payments processing and application of payments and charges across Health and Social Care (self-directed support payments and fees); Place (road traffic charges); and Schools and Lifelong Learning (school transport fees).			✓	✓	40	CLT1	High
	(3) <u>Transformation</u> Review will confirm whether transformation has been effectively implemented, with focus on service reduction or implementation of efficiency improvements supporting headcount reduction. We will also consider whether services provided by the Council to the Health and Social Care Partnership have been adversely impacted as a result of transformation.	✓				30	CLT3	Low
	(4) <u>GDPR Follow-up</u> Confirm whether GDPR implementation plans have been effectively progressed and implemented.			✓		PwC Review	CLT6	Low

Auditable Area	Description	Q1	Q2	Q3	Q4	Audit Days	Link to Risk	Fraud (H/M/L)
All major service areas of the Council	(5) <u>Emergency Prioritisation and Complaints</u> Assess design adequacy and operating effectiveness to receive and prioritise emergency requests received from citizens (with focus on child protection and community alarms and telecare) are prioritised and addressed. The process supporting complaints received in relation to emergency requests will also be reviewed.		✓	✓		40	CLT1 CLT7	High
	(6) <u>Life Safety</u> Compliance with Health and Safety Policies that cover life safety risks.				✓	PwC review	CLT8	Low
	(7) <u>Homelessness</u> Review will consider the appropriateness of the Council's short and longer terms strategies to address homelessness across the city, and also the adequacy and effectiveness of the operational control frameworks supporting the following key processes: homelessness registration and support; allocation of temporary shelter; and registration for council properties. The review will also consider who the proposed implementation of Universal Credit could impact upon current homelessness services.	✓	✓			40	CLT11	Medium
	(8) <u>Validation</u> Historic follow-up to confirm implementation and sustainability of agreed management actions		✓		✓	40	N/A	
Resources – 14 Reviews including 3 Investment and Pension reviews								
Human Resources	(1) <u>Payroll*</u> Assessment of the design adequacy and operating effectiveness of key payroll controls including employee changes; additional payments (standby; on call; and overtime) and adequacy and use of payroll exception reports. The review will also consider controls applied when providing payroll information to Lothian Pension Fund.	✓				30	CLT5	High

Auditable Area	Description	Q1	Q2	Q3	Q4	Audit Days	Link to Risk	Fraud (H/M/L)
Human Resources and Service Areas	(2) <u>Compliance with IR35 and Right to Work requirements</u> Review of design adequacy and operating effectiveness of key onboarding controls to ensure that all contractors are IR35 compliant, and that all new employees have a right to work in the UK. The review will also consider ongoing controls within Service Areas to ensure that right to work status is maintained.				✓	25	CLT9	Medium
ICT	(3) <u>System Access Controls*</u> Assessment of design adequacy and operating effectiveness of system access controls, with focus on key financial systems and SWIFT. Review will confirm that user profiles are appropriate for roles, that 'super user' access rights are appropriate, and that there are no toxic combinations that could result in fraud. Review will also consider effectiveness of ongoing user entitlement reviews by management to confirm that user access remains appropriate. This review will be performed in conjunction with Scott Moncrieff.	✓				25	CLT4	High
ICT	(4) <u>CGI Sub-contract management</u> Review the CGI model for management of performance and delivery of sub-contractors engaged to support delivery of operational ICT services or the Council.				✓	25	CLT4	Medium
ICT	(5) <u>Certifications and Software Licences</u> Assessment of design adequacy and operating effectiveness of CGI controls established to ensure that all technology certifications and software licences are renewed on time, with no adverse impact on the Council due to unnecessary expiry.			✓		PwC Review	CLT4	Low
ICT	(6) <u>CGI Change Management</u> Review the adequacy and effectiveness of the CGI change management model established to support delivery of the Council's change programme.		✓			25	CLT3	Low

Auditable Area	Description	Q1	Q2	Q3	Q4	Audit Days	Link to Risk	Fraud (H/M/L)
ICT	(7) <u>Out of Support Technology and Public-Sector Network Accreditation</u> Review the arrangements in place to ensure to identify and replace out of support technology systems, and the potential impact on public sector network accreditation requirements.			✓		PwC Review	CLT4	Low
ICT	(8) <u>Cyber Security – Public Sector Action Plan</u> Assess whether the current cyber security framework will meet the requirements of the Public Sector Cyber Security Action Plan.		✓			PwC Review	CLT4	
Finance and Service Areas	(9) <u>Supplier Management Framework and Construction Industry Scheme (CIS) Payments</u> Review of the design adequacy and operating effectiveness of the second line of defence framework established to ensure effective management of suppliers and sub-contractors used by Service Areas across the Council. The review will also assess effectiveness of the controls in place to ensure that any necessary construction scheme industry payments are made completely and accurately to HMRC.				✓	30	CLT4	Low
Investment and Pensions	(10) <u>Unlisted investment valuations and application of fund administration fees and charges</u> Review of the design adequacy and operational effectiveness of key controls supporting valuation of unlisted investment valuations. Review will focus on the consistency of the valuation process applied, ensuring that the valuation approach is aligned with applicable guidance, and also completeness and accuracy of the range of fund administration fees and charges applied by Lothian Pension Fund.		✓			PwC Review	N/A	Medium

Auditable Area	Description	Q1	Q2	Q3	Q4	Audit Days	Link to Risk	Fraud (H/M/L)
Investment and Pensions	(11) <u>Unitisation</u> Assessment of the design adequacy and operational effectiveness of the control framework supporting the unitisation process. The review will focus on ensuring appropriate segregation of assets; accurate allocation of cash flows; and accurate application of interest and charges. We will also consider completeness and accuracy of reporting to third parties.			✓		20	N/A	Medium
Investment and Pensions	(12) <u>Stock Lending</u> Review of the design adequacy and operational effectiveness of key controls support stock lending. The review will focus on adequacy of collateral provided to mitigate counterparty risk; adequacy of transfer and title arrangements (in the event that LPF require return of the stock to address market risk or for early settlement); compliance with best execution requirements; controls to mitigate conflicts of interest; and completeness and accuracy of income received from the counterparty.		✓			20	N/A	Medium
Properties and Facilities Management	(13) <u>Implementation of the asset management strategy and CAFM system</u> Review will consider progress with the implementation of the asset management strategy following allocation of additional budget funding, and the key controls supporting implementation and use of the CAFM system.			✓		30	CLT2	Medium
Properties and Facilities Management	(14) <u>Implementation and application of new Facilities Management Service Level Agreement</u> Review will assess the design adequacy and operating effectiveness of controls in place to confirm that the new FM SLA is consistently applied.	✓				25	CLT2	Medium

Auditable Area	Description	Q1	Q2	Q3	Q4	Audit Days	Link to Risk	Fraud (H/M/L)
Chief Executive's Department – 3 reviews								
Strategy and Insight	(1) <u>Portfolio Governance Framework</u> Review of implementation of the new portfolio governance framework to ensure that all significant projects are consistently and effectively managed across the Council				✓	25	CLT3	Low
Strategy and Insight	(2) <u>City Deal Governance</u> Review the adequacy and effectiveness of the governance framework established to support management of the City Deal.		✓			25	CLT3	Low
Strategy and Insight and Service Areas	(3) <u>Resilience</u> Review of existence and adequacy of business impact assessments prepared and maintained for Service Areas and their flow through into Council wide business resilience plans.				✓	25	CLT4	Low
Communities and Families – 2 reviews								
Children's Services	(1) <u>Looked After and Accommodated Children / St Katherines</u> Review of project established by Strategy and Insight to determine the population of LAAC children whose files may have been merged with adult files and incorrect retention dates applied.	✓		✓		30	CLT6	Low
Schools and Lifelong Learning	(2) <u>Schools First Line Assurance Framework</u> Assess adequacy and effectiveness of the first line operational control framework to ensure effective and consistent management of operational processes and compliance with Council policies across the devolved school management framework.	✓				25		Low

Auditable Area	Description	Q1	Q2	Q3	Q4	Audit Days	Link to Risk	Fraud (H/M/L)
Health and Social Care – 1 review								
Accommodation	(1) <u>Care Homes Follow-up</u> Follow-up on the implementation of action plans for the three Care Homes rated 'red' from the 2017/18 Care Homes review – Gylemuir; Royston Mains and Fords Road			✓	✓	40	CLT1	Medium
Place – 10 reviews								
Localities	(1) <u>Localities Operating Model</u> Review will assess the adequacy, effectiveness, and consistency of first line operational control frameworks designed to deliver services to citizens across the Localities.	✓	✓			40	CLT7	Medium
Place Development	(2) <u>Planning and s75 developer contributions</u> Review of design adequacy and operational control framework supporting operation of the planning process and management (including financial treatment) of the section 75 developer contribution process. The review will also consider the adequacy and effectiveness of management monitoring and oversight to ensure ongoing compliance with applicable legislation.				✓	25	CLT7	Medium
Place Development	(3) <u>Licensing</u> Review of design adequacy and operational control framework supporting operation of the licencing process. The review will also consider the adequacy and effectiveness of management monitoring and oversight to ensure ongoing compliance with applicable legislation.	✓				25	CLT7	Medium
Place Development	(4) <u>Building Standards Follow-up</u> Follow up on implementation of agreed actions from the 2017/18 IA report and Scottish Government recommendations		✓		✓	20	CLT7	Low

Auditable Area	Description	Q1	Q2	Q3	Q4	Audit Days	Link to Risk	Fraud (H/M/L)
Place Development	(5) <u>Transfer of the Management of the Development Funding Grant</u> Annual review performed to confirm that the development funding grant received from the Scottish Government has been disbursed as per the terms and conditions included in the grant offer letter.		✓			15		Medium
Place Development	(6) <u>Carbon Reduction Commitment Scheme</u> Assess the extent of compliance with the UK Government's Carbon Reduction Commitment Scheme.			✓	✓	20		Medium
Place Management	(7) <u>Waste Services</u> Review of the performance management framework for Waste Services with focus on the selection, monitoring and reporting of performance measures relating to waste collection.	✓				25	CLT7	Medium
Place Management	(8) <u>Edinburgh Roads Services</u> Review of the revised Edinburgh Roads Service service delivery model, with a focus on project management and interaction with Locality environment and roads teams.		✓			25	CLT7	
Place Management	(9) <u>Port Facility Security Plan</u> Annual review of existence and operation of the Port Facility Security Plan as per Department for Transport requirements.		✓			15		
Place Management	(10) <u>Street Lighting and Traffic Signals</u> Review of the design adequacy and operating effectiveness of the control frameworks designed to support ongoing management and maintenance of street lighting and traffic signals. The review will include focus on business impact assessment and continuity plans to deal with any significant impacts on the City's electrical supply.			✓		25	CLT7	

Auditable Area	Description	Q1	Q2	Q3	Q4	Audit Days	Link to Risk	Fraud (H/M/L)
Major Projects – 4 reviews								
	(1) <u>Tram extension*</u> Review options appraisal process and project governance, with subsequent review of procurement process and gateway decisioning and payments. This work will be performed in conjunction with Scott Moncrieff (External Audit) who will assess the assumptions supporting the funding model. IA will assess the ongoing controls supporting the funding model. Project management will be assessed against published best practice from HM Treasury Green; Scottish Transport; the National Audit Office; and Audit Scotland. The review will also consider whether the lessons learned from the Tram Inquiry have been considered and applied.	✓		✓	✓	90	CLT3	Medium
Communities and Families	(2) Major Schools Project		✓			25	CLT3	
Resources	(3) Customer Transformation			✓		25	CLT3	
Resources	(4) Enterprise Resource Planning System Implementation		✓	✓		40	CLT3	
Other Organisations – 6 reviews								
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
Royal Edinburgh Military Tattoo	Tattoo - provision of internal audit services			✓		15	N/A	N/A
Edinburgh Integration Joint Board	EIJB – provision of internal audit services		✓			25	N/A	N/A
				✓		25		
					✓	25		

Auditable Area	Description	Q1	Q2	Q3	Q4	Audit Days	Link to Risk	Fraud (H/M/L)
Miscellaneous – 2 reviews								
Internal Audit	Monthly follow up of outstanding audit actions	✓	✓	✓	✓	180	N/A	N/A
Internal Audit	Internal Audit Quality Assurance		✓	✓		30	N/A	N/A
Total Plan Days						1,345		
Total number of audit reviews						50		

Appendix 1: Detailed methodology

1. Inherent risk assessment process

The internal audit plan should focus on the highest risk areas of the Council. Consequently, each auditable area is allocated an inherent risk rating (the numbers highlighted in white in the table below) that considers the impact of the risk should it crystallise, and the likelihood that the risk will crystallise. The criteria used to assess impact and likelihood are recorded in Appendix 2.

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

2. Control environment assessment

The strength of the control environment within each auditable area is assessed on a scale of 1 to 5 where 1 reflects a poor control environment and to 5 a strong control environment.

This assessment is based on:

- Revisiting the outcomes from previous internal audits, including the current open and overdue IA recommendations position;
- Consultation with Senior Management; GRBV Committee members; and political groups.
- Considering the outcomes of the 2nd and 3rd line of defence oversight and assurance providers.

In assessing the strength of the control environment of auditable areas the following points are considered:

- The nature & magnitude of control gaps identified;
- Whether they are systemic or restricted to individual service areas and processes;
- The significance of the process impacted;
- The nature, urgency & robustness of management's response to any issues arising; and
- Whether there are any wider cultural implications.

3. Audit requirement rating

The inherent risk and the control environment ratings are then used to calculate the audit requirement rating. The formula ensures that audit work is focused on areas with high reliance on controls and high residual risk where controls may not be adequately designed and / or operating effectively.

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

4. Key to frequency of audit work

Audit Requirement Rating	Frequency
●	Annual
●	Every two years
●	Every three years
●	No assurance work required

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.

<i>Impact rating</i>	<i>Assessment rationale</i>
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.

<i>Likelihood rating</i>	<i>Assessment rationale</i>
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 – Reserve List of Audits for the IA Plan

Directorate	Service Area	Proposed Audit
Communities and Families	Schools & Lifelong Learning	Allocation of Attainment gap funding
Communities and Families	Children’s Services	Child Protection
Council Wide	Legal and Risk	Health and Safety Statutory compliance testing and inspection
Resources	Customer	Corporate Fraud
Resources	Finance	Banking and purchasing cards
Resources	Human Resources	Mandatory training
Resources	HR	Sickness and Absence Management
Resources / CEO Office	ICT and Communications	Website Management
Resources	Legal and Risk	Risk Management
Resources	Property and Facilities Management	Corporate Catering
Place	Culture and Place Management	Cultural Venues and Depots
Place	Major Project	Meadowbank
Place	Citywide Transport and Planning	
Place	Economic Development	
Safer and Stronger Communities	Community Safety	Community Policing