

# Governance, Risk and Best Value Committee

10.00am, Tuesday 5 June 2018

## Internal Audit and Risk – Update on service delivery model

Item number	7.3
Report number	
Executive/routine	
Wards	
Council Commitments	

### Executive Summary

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A report was presented to the Governance, Risk and Best Value Committee in April 2016 setting out a proposed new model of working for the Internal Audit and Risk functions of the Council.

The Head of Legal and Risk was requested to bring back a report one year after implementation of the new model in April 2017. This report discharges that request and provides the Committee with an update on delivery through the new model of working.

## Internal Audit Report – Update on service delivery model

### 1. Recommendations

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- 1.1 The Committee is recommended to note the content of this report.

### 2. Background

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- 2.1 The improvements made in the Council's internal audit function, as well as its risk management arrangements, through the co-source arrangements with PwC have been well documented and are outlined in previous reports to Committee in May and October 2013, May 2014, March 2015, June 2015 and April 2016.

### 3. Main report

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- 3.1 The April 2016 report to this Committee signalled a change of approach in that the Council would seek to reduce the level of the co-source arrangements with PwC and move to employ a substantive Chief Internal Auditor and Chief Risk Officer.
- 3.2 It was proposed that, to ensure that the Internal Audit and Risk functions maintained the strength and depth of expertise, the continuation of a co-source "light" arrangement was to be retained through a new procurement.
- 3.3 A new procurement was carried out in late 2016 and PwC were the successful provider. The Council entered into a new agreement with PwC for the provision of Internal Audit and risk services from March 2017 until 31 March 2019, with the option to extend for a further two years. This contract operates on a service drawdown basis and includes provision for both specialist and generalist support. In late 2016 a recruitment process was completed for the posts of both Chief Internal Auditor and Chief Risk Officer and the successful candidates commenced with the Council in Spring 2017.
- 3.4 The Head of Legal and Risk was requested to bring back a report after a year following implementation of the new service delivery model. This report discharges that request.

## **Internal Audit**

- 3.5 Lesley Newdall commenced as the Council's Chief Internal Auditor in May 2017.
- 3.6 In terms of service delivery there have been some key benefits to having a substantive Chief Internal Auditor employed by the Council. These include a growing and consistent knowledge of the Council's areas of operations, as well as the ability to build strong and trusted relationships with colleagues as part of one organisation. There have also been significant financial benefits when compared to the co-source arrangements.
- 3.7 As at March 2017 the Internal Audit team comprised the Chief Internal Auditor, two Principal Audit Managers and four Internal Auditors. This team was supplemented by co-source resource from PwC to allow the annual audit plan to be delivered.
- 3.8 To further enhance knowledge and capacity within the team, the Chief Internal Auditor recommended that the drawdown of three, three-week blocks of generalist audit capacity from the co-source provider be replaced by the recruitment of two new Senior Internal Auditors.
- 3.9 The recruitment process for these posts has commenced and one internal candidate has been successfully promoted to Senior Internal Auditor. Recruitment for the two remaining vacancies for Auditor and Senior Auditor is ongoing.
- 3.10 As Committee is aware from the report provided in May 2018, a historic issue has been identified in relation to previous effectiveness of the Internal Audit follow-up process, which has resulted in non-compliance with Public Sector Internal Audit Standards (PSIAS). This will be reflected in the 2017/18 Internal Audit annual opinion to be presented to Committee in July 2018. Upon identification, this issue was addressed through implementation of a manual follow-up process in September 2017, with implementation of a fully automated solution scheduled for July 2018. The new system-based solution is designed to make the follow-up of audit findings more streamlined, effective and user-friendly.
- 3.11 The Internal Audit team has faced some resource pressures when delivering the 2017/18 plan and further funds were allocated to the team on a one-off basis to assist with this. Given the issues identified within the report to this Committee in May in relation to the historic audit follow-up process and ongoing staff absence at Principal Audit Manager level, these resource challenges remain.
- 3.12 Resourcing challenges have also had an impact on the Internal Audit quality assurance process, which has not been completed in 2017/18. This will also be reflected in the 2017/18 Internal Audit annual opinion. The risks in relation to PSIAS non-compliance and internal quality assurance have been included in the Resources Directorate risk register.
- 3.13 The issue of current Internal Audit resource challenges is addressed in another report to this Committee today.

- 3.14 The Chief Internal Auditor has developed a strong working relationship with Scott Moncrieff as the Council's external auditors and partnership working arrangements have been established in order to avoid duplication and minimise impact on services.
- 3.15 Overall, notwithstanding the present resource challenges, the changes within the Internal Audit team has been positive for the Council, achieving a higher quality and independent service in a cost-effective manner.
- 3.16 The co-source "light" arrangement also appears to be working well, enabling to Council to draw on specific expertise as required.

### **Risk**

- 3.17 Duncan Harwood commenced as the new Chief Risk Officer with the Council in February 2017. The Corporate Risk Team is presently 2.8 FTE, with one Chief Risk Officer and two Principal Risk Officers.
- 3.18 An internal audit was carried out on risk management in late 2016 and, since then, work has been undertaken to help strengthen the Council's risk management framework and to cascade and embed knowledge and understanding of risk management within the organisation. It is, however, recognised that this is very much still work in progress and that understanding and acceptance of risk management as a beneficial tool in the Council still requires to be more embedded.
- 3.19 The Chief Risk Officer presented a paper to the Corporate Leadership Team in February 2018 outlining further improvements which are intended to strengthen the risk management framework through 2018-19. These include updating the Council's enterprise risk management policy and procedures (including re-setting the Council's risk appetite), delivering risk identification workshops for some Council services and introducing a new software solution which will assist in the recording, monitoring and reporting of risk across the Council.
- 3.20 Quarterly Risk and Assurance Committees and Risk Management Groups are now established in all Directorates. The Corporate Risk Team is working with services to encourage Directorates to regularly update and challenge the content of their risk registers. Representatives from Internal Audit and Health and Safety attend these Committees to seek to ensure that relevant risks, issues and performance within those areas are considered appropriately. Risk Management Groups focus on risk at an operational and managerial level and provide a mechanism for the collective assessment, scrutiny and escalation of risks to the appropriate Committee where required.
- 3.21 The Corporate Risk Team are working alongside colleagues from NHS Lothian to establish and embed risk management within the Health and Social Care Partnership. Work is currently underway to review and update the Partnership's risks, and embed risk management within the Partnership localities. Risks to the Council which arise from the work of the Partnership will be escalated and reported through the Council's existing risk management structures. The Corporate Risk Team are also currently considering any impacts of the change in reporting lines for Safer and

Stronger Communities when it moves to become part of the Communities and Families Directorate.

- 3.22 The Corporate Risk Team is working with service areas to improve the early identification and flow of specific risks to ensure that risks are appropriately and timeously escalated through the relevant registers and committees. Once more fully embedded, this will significantly improve the Council's ability to prioritise and manage risks effectively.
- 3.23 Members of the Corporate Risk Team now provide input at each Leaders' Induction session, ensuring that all new leaders have an appropriate understanding of their responsibilities as they relate to risk management. Two new e-learning packages have also been created which provide updated guidance and information for managers and staff working at all levels.
- 3.24 The Corporate Risk Team are also working alongside teams in Strategy and Insight, particularly in Strategic Change and Delivery, to improve the reporting mechanisms between projects, performance and risk.
- 3.25 There are two outstanding Internal Audit actions. One has now been closed and the other requires the implementation of the new Enterprise Risk Management Policy and Risk Appetite. These documents will be submitted to the Corporate Policy and Strategy Committee in August 2018 which will enable closure of the relevant outstanding actions.

#### **4. Measures of success**

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- 4.1 The Council has high quality Internal Audit and Risk services delivered in a cost-efficient manner which provide the Council with assurance that the Council is operating in an appropriate manner and consistently identifying and addressing any key risk and control gaps.

#### **5. Financial impact**

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- 5.1 The current service model is funded by the Legal and Risk Service budget. Any financial pressures arising are being monitored and will be resolved or reported as required.

#### **6. Risk, policy, compliance and governance impact**

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- 6.1 Having effective Internal Audit and Risk services is of key importance to ensure the Council is operating in an appropriate manner and identifying and addressing any key risk and control gaps.

## **7. Equalities impact**

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7.1 Not applicable.

## **8. Sustainability impact**

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8.1 Not applicable.

## **9. Consultation and engagement**

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9.1 Not applicable.

## **10. Background reading/external references**

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- 10.1 [GRBV Committee 23 May 2013 - Internal Audit Co-Source Update Report](#)
- 10.2 [GRBV Committee 10 October 2013 - Internal Audit Co-Source Update Report](#)
- 10.3 [GRBV Committee 22 May 2014 - Internal Audit Co-Source Update Report](#)
- 10.4 [GRBV Committee 5 March 2015 - Internal Audit & Risk Service Delivery Update Report](#)
- 10.5 [GRBV Committee 18 June 2015 - Internal Audit & Risk Service Delivery Update Report](#)
- 10.6 [GRBV Committee 21 April 2016 - Internal Audit & Risk Service: Delivery Model Report](#)

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## **11. Appendices**

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