

# Governance, Risk and Best Value Committee

10.00am, Tuesday 27 November 2018

## Internal Audit: Capacity to deliver the 2018/19 Internal Audit plan as at 22 October 2018

Item number	7.1
Report number	
Executive/routine	
Wards	
Council Commitments	

### Executive Summary

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This paper includes proposals to rebase the 2018/19 IA plan; addresses the Governance, Risk, and Best Value (GRBV) Committee's request to confirm the capacity of Internal Audit (IA) to deliver the 2018/19 IA plan by 31 March 2019; and includes proposals to address the estimated shortfall in IA capacity as at 22 October 2018.

It is currently estimated that there is a shortfall of 345 audit days between the period 22 October to 31 March 2019 (which is the equivalent of approximately 6 FTE and/or delivery of 14 audits) that will impact IA's ability to fully deliver the 2018/19 IA plan by 31 March 2019.

This estimated shortfall is attributable to notice periods for new starters impacting upon achieving full team capacity; further staff turnover; a significant amount of unplanned time spent on follow-up; and the time invested up-front in preparing, launching, and delivering training on the new TeamCentral system to achieve future benefits. These activities have also fully utilised the contingency of 70 days that was included in the plan.

The report seeks agreement on how to address this estimated shortfall.

## Internal Audit: Capacity to deliver the 2018/19 Internal Audit plan as at 22 October 2018

### 1. Recommendations

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- 1.1 The Committee is requested to:
  - 1.1.1 Note the reasons for the shortfall in IA capacity;
  - 1.1.2 Note current progress with plan delivery;
  - 1.1.3 Approve proposals to rebase the 2018/19 IA plan;
  - 1.1.4 Note that following approval of the rebased plan, an estimated shortfall in IA capacity of approximately 345 days (the equivalent of 6 FTE and 14 audits) remains, impacting IA's ability to deliver the full 2018/19 IA plan by 31 March 2019;
  - 1.1.5 Approve that relevant resource to complete the plan be allocated to IA to obtain sufficient assurance on the Council's key risks to support provision of the 2018/19 Internal Audit annual opinion as required by the Public Sector Internal Audit Standards.

### 2. Background

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- 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.
- 2.2 GRBV approved the draft 2018/19 IA plan in March 2018. It was noted that the plan may need to be reviewed during the year to deal with any changes in resource availability or areas of risk that are identified which require a reactive focus.
- 2.3 The 2018/19 internal audit plan includes a total of 44 audits for completion by the Council's IA team (across the Council; the Edinburgh Integration Joint Board; Lothian Pension Fund; and 3 arms-length organisations), requiring an estimated total of 1,385 audit days.
- 2.4 The plan also includes a further 6 specialist audits (audits where the IA team does not have the necessary skills) that will be delivered by PwC under the existing co-source agreement.

- 2.5 The delivery of the originally approved plan was based on an assumption that the IA team would be at full capacity by June 2018.
- 2.6 Following discussion at Committee in July, GRBV requested a paper to confirm IA's capacity to deliver the 2018/19 plan. This was presented in August 2018 and noted that (as at 6 August 2018) there was an estimated shortfall in IA capacity of approximately 239 days to deliver the full 2018/19 IA plan by 31 March 2019, and that a further update on IA capacity would be provided before December 2018.

### **3. Main report**

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#### **Impacts on IA capacity to deliver the plan**

##### **Recruitment**

- 3.1 Committee will be aware that the permanent internal IA team has increased from 7 to 11 FTE during 18/19. Taking into account the generalist audit work coming back to the Council from PWC, this is an overall 2 FTE resource increase. IA has now successfully recruited to all vacant roles, including the additional capacity that was approved by the Executive Director of Resources. Varying notice periods for the external appointees resulted in phased start dates between August and October 2018. The 2018/19 IA plan had assumed that the team would be at full capacity by June 2018 but unfortunately market response and notice periods made this impossible.
- 3.2 Due to a recent resignation, the team has also been impacted by one further vacancy effective from the end of October 2018. Recruitment is underway; however, it is expected that the vacant role will not be filled until the beginning of January 2019. Additionally, one team member has indicated that they are planning to retire mid-February which will again have an impact on in-year delivery.
- 3.3 These recruitment challenges have impacted IA's ability to deliver the plan by 254 days.

##### **Follow-up**

- 3.4 As Committee is aware, a total of 30 historic High and Medium rated IA findings were reopened across Services in June 2018. The management and follow-up time required to confirm that these have now been effectively addressed was not reflected in the capacity assumptions supporting the 2018/19 plan when it was approved.
- 3.5 A significant amount of time (circa 200 days) has already been spent on follow-up of both current and historic IA findings up to October, in comparison to the 180 days follow-up time included in the 2018/19 annual plan for the full year for all audits.
- 3.6 IA is currently performing follow-up on all open high; medium; and low rated findings. Typically, a risk-based follow-up approach would be applied, with all highs, and a sample of medium rated findings being validated prior to closure; with the balance of mediums and lows included in the scope of the next audit planned in the service area.

- 3.7 Given the issues previously highlighted to Committee, it is not proposed to move to this model until the Council's current risk, control and follow-up culture matures further to allow implementation of a risk-based approach. Follow-up should therefore continue to be performed on all open IA findings for the remainder of the 2018/19 plan year. It is hoped that this approach can be proposed when preparing the 2019/20 IA plan.

### **Plan additions**

- 3.8 An additional review of the new Garden Waste project and registration process was added to the 2018/19 IA plan in July 2018. This incurred around 20 days of audit staff time to perform and was added to the IA work plan prior to the change process approved by Committee in August 2018.

### **TeamCentral Launch and Training**

- 3.9 Time has also been usefully invested (circa 160 days) in configuring, testing, and piloting the TeamCentral system that was launched in July to automate the follow-up process.
- 3.10 Further time (circa 10 days) was invested in developing and delivering training (12 training sessions were delivered) that focused on the importance of balancing service delivery with risk and controls; with the aim of improving risk culture, and awareness of the importance of implementing and sustaining agreed management actions to close IA findings across the Council.
- 3.11 Whilst the TeamCentral system launch and training have required some short-term IA capacity, it is expected that completion of audits and subsequent follow-up will become significantly more efficient, resulting in longer term time-saving benefits. In addition, the sharing of knowledge and understanding within the Council's staff involved in implementing management actions will improve both quality and timeliness of implementation.
- 3.12 The total impact of the challenges described above is estimated at circa 644 audit days (refer to analysis included at Appendix 1) in comparison to approximately 345 days required to deliver the remainder of the 2018/19 IA plan (refer section 3.19 below). With significant additional effort, the balance of circa 300 days of additional work has been absorbed by the IA team together with the resources provided by PwC in addition to routine audit activity. However, this is not sustainable in the medium to long term.

### **Progress with plan delivery**

- 3.13 In terms of progress, 6 of the 44 planned 2018/19 audits to be delivered by the IA team have been completed to date, and a further 8 are in progress. Good progress is also being made with finalising the 5 2017/18 reviews which were carried over into 2018/19.
- 3.14 PwC has supported delivery of the IA plan with resources provided (at no cost to the Council) during August and September 2018 to deliver 3 audits, creating capacity within the IA team to focus on follow-up work.

- 3.15 As reported to Committee in August, the contingency time of 70 days included within the plan has been fully utilised to support the activities noted above.

### **Proposals to rebase the 2018/19 IA plan**

- 3.16 It is proposed that the following audits are removed from the 2018/19 IA plan, resulting in a total saving of 90 days of audit time:

3.16.1 Resilience – the objective of this review was to assess the adequacy and effectiveness of resilience plans across services. However, the 2017/18 resilience review completed in September 2018 highlighted that business impact assessments resilience plans have not yet been completed for all statutory and critical services. This is reflected in a High rated finding with agreed implementation dates of June 2020 for high risk essential services, and December 2021 for remaining essential services. Consequently, limited assurance would be provided by completing this review as part of the 2018/19 IA plan;

3.16.2 Care Homes Follow-Up – The objective of this review was to revisit a sample of the care homes that IA had assessed as ‘red’ following completion of care home visits in quarter 1 2017/18. However, a significant number of the findings raised in the Care Homes Assurance report yet to be implemented, and therefore seeking the desired assurance in 18/19 would be premature; and

3.16.3 City Deal – on the basis that the City Deal is a partnership of a number of organisations across Edinburgh, it has been agreed with management that it would be more appropriate for the City Deal partnership to source external assurance on their programme of activities.

- 3.17 It is estimated that an additional 100 days follow-up time will be required to support closure of open IA findings between 22 October 2018 and 31 March 2019.

- 3.18 Days allocated to the remaining audits in the plan have also been reviewed and reduced by a total of 30 days, as set out in the Appendix.

### **Capacity to deliver the 2018/19 IA plan**

- 3.19 When the proposed changes outlined at 3.14 to 3.16 above are taken into account, a further 1,085 days of IA activity (including 50 days contingency time) is the estimate required (as at 22 October 2018) to deliver the full 2018/19 plan. This is in comparison to an estimated 740 available days from the IA team, leaving a shortfall of approximately 345 days. This equates to approximately 6 FTE or delivery of 14 audits.

### **Options to deliver the 2018/19 IA plan**

- 3.20 Further reduce the audits included in the 2018/19 IA plan. This option is not recommended by IA as it will reduce level of assurance provided across the Council’s most significant risks, impacting IA’s ability to deliver an annual opinion.

- 3.21 Advise the 3 external arms-length organisations that IA services will not be provided in 2018/19. This would save circa 45 audit days, enabling delivery of 1.8 audits for the Council but would have adverse reputational consequences. This has not been discussed with the bodies involved and is not recommended as an option;
- 3.22 Recruit resources from the temporary employment market to support completion of the plan; or
- 3.23 Request resources from PwC under the terms of the existing co-source agreement.
- 3.24 It is proposed that the Chief Internal Auditor be authorised to draw down resource as appropriate in consultation with the Head of Legal and Risk to allow delivery of the 18/19 plan.

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

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- 4.1 Delivery of the full 2018/19 IA plan by 31 March 2019.

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

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- 5.1 The costs associated with using contract or co-source resources to support plan delivery are estimated at circa £150 - £200K. It is proposed that this be managed as a financial pressure by the Head of Legal and Risk within the overall Divisional budget, in consultation with the Executive Director of Resources.

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

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- 6.1 Failure to deliver the IA plan could impact on the ability to provide the annual IA opinion for 2018/19 as required by the Public Sector Internal Audit Standards requirements.

#### **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 [Internal Audit Annual Plan 2018-19](#)

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## **11. Appendices**

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Appendix 1 – Analysis of Impacts on IA capacity to deliver the plan

Appendix 2 – Analysis of Audit Days Required to Deliver the 2018/19 Annual Plan

## Appendix 1 – Analysis of Impacts on IA capacity to deliver the plan

<b>Impact</b>	<b>No of Days</b>
Recruitment – impact of varying notice periods	<b>254</b>
TeamCentral project – system configuration, testing, and pilot	<b>160</b>
IA training design and delivery	<b>10</b>
Additional follow-up time	<b>200</b>
Garden waste review – addition to IA plan	<b>20</b>
Total impact on plan	<b>644</b>
Total plan shortfall	<b>345</b>



## Appendix 2 – Analysis of Audit Days Required to Deliver the 2018/19 Annual Plan

<b>Directorate</b>	<b>Review</b>	<b>Original Plan Days</b>	<b>Revised Days</b>	<b>Comments</b>
C&F	St Katherines	30	20	In progress. Revised days reflects work to be completed.
C&F	Schools Capital Project	25	25	Not started.
C&F	First Line Assurance Framework	25	15	In progress. Revised days reflects work to be completed.
CEO	Portfolio Governance Framework	25	25	Not started.
CEO	Resilience	25	0	Proposed for removal.
CEO	City Deal	25	0	Proposed for removal.
Council Wide	Quality Governance and Regulation	25	25	At early planning.
Place	Trams	90	90	At early planning.
Council Wide	Emergency Prioritisation and Complaints	40	40	Not started.
Council Wide	General Data Protection Regulation Follow-up	-	-	PwC Specialist review – no IA time required.
Council Wide	Health and Safety - Life and Limb Risks	-	-	PwC Specialist review – no IA time required.
Council Wide	Validation	40	15	In progress. Revised days reflects work to be completed.
Council Wide	Homelessness	40	40	Not started.
Council Wide	Monthly follow-up	180	100	Original 180 days fully utilised. A further 100 days required through to end March 2019.
Council Wide	Payments and Charges	40	40	Not started.
Council Wide	Transformation	30	30	Not started.
H&SC	Care Homes Follow Up	40	0	Proposed for removal.
Miscellaneous	EIJB - governance	25	20	At early planning. Days reduced reflecting cross-over between the three audits.
Miscellaneous	EIJB – scheme of integration	25	20	
Miscellaneous	EIJB – strategic planning	25	20	
Miscellaneous	Internal Audit quality assurance	30	15	Days reduced.
Miscellaneous	Lothian Valuation Joint Board	15	15	Not started.
Miscellaneous	SEStran	15	15	Not started.
Miscellaneous	Royal Edinburgh Military Tattoo	15	15	Not started.
Place	Localities Operating Model	40	40	At early planning.
Place	Building Standards Follow up	20	20	Not started.

<b>Directorate</b>	<b>Review</b>	<b>Original Plan Days</b>	<b>Revised Days</b>	<b>Comments</b>
Place	Carbon Reduction Commitment Scheme	20	15	In progress. Revised days reflects work to be completed.
Place	Licencing	25	25	At early planning.
Place	Edinburgh Roads Services	25	25	Not started.
Place	Port Facility Security Plan	15	15	Not started.
Place	Waste Services	25	25	Not started.
Resources	Payroll	30	30	Not started.
Resources	Certifications and Software Licencing	-	-	PwC Specialist review – no IA time required.
Resources	CGI Change Management	25	25	Not started.
Resources	CGI Sub contract management	25	25	Not started.
Resources	Out of support technology infrastructure and public sector network accreditation	-	-	PwC Specialist review – no IA time required.
Resources	System Access Controls	25	15	In progress. Revised days reflects work to be completed.
Resources	Lothian Pension Fund - Unlisted investment valuations and application of fees and charges	-	-	PwC Specialist review – no IA time required.
Resources	Lothian Pension Fund - Unitisation	20	20	Not started.
Resources	Lothian Pension Fund - Stock Lending	20	20	Not started.
Resources	Project review - Customer Transformation	25	25	Not started.
Resources	Project review - ERP System	40	40	At early planning.
Resources	Supplier Management Framework and Construction Industry Scheme	30	30	Not started.
Resources	Implementation of Asset Strategy and CAFM	30	30	Not started.
Resources	Implementation of FM SLA	25	25	Not started.
Resources	Public Sector Cyber Resilience Action Plan	-	-	PwC Specialist review – no IA time required. At draft reporting.
	Contingency	-	50	
	Total Days	1,295	1,085	Equivalent of 6FTE or 14 Audits
	Completed Audits	90		
	Total plan days	1,385		