

# Pension Committee

## Internal Audit plan for 2015/16

<b>Item number</b>	5.3
<b>Report number</b>	
<b>Executive/routine</b>	
<b>Wards</b>	All

### Executive summary

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This document outlines the planned Internal Audit activities for the financial year 2015/16.

The Internal Audit plan has been developed using a risk based methodology to ensure that assurance activity is focussed on the key areas of risk faced by the Pension Fund.

### Links

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#### Coalition pledges

#### Council outcomes

CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.

#### Single Outcome Agreement

## Internal Audit plan for 2015/16

### Recommendations

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- 1.1 Committee is requested to note the planned audit activity for the year 2015/16.

### Background

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- 2.1 The internal audit plan for the Fund is risk based and focuses on the governance, risk and controls within the Fund. In line with the requirements of the Public Sector Internal Audit Standards (PSIAS) which have been adopted by Internal Audit, the audit plan has been developed using a risk based methodology to ensure that assurance activity is focussed on the key areas of risk.
- 2.2 The methodology used is set out in the Internal Audit Risk Assessment and Plan 2015/16 which was approved by the Governance, Risk and Best Value Committee on 3 March 2015. The audits planned for the Fund are included within this overall Internal Audit plan which is contained in Appendix 1.

### Main report

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#### Internal Audit Plan for the Lothian Pension Fund

- 3.1 The areas proposed for inclusion in the Pensions section of the Internal Audit plan were identified subsequent to discussions with the Lothian Pension Fund management team and members of the Pensions Audit Sub- Committee to identify current areas of risk and to prioritise where obtaining assurance is appropriate.
- 3.2 The planned reviews for the year to 31 March 2015 are set out below:

	Audit remit	Planned days
1	<u>Immediate Payments</u> Audit the immediate payment (live) system from Payments Units. Also assess reconciliation controls between payroll and pension systems.  (This review has been held over from 2014/15 as a consequence of the later than initially expected	20

	implementation of the immediate payments system.)	
2	<p><u>Investments Managed Externally</u></p> <p>Assess the processes used for placing funds with external fund managers and the mechanisms used to appoint external fund managers. Review the procedures in place to monitor the performance of externally managed funds. Also consider the procedures used to manage the removal of external fund managers.</p>	20
3	<p><u>Compliance</u></p> <p>Asses the procedures in place to ensure that the Fund is compliant with the requirements of the Public Services Pension Act, particularly the Governance regulations. Also consider the mechanisms in place to ensure that the Fund is adhering to the Pension Regulator’s Code of Practise.</p>	20

- 3.3 It is proposed to conduct the Immediate Payment review in Q1 of the financial year with the other two reviews expected to be undertaken simultaneously in late Q2 or early Q3, with the expectation that all reviews will be complete in advance of the December 2015 Pension Committee meeting.
- 3.4 Planned days are indicative at this stage as the nature, timing and extent of the audit work is not confirmed until the detailed Terms of Reference have been finalised following the completion of the planning process with Fund management, for each review.

## Measures of success

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

## Financial impact

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- 5.1 A central support charge will be made to the Pension Fund for the provision of Internal Audit services provided. This is in the process of being finalised by Finance but is expected to be in the region of £52,000.

## Risk, policy, compliance and governance impact

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- 6.1 The Internal Audit plan sets out the areas of focus for Internal Audit activities for 2015/16. Internal Audit provides assurance over the governance and control environment operating in the Fund.

## Equalities impact

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

## Sustainability impact

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

## Consultation and engagement

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- 9.1 The internal audit team consulted with the Risk team, Lothian Pension Fund management and members of the, Pensions Audit Sub- Committee in preparing the Internal Audit plan.

## Background reading / external references

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None.

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## Links

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### Coalition pledges

**Council outcomes** CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.

### Single Outcome Agreement

**Appendices** Appendix 1 – The City of Edinburgh Council: Internal Audit Risk Assessment and Plan 2015/16

# **The City of Edinburgh Council**

## **Internal Audit Risk Assessment and Plan 2015/16**

**FINAL**

# Contents

<b>1. Introduction and Approach</b>	<b>1</b>
<b>2. Audit universe, corporate objectives and risks</b>	<b>4</b>
<b>3. Risk assessment</b>	<b>5</b>
<b>4. Annual plan and internal audit performance</b>	<b>8</b>
<b>Appendix 1: Detailed methodology</b>	<b>14</b>
<b>Appendix 2: Risk assessment criteria</b>	<b>16</b>
<b>Appendix 3: Corporate Risks</b>	<b>17</b>
<b>Appendix 4: Service Area Risks</b>	<b>18</b>

## Distribution List

For action: Corporate Management Team

For approval: Governance, Risk and Best Value Committee

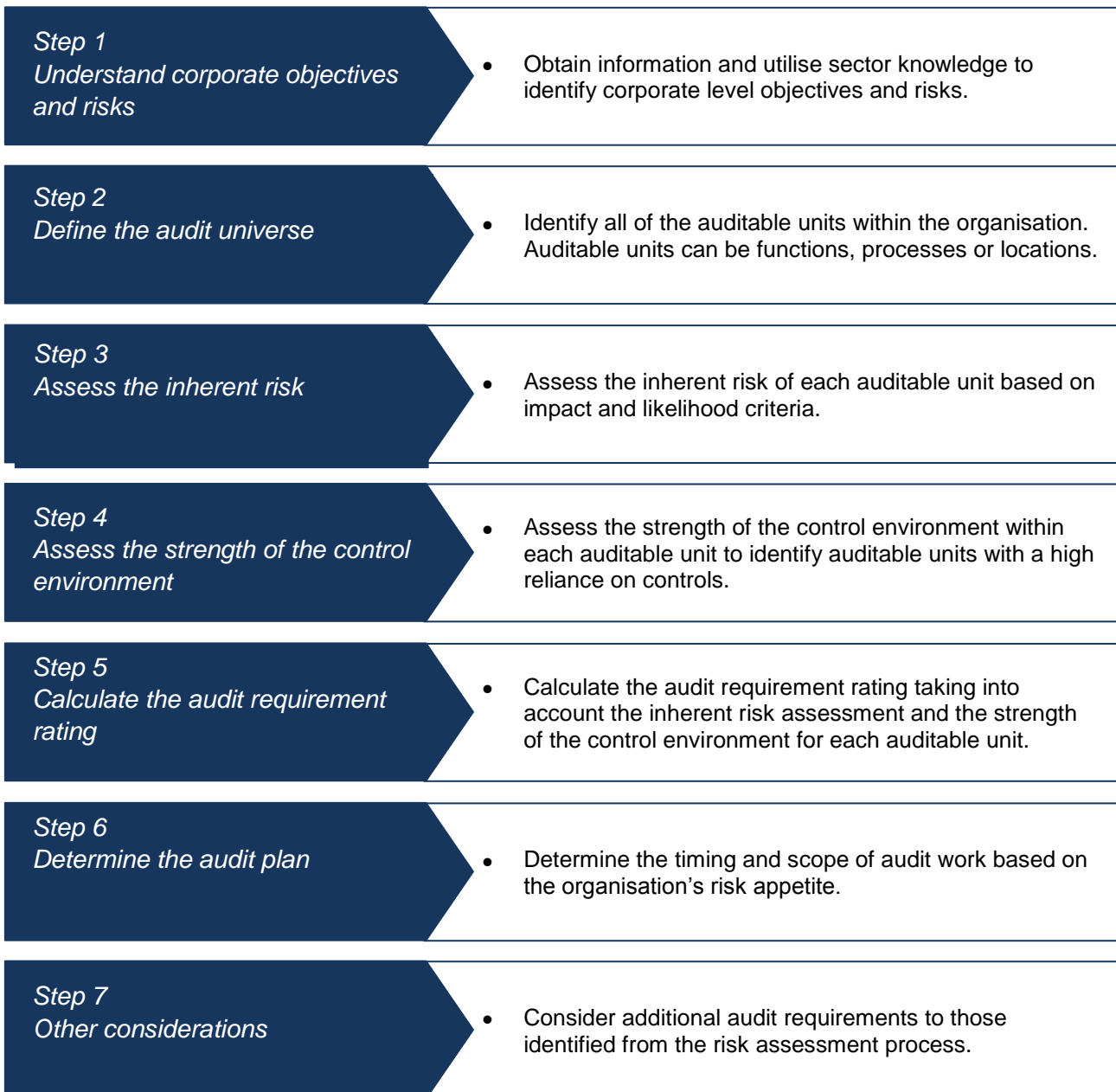
# 1. Introduction and Approach

## Introduction

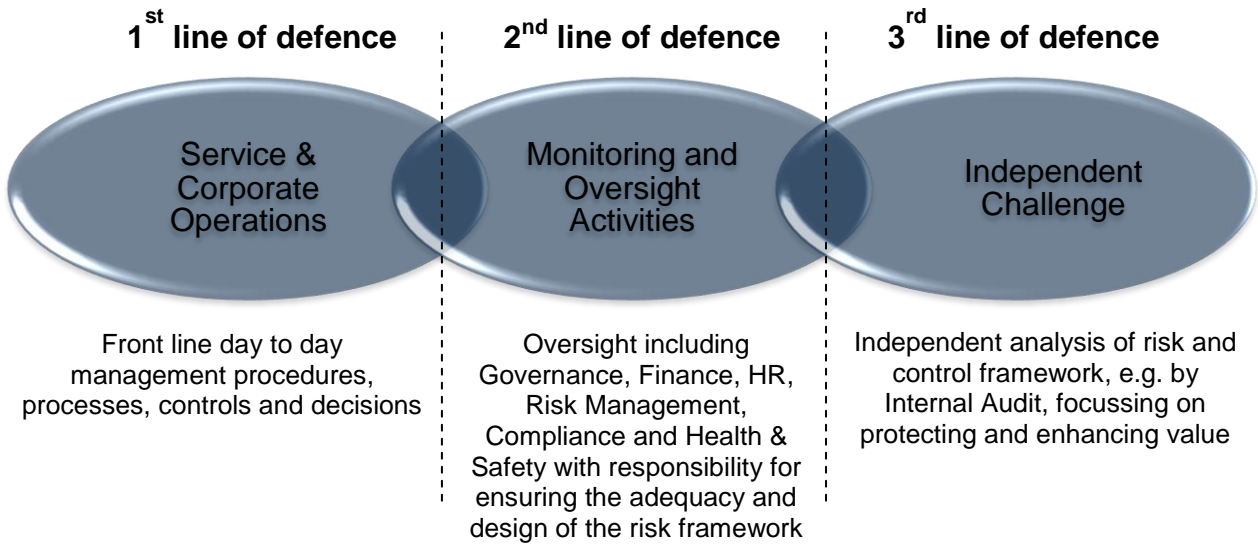
This document sets out the risk assessment and the internal audit plan for The City of Edinburgh Council.

## Approach

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



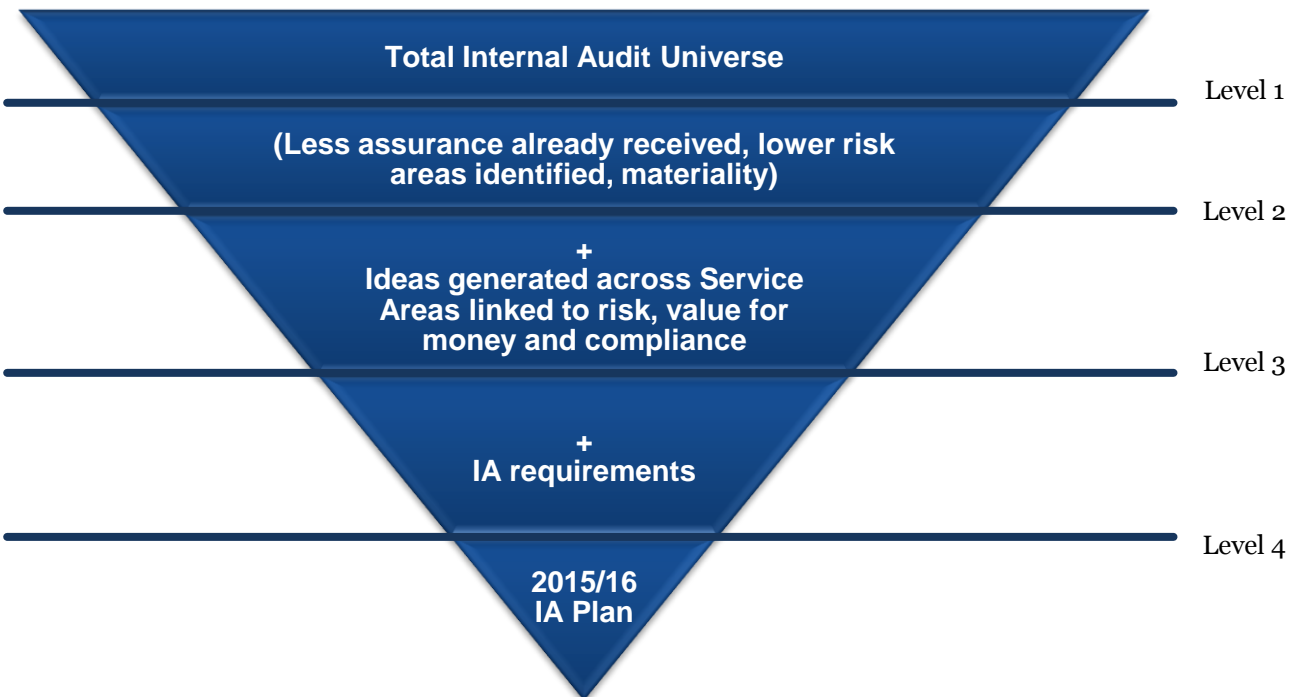
This approach takes into account the role of Internal Audit, as one of the Council’s assurance providers from the 3rd line of defence:



**Basis of our plan**

The level of available resources for the internal audit service for 1 April 2015 to 31 March 2016 is 1,245 days, and therefore the plan does not purport to address all key risks identified across the audit universe as part of the risk assessment process. Accordingly, the level of internal audit activity represents a deployment of limited internal audit resources and in approving the risk assessment and internal audit plan, the Governance Risk and Best Value Committee recognises this limitation.

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



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



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

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

The internal audit plan for 2015/16 therefore represents a balance between compliance, value add based on risk assessment and input from management (members of SMTs, CMT and GRBV).

### *Basis of our annual internal audit conclusion*

Internal audit work will be performed in accordance with methodology aligned to Public Sector Internal Audit Standards (PSIAS). As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

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

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

### *Other sources of assurance*

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

The other sources of assurance for The City of Edinburgh Council are as follows:

- External inspections such as those undertaken by the Care Inspectorate, Child Protection Inspection Unit, Education Scotland and Audit Scotland.
- External audit
- Reviews and audits by the Scottish Information Commissioner (OSIC) on Freedom of Information and the Information Commissioner's Office (ICO) on data protection and security.

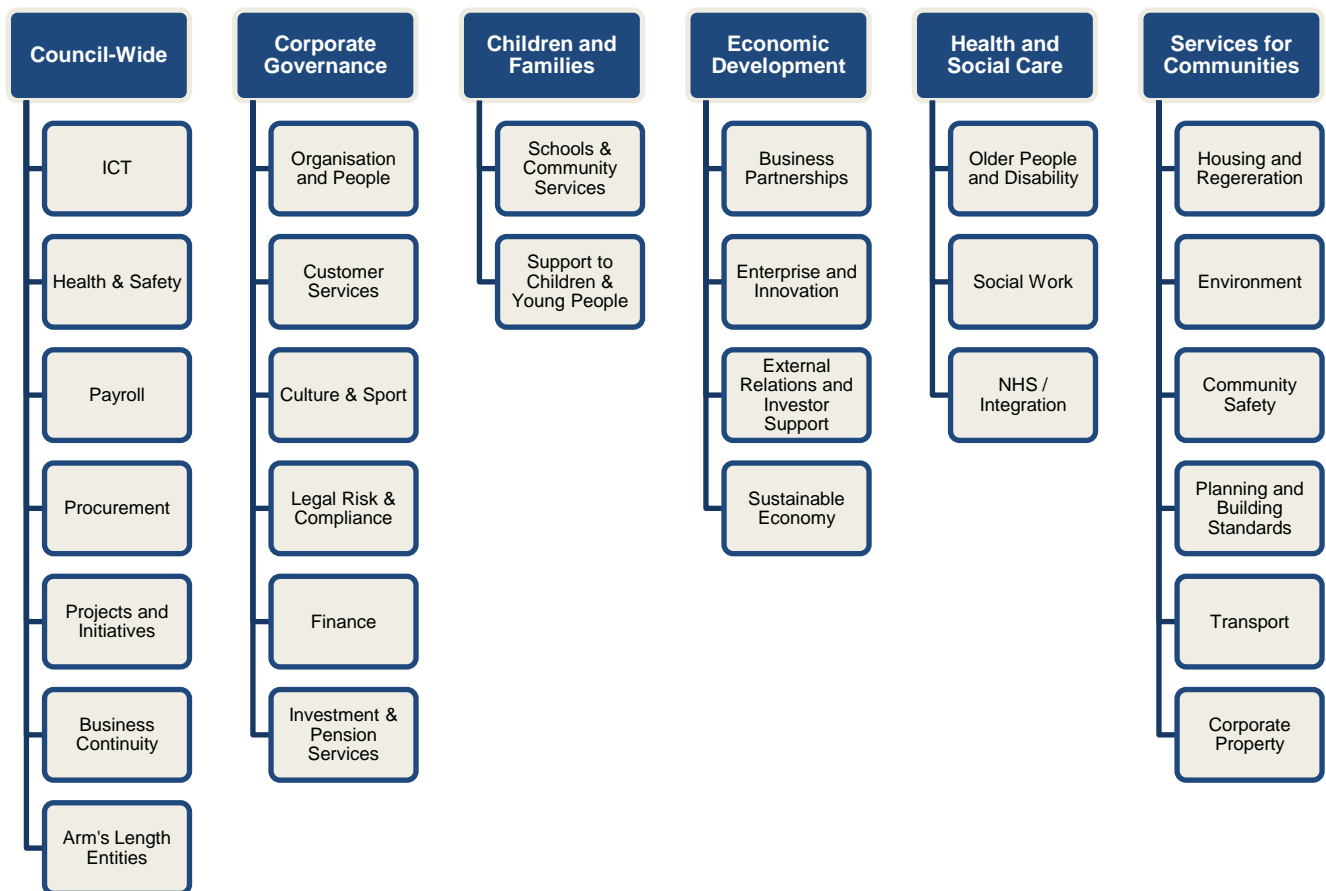
We do not intend to place reliance upon these other sources of assurance.

# 2. Audit universe, corporate objectives and risks

## Audit universe

The diagram below represents the high level auditable units within the audit universe of The City of Edinburgh Council. These units form the basis of the internal audit plan. We have identified 7 Council-Wide auditable units which nominally sit within Corporate Governance but which cover the entire Council.

### The City of Edinburgh Council – Auditable Units



Note that we are not representing joint body assurance as a result of the Health and Social Care Integration with NHS Lothian.

# 3. Risk assessment

## Risk assessment results





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

Ref	Auditable Unit	Inherent Risk Rating	Control Environment	Colour code	Frequency	No of audits (15/16)	No of audits (14/15)	Other Assurance / Notes
<b>A</b>	<b>Council-Wide</b>					<b>8</b>	<b>15</b>	
A.1	ICT	5	2	●	1	2	6	Specific ICT application reviews are included within Service Area reviews noted below. Also note 3 reviews in 14/15 were c/fwd from 13/14 plan.
A.2	Health and Safety	5	3	●	1	1	2	H&S perform independent audit work, school audits
A.3	Payroll	5	4	●	1	-	4	Payroll Internal Audit work for 2015/16 covered by the Key Financial Controls reviews (Finance)
A.4	Procurement	5	4	●	1	1	1	
A.5	Projects & Initiatives	5	4	●	2	2	1	Corporate Programme Office provide direct assurance on major projects
A.6	Business Continuity	5	3	●	1	1	-	ISO external certification
A.7	Arm's Length Entities	5	3	●	1	1	-	
<b>B</b>	<b>Corporate Governance</b>					<b>8</b>	<b>13</b>	
B.1	People and Organisation	5	3	●	1	1	-	See also Payroll Council-wide below
B.2	Customer Services	4	4	●	2	-	4	
B.3	Culture & Sport	3	3	●	3	-	1	
B.4	Legal Risk & Compliance	4	4	●	1	1	1	
B.5	Finance	5	3	●	1	3	5	Audit Scotland external audit and Best Value report
B.6	Investment & Pension Services	4	4	●	2	3	2	Internal Audit reviews are required to be completed annually

Ref	Auditable Unit	Inherent Risk Rating	Control Environment	Colour code	Frequency	No of audits (15/16)	No of audits (14/15)	Other Assurance / Notes
<b>C</b>	<b>Children and Families</b>					<b>20</b>	<b>6</b>	
C.1	Schools & Community Services	5	2	●	1	17	4	A total of 15 schools to be reviewed as part of a revised approach to assessing the estate. Each school review assumed to be an audit.
C.2	Support to Children & Young People	5	4	●	1	3	2	Assurance also gained from Care Inspectorate and Child Protection Inspection Unit visits.
<b>D</b>	<b>Economic Development</b>					<b>1</b>	<b>-</b>	
D.1	Business Partnerships	3	4	●	3	-	-	EICC and EDI audits in 15/16 included in Arm's Length Entities.
D.2	Enterprise and Innovation	2	4	●	-	-	-	
D.3	External Relations and Investor Support	3	4	●	3	-	-	Council-wide FOI review included in 15/16 Plan (Legal, Risk & Compliance).
D.4	Sustainable Economy	4	3	●	2	1	-	
<b>E</b>	<b>Health and Social Care</b>					<b>5</b>	<b>3</b>	
E.1	Older People and Disability	5	4	●	1	2	1	
E.2	Social Work	5	4	●	1	1	2	ICT review of SWIFT (14/15 and 15/16)
E.3	NHS / Integration	5	2	●	1	2	-	
<b>F</b>	<b>Services for Communities</b>					<b>7</b>	<b>11</b>	
F.1	Housing & Regeneration	5	3	●	1	1	4	
F.2	Environment	4	4	●	2	-	2	
F.3	Community Safety	3	4	●	2	-	1	
F.4	Planning & Building Standards	4	4	●	3	1	-	
F.5	Transport	5	4	●	1	1	2	
F.6	Corporate Property	5	2	●	1	4	2	School audits include Health & Safety
<b>G</b>	<b>Other/Miscellaneous</b>					<b>4</b>	<b>5</b>	
G.1	Joint Boards	2	4	●	3	3	4	Required to be completed annually
G.2	Tattoo	2	4	●	3	1	1	Required to be completed annually

Ref	Auditable Unit	Inherent Risk Rating	Control Environment	Colour code	Frequency	No of audits (15/16)	No of audits (14/15)	Other Assurance / Notes
	<b>TOTALS</b>					<b>53</b>	<b>53</b>	

### *Key to frequency of audit work*

Audit Requirement Rating	Frequency
	Annual
	Every two years
	Every three years
	No further work

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

The internal audit budget allows for 1,345 days. The audit plan is a rolling programme aiming to ensure all auditable units are subject to an internal audit at least once in a three year cycle. An exception to this is that school reviews this will be subject to a five year cycle, based on resource constraints.

# 4. Annual plan and internal audit performance

## Annual plan and indicative timeline

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

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

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

There are 53 Internal Audit reviews scheduled for 2015/16 (including contingency for additional currently unplanned reviews). Included within this, we are proposing to implement a rotational audit of the schools estate, which equates to approximately 10% of the available audit days available. In 2015/16 this will involve the review of 15 schools. The above compares with 53 reviews originally included under the 2014/15 audit plan. Each proposed review for 2015/16 is included in the table below and has been cross referenced to the corresponding key corporate and service area level risks, which are included within Appendices 3 and 4.

Auditable Unit	Description	Q1	Q2	Q3	Q4	Days	Link to Risk	Fraud (H/M/L)
<b>Council-Wide</b>								
ICT (Council-wide)	<u>Information Asset Register</u> To review the completeness of the Council's Information Asset Register (IAR) to ensure existence and completeness of all critical systems. Map the linkage of the critical down time thresholds into the defined Disaster Recovery Plan.				✓	30	CMT7	Low
ICT (Council-wide)	<u>Data Integrity</u> High level review of the accuracy and timeliness of critical management information	✓				20	CMT15	High
Health and Safety (Council-wide)	<u>Health and Safety Annual Plan</u> Review the development and progress of the Health and Safety Annual Plan.			✓		30	CMT11 HSC2 CF4	N/A
Procurement (Council-wide)	<u>Procurement Arrangements</u> Review of the Council's Procurement processes and controls. Review to include an assessment of the Management Information dashboards and controls over 'one time payments'.	✓				30	CG3 SFC4	High

Auditable Unit	Description	Q1	Q2	Q3	Q4	Days	Link to Risk	Fraud (H/M/L)
Projects and Initiatives (Council-wide)	<u>BOLD</u> Review of the processes and controls in place for tracking phase 2 savings accurately and ensuring savings are only counted once. Reporting on these savings will also be reviewed.				✓	25	CMT4 CMT5 CG8	Low
Projects and Initiatives (Council Wide)	<u>Neighbourhood Partnerships</u> Review accountability and management of spend in the Neighbourhood Partnerships.		✓			25	GRBV	Medium
Business Continuity (Council-wide)	<u>Business Continuity Planning</u> Review over the Council's Business Continuity Plan, with specific assessment around the governance of the plan and communication to staff.				✓	30	CG1	N/A
Arm's length entities (Council-wide)	<u>Governance arrangements</u> Review of governance responsibilities and arrangements over Council controlled entities, such as Lothian Buses, EDI and EICC.	✓				30	CMT24 ED1 CG9	High
<b>Corporate Governance</b>								
People and Organisation	<u>Workforce Planning</u> Review the processes and controls in place for managing secondments and 'acting up' roles.		✓			25	CMT31 CMT34 CG5 CG6 SFC6 HSC3	High
Legal, Risk and Compliance	<u>Freedom of Information Requests</u> Review the key controls established by the Council to capture and respond to FOI requests, across all departments, within the required timeframe/ legislative requirements. Review should also cover training in place for dealing with FOIs and the processes in place for checking the provision of requested information and level of redaction.			✓		25	CMT10 ED1	Medium
Finance	<u>Demographics in Budgeting Process</u> Review the use of demographic assumptions incorporated into the financial planning and budgeting processes across the Council.	✓				30	CMT6 CG9 SFC2 SFC3 HSC1 ED2 CF5	Low

Auditable Unit	Description	Q1	Q2	Q3	Q4	Days	Link to Risk	Fraud (H/M/L)
Finance	<u>Anti-Fraud Arrangements</u> Review the Council's anti-fraud arrangements. Assess the controls and governance arrangements in place for the prevention, detection and reporting of fraud within the Council.		✓			20	CG4	High
Finance	<u>Continuous Controls Over Key Financial Systems</u> Testing of key controls within the Council's key financial systems using continuous auditing and data techniques to interrogate complete populations of data where controls are automated.	✓	✓	✓	✓	60	CG4	High
Investment & Pension Services	<u>Pensions - Immediate Payments</u> Audit the immediate payment (live) system from Payments Units and assess reconciliation controls between payroll and pension systems.	✓				20	N/A	Medium
Investment & Pension Services	<u>Pensions - Investments Managed Externally</u> Assess the processes in place to allocate and monitor the performance of externally managed funds. Also consider the procedures used to manage the appointment and removal of external fund managers.		✓			20	N/A	Medium
Investment & Pension Services	<u>Pensions - Compliance</u> Asses the procedures in place to ensure that the Fund is compliant with its regulatory requirements.		✓			20	N/A	Medium
<b>Children and Families</b>								
Schools & Community Services	<u>Schools audits*</u> Follow-up of self-assessments covering Health and Safety and Financial Management in schools. This will be piloted using the Children and Families' risk ratings to prioritise schools on a rotational basis.	✓	✓	✓	✓	150	CMT39 SFC1 CF4	High
Schools & Community Services	<u>Contingency Planning</u> Review contingency plans to respond to severe weather and emergency situations, including infection control, leading to loss or disruption of services.				✓	25	CF3 CF6	N/A
Schools & Community Services	<u>Access Controls- Schools IT systems</u> Review of access controls for the Schools IT estate.		✓			30	CF2	High



Auditable Unit	Description	Q1	Q2	Q3	Q4	Days	Link to Risk	Fraud (H/M/L)
Support to Children & Young People	<u>Implementation of the Children and Young People's Bill</u> Review the implementation of the Bill following guidance from the Scottish Government.		✓			25	CF1	N/A
Support to Children & Young People	<u>DBS Checks and References</u> Review the procedures in place to ensure that staff working with looked after children have appropriate DBS Checks and that references have been taken up before they work with children.	✓				25	CF4	Low
Support to Children & Young People	<u>Information Governance</u> Review the processes and controls in place for managing and sharing sensitive data with appropriate partners such as GPs, teachers and social work.				✓	30	CF7	Low
<b>Economic Development</b>								
Sustainable Economy	<u>Energy Action Plan</u> Review progress in implementing the Sustainable Energy Action Plan (SEAP) and assess controls around the set-up of the planned Energy Services Company.		✓			25	CMT19	Low
<b>Health and Social Care</b>								
Older People and Disability	<u>Care Sector Capacity</u> Review of strategic planning for provision of care, given the change in demographics of the City.				✓	30	HSC3	Low
Older People and Disability	<u>Personalisation/SDS- Option 3</u> Review the key risk areas relating to option 3 of SDS (the Council as the care provider).			✓		30	HSC6	Low
Social Work (ICT)	<u>SWIFT – Access Controls</u> Review access controls for the SWIFT system.		✓			30	HSC5	Medium
NHS Integration	<u>Integration</u> Review the budgeting process for integrated care and also assess the controls in place to deal with the unknown/unexpected elements of integrated care.	✓				30	CMT2 HSC4 CF8	Low
NHS Integration	<u>IT readiness for Health and Social Care Integration</u> Review the readiness of the IT environment for integration of Health and Social Care.			✓		30	CMT3 HSC4 HSC5 CF8	N/A

Auditable Unit	Description	Q1	Q2	Q3	Q4	Days	Link to Risk	Fraud (H/M/L)
<b>Services for Communities</b>								
Housing & regeneration	<u>Transfer of the Management of Development Funding (TMDF)</u> Review grants to ensure that there are sufficient controls in place and evidence over expenditure.	✓				25	Statutory	High
Planning & Building Standards	<u>Planning Controls and Procedures</u> Review of controls and management around Section 75 contributions.				✓	25	SFC3	Medium
Transport	<u>Contract Management - Roads</u> Review prioritisation of repairs and controls over contract management of work.	✓				20	GRBV	High
Corporate Property	<u>Shared Repairs and Maintenance</u> Review plans for the new arrangements in place for shared repairs.				✓	30	CMT1 CMT26 SFC1 SFC2	Medium
Corporate Property	<u>Property Maintenance</u> Review adequacy of the framework and controls for identification of repairs required, prioritisation of resources and contract management.		✓			30	CMT1 SFC1 SFC2 SFC5	High
Corporate Property	<u>CAFM</u> Review the systems and controls in place around the new Computer Aided Facilities Management (CAFM) IT system that manages property estate.			✓		30	CMT1 SFC1 SFC5	Medium
Corporate Property	<u>Property Disposals</u> Monitoring of properties with outstanding conditions of sale.	✓				20	CMT1 CMT16 SFC5	Low
<b>Arm's Length Companies</b>								
Joint Boards	Lothian Valuation Joint Board - provision of internal audit services			✓		10	N/A	N/A
Joint Boards	SesTran - provision of internal audit services			✓		10	N/A	N/A
Joint Boards	LBCJA – provision of internal audit services				✓	10	N/A	N/A
Tattoo	Tattoo - provision of internal audit services			✓		10	N/A	N/A
<b>Miscellaneous</b>								
Internal Audit	4 additional ad hoc reviews added in the year – management/IA discretion	✓	✓	✓	✓	80	N/A	N/A
Internal Audit	Contingency	✓	✓	✓	✓	20	N/A	N/A
Internal Audit	Corporate Governance work at LVJB, LBCJA and SesTran				✓	15	N/A	N/A

Auditable Unit	Description	Q1	Q2	Q3	Q4	Days	Link to Risk	Fraud (H/M/L)
Internal Audit	Cycling Walking Safer Streets Grant and Carbon Reduction Commitment Scheme	✓				10	N/A	N/A
Internal Audit	Follow Up of outstanding actions	✓	✓	✓	✓	55	N/A	N/A
Internal Audit	Fraud Support	✓	✓	✓	✓	10	N/A	N/A
Internal Audit	GRBV Reporting	✓	✓	✓	✓	15	N/A	N/A
Internal Audit	Internal Audit Annual Plan 2016/17				✓	20	N/A	N/A

# Appendix 1: Detailed methodology

## Step 1 - Understand corporate objectives and risks

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

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

## Step 2 - Define the Audit Universe

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

## Step 3 - Assess the inherent risk rating

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

The inherent risk assessment is determined by:

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

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

## Step 4 - Assess the strength of the control environment

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

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

## Step 5 - Calculate the audit requirement rating

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

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

## Step 6 - Determine the audit plan

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

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

## Step 7 - Other considerations

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

# Appendix 2: Risk assessment criteria

## Determination of Inherent Risk

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

<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: Corporate Risks

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

## Corporate Management Team Prioritised Inherent Risks

Ref	Prioritised Inherent Risk	15/16	Other Assurance
CMT1	Risk that the Council does not have a capital portfolio that is fit for purpose and/or meets Health & Safety standards now and in the future.	✓	
CMT2	Risk over the affordability and delivery of the Adult Social Care, particularly in light of expected demographic changes, could impact the outcomes and care for the people of Edinburgh.	✓	
CMT3	Risk that the IT infrastructure is not fit for purpose and doesn't meet the present or future needs of the Council impacting the Council's ability to deliver services as expected.	✓	
CMT4	Risk that the Council's transformational change agenda is not implemented effectively with support from Elected Members resulting in the Council failing to meet service delivery outcomes impacting cost reductions and staff morale.	✓	CPO assurance
CMT5	Risk that the Council does not generate sufficient savings to meet budgets in the short and longer term resulting in under delivery of key services.	✓	
CMT6	Risk of a lack of strategic planning in relation to increasing demand for critical services, taking into account the growth in the City's population as well as changing demographics, leading to a shortfall in funding and a lower quality of service.	✓	
CMT7	Risk that the re-procurement of the ICT contract does not deliver the service propositions required to meet the needs of the organisation resulting in service disruption and remedial action incurring significant costs to the Council.	✗	External support and assurance from CPO
CMT8	The organisational model to deliver critical services is not optimised to allow the Council to build a flexible, motivated and high performing workforce, resulting in inefficient service delivery and budget overspend.	✓	
CMT9	Risk of ICT disruption and outages for the remainder of the existing outsourced provider contract impacts 'business as usual' and the Council's ability to deliver all requirements as expected.	✓	
CMT10	Risk that the Council does not appropriately prioritise resource to meet its statutory, legal and other stated delivery commitments resulting in potential harm to service users and significant reputational damage.	✓	Covered by multiple reviews in 2015/16
CMT11	Risk that Health and Safety policy and culture are not clearly understood and embedded in a consistent manner within the organisation, leading to a lack of accountability and responsibility which could result in avoidable harm.	✓	
CMT12	Risk that the CMT is overly focussed on tactical issues and does not prioritise strategic issues resulting in uninformed decisions over the strategic direction of the Council.	✗	No specific IA work to address this risk

# Appendix 4: Service Area Risks

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

## Corporate Governance

Ref	Corporate Governance Key Risks	2015/16	2014/15
CG1	Failure to deliver business continuity planning agenda and to act on business critical issues e.g. severe weather resulting in major service failure.	✓	✗
CG2	Changes in the ICT contract and loss of critical IT systems could lead to disruption of essential services.	✓	✓
CG3	Failure to develop and implement robust procurement procedures would impact the ability to meet required savings.	✓	✓
CG4	Failure to maintain adequate financial controls could lead to loss, fraud, legal action, inefficiencies and inability to achieve agreed Council outcomes.	✓	✓
CG5	An inadequate ability to resource the business accurately based on clear prioritisation and quality of management information means that our outcomes are not accomplished.	✓	✗
CG6	A lack of appropriately skilled staff results in inappropriate management of key processes (e.g. holidays, overtime, acting up, follow up of IA recommendations) leading to inefficiencies, budget overruns and reputational damage through lack of control and appropriate oversight.  Inability to recruit and retain key skilled staff means there isn't the right staff to deliver the services.	✓	✓
CG7	Budget pressures to central services in order to balance the Council's budget may impact adversely on services provided and could lead to reputational damage	✓	✓
CG8	There is a risk that stakeholders unreasonably expect that BOLD is all that is necessary to accomplish savings targets to achieve a balanced budget for the Council in the future.	✓	✓
CG9	Failure to manage external companies and organisations of the Council leads to service failures resulting in significant reputational damage of the Council.	✓	✗



## Children and Families

Ref	Children & Families Risk	2015/16	2014/15
CF1	Insufficient resources to meet statutory obligations in relation to vulnerable children and young people.	✓	✓
CF2	ICT system fails to support C&F operations resulting in inefficiencies and potential service failures or security breaches.	✓	✓
CF3	Lack of effective contingency planning to respond to severe weather and emergency situations leading to loss or disruption of services.	✓	x
CF4	Non-compliance with legislation (including Health and Safety) would lead to regulatory fines and/or employee injury.	✓	✓
CF5	Inadequate management of current and future budgets results in inability to maintain and deliver statutory, education and care service obligations.	✓	✓
CF6	Infection is not prevented or in the case of an outbreak not adequately managed across the network of schools and establishments.	✓	✓
CF7	Not managing information sharing safely and effectively leading to legal/reputational implications	✓	✓
CF8	Integration of C&F and Child Health Services not effectively managed with partners resulting in additional and unnecessary cost.	✓	x

## Economic Development

Ref	Economic Development Risk	2015/16	2014/15
ED1	Ineffective communication with stakeholders (staff, councillors, third parties) could lead to expectation gaps around service delivery resulting in reputational damage	✓	x
ED2	Due to reducing budgets there is a risk that current service levels cannot be maintained resulting in service shortfalls and reputational damage	✓	✓

## Health and Social Care

Ref	Health and Social Risk	2015/16	2014/15
HSC1	Reduced service budgets, demographic changes and loss of household income for vulnerable groups due to social security reductions leading to higher demands for more (resource) intensive services and budget deficits.	✓	✓
HSC2	Personal injury or loss arises out of failure to meet Health and Safety requirements.	✓	✓
HSC3	Insufficient capacity in the care sector to meet demand due to recruitment challenges, contract fee levels, provider failure, leading to not meeting targets, e.g. unscheduled care, delayed discharges and access to services.	✓	✓
HSC4	Agreement between NHS Lothian and the Council may not be reached on the Integration Scheme to create the Integration Authority and funding the	✓	x

<i>Ref</i>	<i>Health and Social Risk</i>	<i>2015/16</i>	<i>2014/15</i>
	shift in the balance of care.		
HSC5	Risk of ICT and data protection failure due to data being held on different systems which are not integrated, information not being easily accessible and/or retrievable or data not being securely stored leading to loss and/or poor decision making.	✓	✗
HSC6	The full implementation of and delivery of benefits from SDS will take time and may have a negative impact in the short term (e.g. on waiting lists, the accuracy of the calibration of the Funding Allocation System).	✓	✓

## *Services for Communities*

<i>Ref</i>	<i>Services for Communities Risk</i>	<i>2015/16</i>	<i>2014/15</i>
SFC1	An increase in reporting of building defects, a change of local risk tolerance levels resulting in substantial increase in knowledge and understanding of H&S risks.	✓	✓
SFC2	Service demand exceeds service capacity due to budgetary cuts and reduced investment in resources and infrastructure, combined with the pressure to maintain services at existing levels of delivery.	✓	✓
SFC3	Significant economic and social growth within the City and increased service demand has resulted in substantial service pressures with risk that we are unable to meet future growth demand.	✓	✓
SFC4	The planning and coordination of procurement of goods, services and works can be inadequate leading to Standing Order being waived leading to additional expense and a breach of EU procurement regulations.	✓	✓
SFC5	A lack of a holistic view around property rationalisation and allocation of savings leads to uncertainty/lack of clarity, competing attitudes and additional savings pressures.	✓	✗
SFC6	Due to increased service pressures on staff and wider economic market conditions there is a risk of appropriately trained and skilled staff falling below the minimum acceptable levels required to deliver the service	✓	✓