Governance, Risk and Best Value Committee

10am, Tuesday 7 July 2020

Internal Audit: Agile Auditing and Consultancy Support

Item number	
Executive/routine	
Wards	
Council Commitments	

1. Recommendations

It is recommended that the Committee:

1.1 notes the agile auditing and consultancy approaches used by Internal Audit (IA) to provide assurance and support across the Council, in addition to established IA methodology.

1.2 notes that both approaches are aligned with Public Sector Internal Audit Standards (PSIAS); Institute of Internal Audit (IIA) Covid-19 guidance; and recent guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Internal Audit Standards Advisory Board (IASAB) in relation to conformance with the PSIAS during the Covid-19 pandemic; and,

1.3 notes the Chief Internal Auditor's professional opinion that adoption of the agile auditing methodology and provision of consultancy support will not impact upon, or result in, impairment of IA independence and objectivity.

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Chief Internal Auditor

Legal and Risk Division, Resources Directorate

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Report

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Internal Audit: Agile Auditing and Consultancy Support

2.   Executive Summary

2.1   The purpose of this paper is to update the Committee on Internal Audit's (IA) agile auditing methodology and approach to provision of consultancy support across the Council.

2.2   Given the ongoing impacts of Covid-19 it is important that IA provides both ongoing guidance and support, and proportionate independent assurance on the Council's most significant risks, with focus on the design of new and amended service delivery processes implemented in response to Covid-19, enabling management to confirm that risks are being appropriately managed in line with expectations.

2.3   Further details on the proposed assurance approach to be applied by IA is included at section 4 below.

2.4   It is IA's opinion that the design of its agile assurance methodology and consultancy support processes are fully aligned with both established PSIAS requirements and subsequent guidance published to ensure PSIAS conformance during the coronavirus pandemic, and that they will not impact upon, or result in, impairment of IA independence and objectivity.

3.   Background

Agile Auditing

3.1   Agile auditing is a recognised IA approach that enables provision of real time as opposed to retrospective assurance, and is especially useful where an organisation is planning significant change, as assurance can be provided on the design of new processes and systems prior to or soon after their implementation

3.2   The Institute of Internal Auditors (IIA) recognises that an agile approach provides an alternative to more rigid, sequential, and retrospectively focused IA methodologies, with audit coverage more regularly assessed and prioritised based on risk and the needs of organisations.

3.3   The Chartered Institute of Public Finance and Accountancy (CIPFA) noted the importance of developing IA methodologies to 'support auditing at the speed of risk'.

in their April 2019 statement titled 'the Role of the Head of Internal Audit in Public Service Organisations'. The December 2019 paper presented to the Committee that compared the Council's IA approach with CIPFA good practice examples highlighted that IA had already implemented an agile auditing approach to provide ongoing assurance on significant Council projects.

3.4   The UK Public Sector Internal Audit Standards Advisory Board (IASAB) paper titled Conformance with the Public Sector Internal Audit Standards (PSIAS) during the coronavirus pandemic, published with the support of CIPFA and the IIA, also notes that IA can protect organisational value by 'providing real-time advice and insight in the development of new systems and controls. For example, where the organisation has to implement a new and urgent government policy'.

PSIAS Consulting Services

3.5   The PSIAS defines IA as 'a department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations' (page 5); and consultancy work as 'advisory and related client service activities, the nature and scope of which are agreed with the client, and are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility' (page 35).

3.6   The PSIAS also notes that:

3.6.1   the chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the annual plan (Para 2010.C1 at page 23);

3.6.2   Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes (Para 2120.C2 at page 26); and

3.6.3   Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes (Para 2130.C1 at page 27).

PSIAS Control design and operating effectiveness assessment requirements

3.7   The PSIAS also states that IA must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems.

3.8   This essentially involves an initial assessment of the design of process and system controls, and then (if effectively designed) an assessment of their ongoing effectiveness across a specified time period.

PSIAS IA independence and objectivity requirements

3.9   The PSIAS notes that IA must be independent and internal auditors must be objective in performing their work (section 1100 page 16). Independence is interpreted as freedom from conditions that threaten the ability IA to carry out internal audit responsibilities in an unbiased manner, whilst objectivity is defined as having an impartial, unbiased attitude and avoiding any conflicts of interest (para 1120 page 18).

3.10   Any threats or impairments to independence or objectivity (which includes but is not limited to personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations, such as funding) must be disclosed to appropriate parties with the nature of disclosure dependent on the impairment (para 1130.C2 page 18).

4.   Main report

Agile assurance on new and amended Covid-19 processes

4.1   The IA Covid-19 response paper presented to the Committee in June 2020 highlighted the importance of providing adequate and proportionate IA assurance on the new and emerging risks associated with new and amended Covid-19 service delivery processes implemented by the Council.

4.2   The paper proposed that the Covid-19 assurance approach should focus on the design of these processes, and not their operating effectiveness, to confirm that process objectives are being achieved in line with appropriate and acceptable risk tolerances, using a fully PSIAS compliant agile methodology approach.

4.3   The rationale for focus on agile Covid-19 process design (and not effectiveness) reflects the relatively recent implementation of these processes, and the capacity of the teams managing these processes to support audits in addition to their ongoing service delivery responsibilities.

4.4   It is likely that the effectiveness of these processes will be assessed in future. This requirement will be further considered as part of the risk assessment to be performed to support the 2020/21 IA annual plan that will be presented to the Committee in September 2020 for review and approval.

4.5   The Covid-19 process design agile assurance process will involve:

4.5.1   use of a short form IA terms of reference document that outlines the scope of the audit;

4.5.2   discussion with management to confirm that an appropriate risk tolerance has been defined that considers the objectives of the process; resource constraints (for example, funding and workforce capacity); implementation urgency; and priorities;

4.5.3 raising only significant (High rated or red) findings where the design of the process exposes the Council to significant risks in excess of agreed risk tolerances that could jeopardise process objectives, outcomes, and delivery timeframes;

4.5.4 immediate resolution of findings raised by management with ongoing support and guidance provided and immediate validation performed IA, with no requirement for subsequent follow-up.

4.5.5 issuing a short form IA report that outlines the scope of the audit, work performed, with details of any IA findings raised and addressed by management.

4.6 Examples of these documents based on a mock example of the care home sustainability process designed using available Convention of Scottish Local Authorities (COSLA) guidance are included at Appendices 1 and 2.

IA consultancy support

4.7 IA has provided consultancy support on the design of the following three new Covid-19 processes:

- small business grants;

- supplier relief;

- and the care home sustainability payment process.

For each process, IA recommendations on the proposed design of process controls were provided, with management making the final decision on the design of each process implemented, ensuring that IA independence was not impaired. Additionally, any planned reviews of these processes will be performed by IA team members who were not involved in providing design consultancy support.

PSIAS compliance

4.8 It is IA's opinion that the design of the agile assurance methodology and consultancy support processes are fully aligned with PSIAS requirements and subsequent guidance published to ensure PSIAS conformance during the coronavirus pandemic, and that they will not impact upon or result in impairment of IA independence and objectivity.

4.9 Additionally, to ensure full conformance with PSIAS, details of the Covid-19 design assurance audits and consultancy work undertaken will be included in the 2020/21 IA annual plan, and their outcomes included in the 2020/21 IA annual opinion.

5. Next Steps

5.1 The agile assurance process will be applied to the new and amended Covid-19 processes detailed in the IA Covid-19 response paper presented to Committee in

June 2020, and will be used (where appropriate) for future audits in addition to established IA methodology.

6. Financial impact

6.1 None

7. Stakeholder/Community Impact

7.1 Provision of timely independent assurance on the design of new and amended processes implemented by the Council in response to Covid-19 that is fully conformant with both existing PSIAS requirements and refreshed guidance for conformance with the PSIAS during the coronavirus pandemic

8. Background reading/external references

8.1 [The Role of the Head of Internal Audit and Leading Internal Audit in the Public Sector](#)

8.2 [Conformance with the PSIAS during the Coronavirus Pandemic](#)

8.3 [PSIAS](#)

8.4 [Internal Audit: Covid-19 response](#)

9. Appendices

9.1 Appendix 1 – Mock IA agile terms of reference

9.2 Appendix 2 – Mock IA agile audit report

Governance, Risk, and Best Value Committee 7 July 2020

Appendix 1

Health and Social Care

Terms of Reference:

Covid-19 – Care Home Sustainability Payments

To: Judith Proctor, Chief Officer, EIJB

From: Lesley Newdall, Chief Internal Auditor   Date: [insert date]

Cc: Moir Pringle, Chief Finance Officer, EIJB

Background

In response to Covid-19, the Scottish Government and the Convention of Scottish Local Authorities (COSLA) has agreed an approach to support the ongoing sustainability of the social care sector during the Covid-19 pandemic by ensuring that all reasonable additional Covid-19 care provider costs are met by the Scottish Government

The Scottish Government has provided an additional £50M funding to enable Health and Social Care Partnerships to make sustainability payments to social care service providers, with £4.056M of this allocated to the Edinburgh Health and Social Care Partnership.

COSLA has also developed a set of principles to support allocation of these funds by Scottish Local Authorities.

Scope

The objective of this review is to assess the design adequacy of key sustainability payment process controls established to ensure that supplier sustainability payments are made in line with COSLA guidance

The review will also consider whether the process controls adequately mitigate the following key risks in line with management's risk appetite:

- Financial risk – risk that demand for support exceeds the total value of available funds.

- Fraud risk – receipt of fraudulent (overstated) or inaccurate claims (e.g. where funding support already requested from other available schemes).

- Resourcing risk – adequacy of appropriately skilled and experienced resources to process the volume of applications received

- Decision making – risk that incorrect decisions will be made on applications received

- Processing risk – risk that payments are not processed accurately.

Approach

The audit approach applied will involve:

1. Discussion with management to understand their appetite in relation to the risks noted above.

2. Perform a walkthrough of the end to end process to identify and understand the design of key process controls.

3. Assess whether the key controls are adequately designed to mitigate the key risks and are aligned with management's risk appetite.

4. Identify areas where the design of the controls require improvement.

5. Make proportionate control design recommendations for management to either risk accept or implement, and support management with their implementation.

6. Prepare a short form report detailing the outcomes of the review, including relevant control design recommendations and details of actions taken to improve the overall design of the process.

Internal Audit Team

Name	Role	Contact Details
Lesley Newdall	Chief Internal Auditor	lesley.newdall@edinburgh.gov.uk

Appendix 2 - Internal Audit Report – Health and Social Care Covid-19 – Care Home Sustainability Payments

Overall report rating

Background

In response to Covid-19, the Scottish Government and the Convention of Scottish Local Authorities (COSLA) has agreed an approach to support the ongoing sustainability of the social care sector during the Covid-19 pandemic by ensuring that all reasonable additional Covid-19 care provider costs are met by the Scottish Government

The Scottish Government has provided an additional £50M funding to enable Health and Social Care Partnerships to make sustainability payments to social care service providers, with £4.056M of this allocated to the Edinburgh Health and Social Care Partnership.

COSLA has also developed a set of principles to support allocation of these funds by Scottish Local Authorities.

Scope

The review assessed the design adequacy of key sustainability payment process controls established to ensure that supplier sustainability payments are made in line with COSLA guidance, and whether the process controls adequately mitigate the following key risks in line with management's risk appetite:

- Financial risk – risk that demand for support exceeds the total value of available funds

- Fraud risk – receipt of fraudulent (overstated) or inaccurate clams (e.g.

- Resourcing risk – adequacy of appropriately skilled and experienced employees to process the volume of applications received

- Decision making – risk that incorrect decisions will be made on applications received.

- Processing risk – risk that payments are not processed accurately

Approach

A process walkthrough was performed to identify and understand key process controls.

These controls were then assessed to determine whether they were adequately designed to mitigate the key process risks in line with management's risk appetite.

Where control improvement requirements were identified, proportionate recommendations were raised and discussed with management.

Opinion

Whilst some moderate control weaknesses were identified design of the care homes sustainability payment process, they provide reasonable assurance that risks are being managed in line with risk appetite, and that supplier sustainability payments will be processed in line with COSLA guidance.

Two Medium rated control design findings have been raised and addressed. Further detail is included at slides 2 and 3 below.

1. Care Home Sustainability - Grant Application Forms

Observations

Review of small business grant application forms established that:

1. Whilst the form includes a caveat confirming that the Council will take appropriate retrospective action where fraudulent or inaccurate grant claims have been identified following payment, it does not specify what action will be taken (for example, request for repayment of funds).

2. Application forms do not include the requirement for applicant attestations in relation to the completeness and accuracy of the application and supporting evidence.

Risk

Financial risk / Fraud risk

The Council may be unable to recover funds where fraudulent or inaccurate claims have been identified following payment.

Recommendation

The content of the application form should be updated to include:

1. Details of the action that will be taken by the Council where fraudulent or inaccurate claims are identified after payment has been made.

2. The requirement for the applicant to attest to the completeness and accuracy of the content of the application and supporting evidence provided.

Management Comments

- Agreed – new forms will be updated to include this information, however this risk will be accepted in relation to applications that have already been processed or received.

- **Responsibility** : Chief Finance Officer

- **Status / Timeline:** Implemented

1. Care Home Sustainability - Grant Processing

Observations

Review of the spreadsheet process established to support review and payment of small business grants established that:

1. The spreadsheet currently does not record whether grant applications are being processed in line with key performance measures and Scottish Government expectations.

2. The spreadsheet currently does not record instances where an applicant discloses that they have applied for alternative funding is in progress, with no response yet received.

3. No controls have been established to maintain data integrity (for example, cell protection controls to ensure that the value of approved claims cannot be overwritten).

4. The spreadsheet is not designed to support simultaneous processing by multiple users.

Risk

Decision making and Processing risk

- Inability to track performance in line with key performance indicators and report to management and the Scottish Government.

- Alternative funding received after grant payment made.

- Unidentified errors in spreadsheet that flow through into the payment process.

- Inability to process applications simultaneously using same version of spreadsheet

Recommendation

The spreadsheet should be updated to :

1. Include dates relevant to the key stages of the process (for example, application received; application reviewed; grant payment authorized; grant payment processed; grant payment paid) to confirm whether the process has been completed in line with applicable KPIs and support preparation of management information.

2. Record instance where the applicant discloses that they have applied for alternative funding, and this should be considered in the decision making process.

3. Implement cell protection on the spreadsheet to ensure that data entered cannot be overwritten in error.

4. A shared excel workbook that supports changes by simultaneous users.

Management Comments

- Agreed – the spreadsheet process will be updated to include the points raised by Internal Audit.

- **Responsibility** : Chief Finance Officer

- **Status / Timeline**: Implemented

Appendix 1 – report rating definitions

Effective	Process controls have been adequately designed and provide assurance (if consistently applied) risks will be managed effectively in line with risk appetite, and the Council's objectives achieved.
Some improvement required	Whilst some control weaknesses were identified in the design of key process controls, they provide reasonable assurance that risks are being managed in line with risk appetite and that and the Council's objectives should be achieved.
Significant improvement required	Significant weaknesses were identified the design of key process controls. Consequently, only limited assurance can be provided that risks are being managed in line with risk appetite and that the Council's objectives should be achieved.
Inadequate	The design of key process controls is inadequate, with a number of significant control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the Council's objectives will not be achieved.