

# Governance, Risk, and Best Value Committee

10.00am, Tuesday, 21 September 2021

## Internal Audit Update Report: 1 May to 31 August 2021

Item number

Executive/routine

Executive

Wards

Council Commitments

### 1. Recommendations

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- 1.1 It is recommended that the Committee:
- 1.2 notes the outcomes of the completed 2021/22 audit;
- 1.3 notes progress with delivery of the 2021/22 Internal Audit (IA) plan; and,
- 1.4 notes progress with delivery of IA key priorities and ongoing areas of focus;

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## Internal Audit Update Report: 1 May to 31 August 2021

### 2. Executive Summary

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- 2.1 IA 2020/21 annual opinions have now been finalised for the City of Edinburgh Council, Lothian Pension Fund and the Edinburgh Integration Joint Board. The opinions have now been presented to relevant Committees for scrutiny.
- 2.2 There has been good progress with delivery of the 2021/22 IA annual plan, with 21 of the 53 planned audits (40% of the plan) either completed or underway, which includes 16 (40%) of the 41 audits to be completed across the Council.
- 2.3 The elections audit has now been fully completed and assessed as 'effective' (green) with one medium finding raised. All agreed management actions were implemented prior to the Scottish Parliament elections in May 2021.
- 2.4 Internal Audit (IA) IA co-source arrangements have been re-procured, with the contract awarded to PwC for the next two years, with the option to extend the contract for a further two years. The costs associated with the new contract have increased, resulting in unplanned budget pressures.
- 2.5 PwC will be requested to deliver any audits where potential conflicts of interest have been identified, ensuring that IA independence is maintained in line with PSIAS requirements
- 2.6 The specification for a combined IA and Risk Management system has been finalised and Commercial and Procurement Services engaged to support the procurement process.
- 2.7 The majority of IA risks are currently being managed within risk appetite, with appropriate actions agreed to mitigate risks that are outwith appetite.

### 3. Background

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#### 2021/22 Internal Audit Annual Plan

- 3.1 On 23 March 2021, the Committee approved the 2021/22 IA annual plan that would deliver a total of 46 audits (36 across the Council and 10 for ALEOs), and also included time for ongoing IA follow-up assurance.

- 3.2 Changes made to the annual plan since approval (including a reduction in the number of audits to be delivered for Lothian Pension Fund, and carrying forward audits from the 2020/21 annual plan) have increased the total number of audits to be delivered to 53, with 12 to be delivered for ALEOs and 41 across the Council.
- 3.3 Of the 53 audits to be completed, 13 will be delivered by the IA co-source provider (12) and NHS Lothian (1), with the remaining 40 audits delivered by the Council's IA team.
- 3.4 A full reconciliation of the movements in the IA annual plan is included at Appendix 1.

### **Internal Audit Reports**

- 3.5 Copies of all completed IA reports are currently provided to GRBV Elected Members via Microsoft Teams. Following agreement by the Committee in July 2020, any reports that have either an overall red (Significant Improvement Required) outcome or include any red (High) rated findings are presented to the Committee for scrutiny. Elected Members may also request presentation of other reports provided that do not meet this criteria at Committee.
- 3.6 All audits performed for the Lothian Pension Fund (LPF) are subject to separate scrutiny by the Pensions Audit Sub-Committee and the Pensions Committee. Progress with delivery of these audits is included in this paper for completeness.
- 3.7 Similarly, audits performed for the Edinburgh Integration Joint Board (EIJB) are presented to the EIJB Audit and Assurance Committee for scrutiny, with any reports that are relevant to the Council being subsequently referred to the GRBV Committee.
- 3.8 Audits performed for the Council that are relevant to the EIJB will be recommended for referral to the EIJB Audit and Assurance Committee by the GRBV Committee.
- 3.9 All audits performed for other arms-length external organisations are reported to the relevant management teams and audit and risk committees of those organisations as appropriate.

### **Agile Auditing and Consultancy Support**

- 3.10 Public Sector Internal Audit Standards (PSIAS) permits IA to provide consulting services, providing that the scope is agreed with the client, that they add value and improve an organisation's governance, risk management, and control processes without the internal auditor assuming management responsibility (refer 2220.A2).
- 3.11 The PSIAS also notes that the results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.
- 3.12 The PSIAS also specifies that details of any consulting services must be included in the annual plan and included in their evaluation of the organisation's control processes.

- 3.13 A paper on [Agile Auditing and Consultancy Support](#) (paper 8.2) was presented to the Committee in July 2020 that detailed IA's methodology and approach supporting delivery of consulting services across the Council, and confirmed that it was compliance with PSIAS requirements.

## 4. Main report

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### 2021/22 Plan delivery progress

- 4.1 Of the 53 audits to be completed:
- 1 is finalised;
  - 2 draft reports are with management for review and approval;
  - 1 draft report is currently being prepared by IA;
  - 8 audits are in progress;
  - 9 audits are currently being planned; and,
  - 32 are not yet started.
- 4.2 The 21 audits either completed or in progress include 16 (40%) of the audits to be delivered across the Council, and three 'agile' audit reviews.
- 4.3 Of the 32 audits (25 for the Council and 7 for ALEOs) not yet started, 13 will be delivered by the IA co-source provider, and one will be delivered by NHS Lothian (for the Edinburgh Integration Joint Board), leaving a balance of 19 audits to be delivered by the Council's IA team.
- 4.4 Further detail is included at Appendix 2.

### Completed Audits

- 4.5 The 2021/22 IA annual plan included a review of the design of the May 2021 elections process in the Covid-19 environment to confirm compliance with relevant Scottish Government and Public Health Scotland requirements and guidance prior to the Scottish Parliament elections.
- 4.6 The review confirmed that the processes supporting delivery of the 6 May 2021 Scottish Parliament elections had been adequately designed, providing assurance that risks had been effectively identified and managed; and that the Council's objective of managing elections safely and in line with applicable regulatory requirements and guidance in the Covid-19 environment would be achieved.
- 4.7 One medium rated finding was raised in relation to the safety of voters; attendees; and employees.
- 4.8 Audit work concluded on 20 April 2021, with details of findings advised to management at that time, enabling implementation of management actions agreed in response to the medium rated finding in advance of the elections. IA confirmed that all agreed management actions had been effectively implemented by 3 May 2021.

## **Progress with Internal Audit key priorities**

- 4.9 Progress with IA key priorities and ongoing areas of focus is detailed below:
- 4.9.1 IA 2020/21 annual opinions have now been finalised for the Council; Lothian Pension Fund; and the Edinburgh Integration Joint Board, and presented to relevant Committees for scrutiny;
  - 4.9.2 The internal quality review of the IA follow-up process is now complete with outcomes included in the 2020/21 annual opinion reported to the Committee in August 2021;
  - 4.9.3 Re-procurement of the IA co-source provider is now complete. PwC was the successful bidder, and a new two year contract has been signed with them that includes the option to extend for a further two years;
  - 4.9.4 PwC will be requested to deliver any audits where there is a potential conflict of interest following implementation of the changes associated with the senior leadership review, ensuring that IA independence is maintained in line with PSIAS requirements;
  - 4.9.5 Refreshed IA intranet (Orb) pages have been designed and will be published by the end of September 2021, together with refreshed Corporate Risk Management content;
  - 4.9.6 The Institute of Internal Auditors (IIA) has been engaged to support completion of a quinquennial external IA quality assessment in 2021/22 in line with Public Sector Internal Audit Standards (PSIAS) requirements commencing January 2022; and
  - 4.9.7 The specification for a combined IA and Risk Management system is now complete, and Commercial and Procurement Services will now be engaged to support the procurement process. If it is not possible to source a combined IA and Risk Management system that meets the needs of the Council, separate IA and Risk systems will be procured.
  - 4.9.8 IA has been involved in the pilot of the new operational risk management framework, resulting in a refresh of the IA risk register. This confirmed that the majority of IA risks are currently being managed in line within both the Council's and IA's own risk appetite, with appropriate actions established to mitigate risks that are currently outwith appetite. These risks highlight the need to:
    - reinstate IA key performance indicators (KPIs) to support timely delivery of the annual plan;
    - procure a new IA system that more fully supports the Council's IA methodology and reporting requirements; and
    - ensure the ongoing confidentiality of sensitive information sourced to support completion of audits whilst team IA team members continue to work from home.

## **5. Next Steps**

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- 5.1 IA will continue to monitor progress with plan delivery and the other activities noted in this report.

## **6. Financial impact**

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- 6.1 The refreshed co-source arrangement has created a potential budget pressure of approximately £80K per annum. These costs will vary as they are dependent on the number of specialist (for example technology and health and safety) and generalist (for example audits where potential conflicts of interest could occur) audits completed each year.
- 6.2 Procurement of a new combined IA and risk management system will incur additional unplanned costs that have not yet been quantified.

## **7. Stakeholder/Community Impact**

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- 7.1 If Internal Audit cannot deliver the agreed annual plan, it will be unable to provide assurance regarding how effectively the Council is managing its most significant risks.

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

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- 8.1 [Approved IA 2021/22 annual plan March 2021 – item 8.3](#)
- 8.2 [Process for approving changes to the Internal Audit annual plan – August 2018 – item 7.9](#)
- 8.3 [Public Sector Internal Audit Standards](#)

## **9. Appendices**

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- 9.1 Appendix 1 - 2021/22 Annual Plan Reconciliation
- 9.2 Appendix 2 - Summary of 2021/22 IA Plan Delivery Progress

## Appendix 1 - 2021/22 Annual Plan Reconciliation

	Council	ALEO's	Total
Total Audits per 2021/22 Annual Plan	36	10	46
<b>Less:</b>			
Ongoing follow-up activity (covered by quarterly GRBV reporting)	(1)	-	(1)
Audits Combined (Historic Whistleblowing and Child Protection Recommendations)	(1)	-	(1)
Reduction in 2021/22 Lothian Pension Fund Audits	-	(1)	(1)
<b>Add</b>			
2020/21 audits brought forward	7	3	10
<b>Total Audits to be Delivered in 2021/22</b>	<b>41</b>	<b>12</b>	<b>53</b>
Audits to Be Delivered by PwC / NHS Lothian (for EIJB)	9	4	13
Adits to be Delivered by the Council	32	8	40

## Appendix 2 – Summary of 2021/22 IA Plan Delivery Progress as at 31 August 2021

Completed Audits			Report Rating	Available for Committee
1.	Corporate Services	Elections	Effective	August 2021
<b>Total completed audits</b>			<b>1</b>	
<b>Draft Reports Issued to Management</b>			<b>Expected Completion</b>	
2.	Corporate Services	Planning and Performance Framework	September 2021	
3.	^Royal Edinburgh Military Tattoo (20/21)	*Data Protection Review		
<b>Total draft reports issued to management</b>			<b>2</b>	
<b>Draft Reports Being Prepared</b>			<b>Expected Completion</b>	
4.	Place (20/21)	*Parking and Traffic Regulations	September 2021	
<b>Total reports being prepared</b>			<b>1</b>	
<b>Audits in progress</b>			<b>Expected Completion</b>	
5.	Council Wide (20/21)	*Health and Safety – Implementation of Asbestos Recommendations (PwC)	October 2021	
6.	Corporate Services	Employee Lifecycle Data and Compensation and Benefits Processes		
7.	Corporate Services	Design of the Scottish Local Government Living Wage Requirements		
8.	Corporate Services (20/21)	*Council Tax and Business Rates		
9.	Corporate Services	Enterprise Resource Planning (ERP)	Ongoing agile audits	
10.	Place	Tram to Newhaven		
11.	^Lothian Pension Fund (20/21)	*Technology Model Development		
12.	^Lothian Valuation Joint Board (20/21)	*Council Tax Valuation Process		
<b>Total reviews in progress</b>			<b>8</b>	
<b>Audits currently being planned</b>			<b>Expected Completion</b>	
13.	Council Wide	Implementation of Whistleblowing and Child Protection Recommendations	December 2021	
14.	Council Wide	Adaptation and Renewal Programme Governance and Deliverables	To be Confirmed	

15.	Council Wide (20/21)	*Fraud and Serious Organised Crime	December 2021
16.	Education and Children's Services	Criminal Justice	December 2021
17.	Health and Social Care (20/21)	*Management of Waiting Lists and Assessments	December 2021
18.	Corporate Services (20/21)	*Digital and Smart City Strategy	December 2021
19.	Place (20/21)	*Active Travel	To be Confirmed
20.	^Edinburgh Integration Joint Board	Strategic Implications of Covid-19 Lessons Learned	December 2021
21.	^Edinburgh Integration Joint Board	Delivery of EIJB legislative and statutory requirements (PwC)	December 2021
<b>Total reviews at planning stage</b>			<b>9</b>
<b>Audits not yet started</b>			<b>Expected Completion</b>
22.	Council Wide	Covid-19 Thematic Lessons Learned	To be Confirmed
23.	Council Wide	Council Emissions Plan	
24.	Council Wide	Employee wellbeing	
25.	Council Wide	Management and Allocation of Covid-19 grant funding	
26.	Council Wide	Records Management and Information Security with Focus on Remote Working (PwC)	
27.	Corporate Services	Statutory Request and Complaints Processes (PwC)	
28.	Corporate Services	Cyber Security – Technology Vulnerability Management (PwC)	
29.	Corporate Services	CGI Performance Reporting (PwC)	
30.	Corporate Services	Use of the Verint System to Support Recording and Remediation of Citizen Complaints and Queries	
31.	Corporate Services	Capital Budget Setting and Management	
32.	Corporate Services	Payment Card Industry Data Security Standard Compliance (PwC)	
33.	Education and Children's Services / Corporate Services	Technology availability in schools / Empowered Learning	
34.	Education and Children's Services	Early Years Education and Alignment with Poverty Strategy	
35.	Education and Children's Services / Health and Social Care Partnership	Day Care to Adult Social Care Transition Arrangements	

36.	Education and Children's Services / Health and Social Care Partnership	Application technology controls - SEEMIS and SWIFT (PwC)	To Be Confirmed
37.	Health and Social Care Partnership	Partnership financial sustainability	
38.	Health and Social Care Partnership	Transformation / Project Benefits Realisation	
39.	Place	Planning	
40.	Place	Council Housing Allocation Process	
41.	Place	Health and Safety of Outdoor Infrastructure (PwC)	
42.	Place	Port Facility Security Plan	
43.	Place	Transfer of the Management of Development Funds Grant	
44.	Place	Food and Water Testing (PwC)	
45.	Place	Housing Property Services Repairs Management	
46.	Place	Repairs and Maintenance Framework	
47.	^Lothian Pension Fund (21/22)	Capital Calls (PwC)	
48.	^Lothian Pension Fund (21/22)	Employer Contributions (PwC)	
49.	^Lothian Pension Fund (21/22)	Risk Management (PwC)	
50.	^Edinburgh Integration Joint Board	Implementation of Scottish Government Strategic Group for Health and Community Care report recommendations (NHSL)	
51.	^Royal Edinburgh Military Tattoo (21/22)	To be confirmed	
52.	^Sustran (21/22)	To be confirmed	
53.	^Lothian Valuation Joint Board (21/22)	To be confirmed	
<b>Total reviews not yet started – note that 13 of these audits will be delivered by PwC (12) / NHS Lothian for EIJB (1)</b>			<b>32</b>

\* Audits brought forward from 2020/21

^Audits completed for Arm's Length External Organisations