Governance, Risk and Best Value Committee

10.00am, Tuesday 23 August 2022

Internal Audit Annual Opinion for the year ended 31 March 2022

Item number	
Executive/routine	Executive
Wards	
Council Commitments	

1. Recommendations

1.1 It is recommended that the Governance, Risk, and Best Value Committee (the Committee) notes the Internal Audit (IA) annual opinion provided for the year ended 31 March 2022.

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Report

Internal Audit Annual Opinion for the year ended 31 March 2022

Some improvement required	Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the Council's objectives should be achieved.

2. Executive Summary

2.1 This report details IA's annual opinion for the City of Edinburgh Council (the Council) for the year ended 31 March 2022. The opinion is based on the outcomes of the audits completed as part of the Council's 2021/22 IA annual plan, and the status of open IA findings as at 31 March 2022.

2.2 IA's independent and professional opinion (based on 82% completion of the 2021/22 annual plan) is that whilst some control weaknesses were identified in both the design and effectiveness of the Council's control environment and governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and that the Council's objectives should be achieved.

2.3 IA is therefore reporting an 'amber' rated (some improvement required) annual opinion with our assessment towards the top end of this category, and slightly below the 'significant improvement required' (red) category.

2.4 It is important to note that completion of the remaining 18% of audits included in the annual plan could potentially have resulted in a different annual opinion outcome, based on their outcomes.

2.5 This outcome reflects an improved position in comparison to the 'red' rated (significant improvement required) 2019/20 limited IA opinion outcome, which was assessed as being towards the lower end of this category, moving towards amber.

2.6 Limited opinions were permitted by the Chartered Institute of Public Finance and Accountancy for financial year 2019/20 and 2020/21, recognising that IA may have been unable to complete sufficient assurance to complete an annual opinion given the impact of Covid-19 on public sector organisations.

2.7 It is important to recognise that this improvement in the annual opinion occurred whilst the Council continued to operate in an ongoing Covid-19 resilience environment for a significant part of the 2021/22 financial year, and also supported

both the UK and Scottish Government's responses to the Ukraine crisis by supporting the welcome and accommodation of Ukrainian citizens in Edinburgh. Both of these challenges have continued to impact the Council's risk profile and the design and effectiveness of the Council's established control environment and governance and risk management frameworks.

2.8   Whilst only 82% of the 2021/22 IA annual plan has been completed, the number of audits completed remains aligned with prior years, enabling comparison with prior year IA assurance outcomes. Further detail is included at Appendix 5.

2.9   This report is a key component of the overall annual assurance provided to the Council and there are a number of additional assurance sources that the Committee should consider when forming their own view on the design and effectiveness of the control environment, governance, and risk management arrangements across the Council.

2.10   This report has been prepared fully in line with Public Sector Internal Audit Standards (PSIAS) requirements, and IA has fully conformed with PSIAS requirements during the 2021/22 financial year.

3.   Background

Internal Audit Objectives

3.1   The objective of IA is to provide high quality independent audit assurance over the control environment established to manage the Council's most significant risks, and their overall governance and risk management arrangements in accordance with PSIAS requirements.

3.2   The PSIAS provide a coherent and consistent IA framework for public sector organisations. Adoption of the PSIAS is mandatory for IA teams within UK public sector organisations, and PSIAS require annual reporting on conformance with their requirements.

3.3   It is the responsibility of the Council's Chief Internal Auditor to provide an independent and objective annual opinion on the adequacy and effectiveness of the Council's control environment and governance and risk management frameworks in line with PSIAS requirements. The opinion is provided to the Governance, Risk, and Best Value Committee and should be used to inform the Council's Annual Governance Statement.

3.4   Where control weaknesses are identified, IA findings are raised, and management agree actions and timescales by which they will address the gaps identified.

Management's Responsibility

3.5   It is management's responsibility to address and rectify the weaknesses identified via timely implementation of these agreed management actions.

Overdue Internal Audit Findings

3.6   The IA definition of an overdue finding is any finding where all agreed management actions have not been implemented by the final date agreed by management and recorded in Internal Audit reports.

2021/22 Internal Audit Annual Plan

3.7   The 2021/22 IA annual plan was approved by the Committee in March 2021. The plan recognised that plan delivery may need to be paused or amended in the event of another significant resilience incident, or to reflect the ongoing impacts of Covid-19; and the importance of ensuring that the number of audits delivered remains aligned with the audits completed to support the 2020/21 limited IA annual opinion.

3.8   A total of 35 audits (including follow-up) were planned for completion across the Council during 2021/22. These included 8 audits that were not completed in 2020/21 due to ongoing Covid-19 challenges.

3.9   A number of changes were made to the plan, resulting in a total of 37 audits to be delivered across the Council and Lothian Pension Fund (LPF). A full reconciliation of these changes is included at Appendix 6.

3.10   Of the 37 audits to be delivered across the Council and LPF, 31 (82%) have been completed, with the remaining 6 carried forward into the 2022/23 annual plan. These audits have been carried forward in response to the ongoing impacts of Covid-19 across the Council. Further detail on the audits carried forward into the 2022/23 annual plan are included at Appendix 7.

Other Assurance Providers

3.11   Internal Audit is not the only source of assurance provided to the Council as there are a number of additional assurance sources including: external audit, regulators, and inspectorates, that the Committee should equally consider when forming their view on the design and effectiveness of the Council's control environment, governance, and risk management arrangements.

The Three Lines Model

3.12   The Institute of Internal Auditors 'Three Lines Model' defines the first line in an organisation as those teams responsible for provision of products/services to clients, and managing risk; the second line as teams that provide expertise, support, monitoring and challenge on risk-related matters; and the third line as teams that provide independent and objective assurance and advice on all matters related to the achievement of objectives. This model can be translated across the structure and operations of the Council with first line teams those responsible for ongoing service delivery and risk management; the second line those teams providing frameworks, policies, and guidance (for example, the Information Governance Unit; Legal Services; Corporate Health and Safety; and Corporate Risk Management); and the third line, Internal Audit.

4. Main report

Impact of a Partially Completed IA Annual Plan

4.1 The 2021/22 IA annual opinion is based on 82% completion (31 of a total of 37 planned audits) included in the 2021/22 annual plan, which is directly attributable to the ongoing impacts of the Covid-19 pandemic across the Council.

4.2 As it is not possible to pre-empt the potential outcomes of the remaining audits that comprise the 18% balance of the plan, it is important to note completion of the remaining audits could potentially have resulted in a different annual opinion outcome.

4.3 The overall impact of the 18% reduction in completion of the 2021/22 annual plan is reduced assurance on across the Health and Social Care Partnership and Place directorates. Notably, the planned Partnership audit of management of waiting lists and assessments initially planned for completion in 2020/21, and carried forward into 2021/22 has now been delayed until 2022/23, reflecting the ongoing impacts of Covid on the Partnership's capacity to support completion of this review.

4.4 Whilst only 82% of the 2021/22 IA annual plan has been completed, the total number of audits completed remains aligned with prior years, enabling comparison with prior year IA assurance outcomes. Further detail is included below and at Appendix 5.

4.5 The remaining 6 audits that comprise the 18% balance of the 2021/22 plan will now be carried forward into the 2022/23 IA annual plan. Further detail is included at Appendix 7.

Basis of Internal Audit Annual Opinion

4.6 Our opinion is based on the outcomes of the 31 audits completed across the Council (27 for the Council and 4 for the Lothian Pension Fund (LPF)) in the year to 31 March 2022, and the status of open IA findings as at 31 March 2022.

4.7 As the Council is the administering authority for LPF, our opinion also includes the outcomes of the four audits performed for LPF and the status of their open audit findings as at 31 March 2022.

    4.7.1 A separate 'amber' (some improvement required) 2021/22 IA opinion for LPF was prepared and presented at the June 2022 Pensions Committee, with our assessment moving towards the green (effective) category. This outcome was aligned with the LPF 2020/21 opinion.

    4.7.2 The LPF opinion was 'limited' as IA does not currently provide assurance across the full population of auditable LPF risks, with the Pensions Committee placing reliance on a broader range of additional assurance sources to form a view on the design and effectiveness of the LPF control environment and governance and risk management frameworks.

4.7.3 The opinion reflects the outcomes of the four completed LPF audits, with three assessed as 'effective' (green); and one as 'some Improvement Required' (amber). The opinion also reflected that LPF had no overdue IA findings as at 31 March 2022.

4.7.4 The opinion highlighted that whilst LPF continues to effectively manage the risks associated with ongoing operational fund management activities, further improvement to both the established risk and project management frameworks would be beneficial. These areas for improvement are particularly important as LPF may now be moving into a period of significant strategic and operational change

4.8 No audits have been referred by the Edinburgh Integration Joint Board (EIJB) Audit and Risk Committee for inclusion in the 2021/22 IA annual opinion, as the 3 reviews completed in the 2021/22 plan year had no direct impact on the services delivered by the Council as part of the Health and Social Care Partnership.

4.9 This opinion does not include audit reviews performed for arms-length external organisations that currently receive assurance from the Council's IA team.

Internal Audit 2021/22 Annual Opinion

4.10 Based on 82% completion of the 2021/22 annual plan, IA considers that some improvement is required across the Council's control environment, governance, and risk management arrangements to ensure that the Council's most significant risks are effectively identified, mitigated, and managed, and is reporting an 'amber' rated 'some improvement required' opinion (see Appendix 1 category 2), with our assessment towards the top end of this category, below the red (significant improvement required) outcome.

4.11 This opinion reflects an improvement on the 2020/21 position which was a limited 'red' (significant improvement required opinion) based on 80% plan completion due to the ongoing impacts of Covid-19, with our assessment towards the bottom of this category moving towards amber.

4.12 It is important to note that this opinion is retrospective, and is based on IA assurance activities completed between 1 April 2021 and 31 March 2022. Consequently, it may not fully reflect actions implemented or being implemented by management to address audit outcomes. The effectiveness and timeliness of management actions will be monitored through the ongoing IA follow-up process, with progress reports provided quarterly to the Committee.

4.13 Whilst there were no 'inadequate' IA reports issued during 2021/22, and the proportion and significance of IA findings raised has improved, our assurance outcomes highlight that the most significant challenges with the Council's control environment continue to be ensuring consistent and effective compliance with external regulations and Council policies across the Council, and managing ongoing delivery of digital services. Additionally, our review of implementation of historic whistleblowing recommendations identified areas for improvement in addition to those highlighted in the Tanner review.

4.14 Consequently, we believe that the Council's established control environment; governance; and risk management frameworks have not yet matured and adapted sufficiently to support fully effective management of the rapidly changing risk environment and the Council's most significant risks, and that whilst the Council's objectives should be achieved, their delivery could potentially be adversely impacted.

4.15 We believe that the weaknesses identified and highlighted in IA reports supporting the 2021/22 annual opinion are predominantly attributable to lack of capacity and skills within first line divisions and directorates to ensure that key controls; governance; and risk management processes are consistently and effectively applied to support effective delivery of services; projects; and strategic objectives. This view is supported by the Corporate leadership Team's (CLT) recognition that workforce capacity is currently the Council's most significant risk.

4.16 To ensure that workforce risk is effectively addressed, the Council needs a clear view of current workforce capacity in comparison to demand for services; change implementation; strategic deliverables; and both national and local political expectations. We acknowledge that work is already in progress to provide this view as detailed in the Council's People Strategy 2021- 2024 and the supporting Strategic Workforce Plan.

4.17 Effective workforce planning should be supported by a process to identify the Council's key operational and strategic priorities, with workforce and financial resources appropriately directed to support their delivery. Importantly, priorities should also be reconsidered in the event of any significant external impacts or demands that could potentially impact the Council (for example, the current response to the Ukraine crisis).

4.18 We also feel that current workforce challenges are further exacerbated by the need for additional and ongoing investment in either new or upgraded technology solutions to support improved service delivery efficiency, and provide management with reports to support their oversight of the effectiveness of service delivery (including the Council's control environment) and the extent of compliance with Council policies and external regulatory requirements.

4.19 We believe that the planned review of the Council's current Business Plan presents a timely opportunity to consider and develop solutions to address the points noted above.

4.20 Similar points have been raised in prior year IA annual opinions, and it is essential that appropriate action is taken by management to ensure that this is addressed.

4.21 Additionally, the concerns raised by the External Auditors, Azets, in their 2019/20 Risk Management audit have not yet been fully addressed as implementation of the refreshed operational risk management framework was delayed enabling appropriate ongoing focus on new and emerging Covid-19 risks and challenges, and completion of a pilot to confirm the appropriateness and effectiveness of the refreshed risk methodology. The refreshed framework has now been approved,

and an implementation plan is currently being developed that will align with the introduction of a new risk management system.

4.22 Following the 2020/21 IA annual opinion, management confirmed that a new governance and assurance model would be implemented to provide additional assurance on the effectiveness of the Council's control environment. Whilst progress is evident with recruitment of additional governance and assurance officers in first line directorates and the second line governance team, the new model has not yet been fully designed and implemented. Consequently, the benefits expected from this additional assurance activity were not realised during 2021/22.

4.23 Whilst there has been significant improvement in the proportion of overdue IA findings with the 31 March 2022 position at the lowest in the last five years, and general stability in the ageing profile of overdue findings, it is important to highlight that this was partially achieved by management accepting risks associated with a number of full and partially closed IA findings, following consideration of the Council's approved risk appetite. It is also important to ensure progress with addressing the risks associated with open IA findings is sustained, with appropriate focus on aged overdue findings.

4.24 We believe that addressing the points noted above will deliver a more proportionate and effective governance, risk management, and control environment, and should support improvement in future IA annual opinion outcomes.

Areas where improvement is required

4.25 The Council should endeavour to improve its control environment and governance and risk management frameworks to ensure that all significant risks are effectively recognised, managed, and mitigated, particularly across the areas highlighted below.

4.25.1 **Fraud and Serious Organised Crime** – this review highlighted that there is currently no ongoing service and directorate (first line), or established second line assurance performed to confirm the ongoing effectiveness of established service fraud management arrangements, and no established Council-wide process for recording fraud; SOC; and AML incidents, across Council services. This presents a challenge for both individual directors and the Corporate Leadership Team (CLT) in meeting their responsibilities outlined in Council policies to ensure that the Council develops and maintains effective controls to detect and prevent fraud; bribery; and anti-money laundering, and provides limited assurance that new controls are being designed and implemented to combat the pace and consistently changing nature of fraudulent activity. Our review also confirmed that the Council's current approach to fraud and serious organised crime is not aligned with Audit Scotland expectations.

4.25.2 **Supplier Management (Place Directorate)** – our review of compliance Parking and Traffic Regulations highlighted the need to ensure that

supplier performance was regularly reviewed to confirm that it met the thresholds required to support performance related payments; and confirm the ongoing adequacy of security arrangements for supplier systems use to record and process citizen data (including the adequacy of both Council and third party system user profiles and access arrangements.

Our review of Housing Property Services Repairs Management during Covid-19 also highlighted that arrangements to confirm the adequacy of contractor health and safety arrangements for third party suppliers completing essential repairs during the pandemic could have been improved, and the need to implement performance measures to confirm the timeliness and quality of repairs completed by contractors. It is important to note that management was aware of the need to establish these performance indicators.

4.25.3 **Technology Vulnerability Management** – this review highlighted the need to confirm the completeness of Council assets for inclusion in technology vulnerability scans performed across the Council's three technology networks, by the Council's technology partner. This is essential as the third parties who perform independent scans to confirm ongoing compliance with Public Services Network (PSN) accreditation and Cyber Essentials Plus (CE+) accreditation use the database of Council technology assets to support completion of these scans. The review also identified opportunity to improve the vulnerability remediation process as system patching is not currently prioritised based on system criticality.

4.25.4 **Payment Card Industry Data Security Standards** – this review confirmed that the Council currently has no established governance arrangements to confirm ongoing compliance with Payment Card Industry Data Security Standard (PCI DSS) compliance requirements. Consequently, only limited assurance can be provided that both the Council and associated partner organisations support the secure management of payment channels and cardholder data across both Council networks and systems, and shadow IT systems usually provided by third parties that are not supported by the Council.

4.25.5 **Implementation of Asbestos Recommendations** – IA confirmed that whilst significant progress is evident with implementation of agreed actions (including implementation quality) by individual services and directorates to support improved identification and ongoing management of asbestos across Council properties, there was no clearly defined completion timeframe for final implementation, and no specific governance forum or Council committee with responsibility for monitoring; reviewing; and challenging holistic (Council-wide) implementation progress. It is acknowledged that implementation progress was significantly impacted and delayed by Covid-19.

4.25.6 **Complaints Management** – this review highlighted the need to implement centralised complaints management processes to consolidate the stand alone processes applied across services and directorates and support more effective senior management oversight and governance of complaints performance (in line with regulatory requirements); identification and review of thematic trends; and completion of the annual Scottish Public Sector Ombudsman statutory return.

4.25.7 **Employee Wellbeing –** this review focused on employees in critical roles who were most significantly impacted by Covid-19 to understand how their wellbeing was supported by the Council. Whilst there was a high level of responses to IA surveys, supported by a significant volume of qualitative feedback, it is acknowledged that this represented a small proportion of total Council employees. The main themes emerging from our review highlighted a strong view from colleagues that they did not have sufficient capacity to attend the Council's range of employee wellbeing initiatives. Additionally there was a clear difference between employee and manager views on how effectively employee wellbeing had been managed during the pandemic.

4.25.8 **Implementation of Historic Whistleblowing Recommendations –** this review highlighted the need for all directorates to establish consistent processes to ensure there is adequate oversight of whistleblowing action implementation progress and reporting in line with the previously agreed actions arising from the "Implementation of Assurance Actions and Linkage to Annual Governance Statements" audit completed in July 2020, and some additional areas for improvement in relation to corporate whistleblowing policies and procedures that had not been previously highlighted in the Tanner review.

Areas where positive assurance has been provided

4.26 The following green or 'effective' reporting outcomes were achieved across the Council during the year:

4.26.1 **Management and Allocation of Covid-19 Grant Funding –** following IA review of the design of grant management processes in 2020/21, we confirmed that grant management and allocation processes were consistently and effectively applied for two of the three grants administered by the Council on behalf of the Scottish Government.

It is important to note that IA was unable to review a sample of the most significant Support for Business grants (circa 47K grants processed with a value of £260M) administered by the Council due to ongoing workforce and capacity challenges within Customer Services teams.

4.26.2 **Health and Social Care Partnership Volunteer Support Arrangements** – this review was added to the 2021/22 IA annual plan in response to the

initiative to recruit secondees and volunteers from across the Council to support delivery of adult social care activities during Covid-19. Whilst there was a low response from employees to this request, we confirmed that processes implemented to support the recruitment; assessment; and training of secondees and volunteers were appropriately designed.

4.26.3 **Health and Social Care Transformation and Benefits Realisation –** this review confirmed that the project management and governance controls established to support delivery of the Partnership's transformation programme are appropriately designed and operating effectively to support delivery of individual projects designed to transform and improve existing adult social care practices.

4.26.4 **Education and Children's Services –** our reviews of Implementation of Child Protection Recommendations and Criminal Justice Community Payback Orders confirmed that adequate and effective processes have been established to ensure that recommendations raised in closed child protection reviews and complaints have been effectively implemented and sustained; and that the Council effectively meets its regulatory and statutory duties in relation to Community Payback Orders.

4.26.5 **Elections in the Covid-19 Environment** – this review confirmed that the processes established to support the local elections in May 2021 were adequately designed to support delivery of a safe elections process and ensure compliance with relevant Scottish Government and Public Health Scotland requirements and guidance.

4.26.6 **Human Resources** – review of the Design of the Scottish Local Government Living Wage (SLGLW) Pay Requirements, and Employee Lifecycle Data & Compensation and Benefits processes confirmed that consolidation of the SLGLW into the Council's pay framework, and ongoing management of employee data and processing payroll transactions was effective.

4.26.7 **Capital Budget Setting and Management –** this review confirmed that there is effective control over general fund capital budget setting and management processes applied across the Council based on a sample of two of the Council's four directorates.

4.26.8 **The Management of Development Funding –** this annual review performed at the request of the Scottish Government confirmed that the Council's processes to support the management and disbursement of development funding grants (totalling £52M in 2021/22), in line with Scottish Government requirements, remain adequately designed, and have not significantly changed.

4.26.9 **Verint system –** this review confirmed that the control environment established to support ongoing use of the Verint customer relationship

management system implemented to manage citizen requests for services were adequately designed and operated effectively.

4.26.10 **Development and Communication of the Digital and Smart City Strategy –** this review confirmed that the processes applied to support development, communication, and implementation of the Council's Digital and Smart City Strategy (the framework for the design and delivery of future technology services across the Council to support planned directorate technology changes) were appropriately designed and effectively applied.

4.26.11 **Programme and Project Delivery** - no new IA findings were raised during 2021/22 in relation to our ongoing agile audits of the Enterprise Resource Planning System and the Edinburgh Tram to Newhaven projects, confirming that the control environments, governance, and risk management processes supporting these significant projects are operating effectively.

IA Assurance outcomes

4.27 Of the 31 audits completed during the 2021/22 financial year (including 2 agile ongoing project reviews and 4 LPF reviews), 17 (55%) were reported as 'effective' (green); 10 (32%) as 'some improvement required (amber); and 4 (13%) as 'significant improvement required' (red). Additionally, there were no inadequate (black) audit outcomes.

4.28 A total of 68 findings (9 High; 35 Medium; and 24 Low) were raised in the 31 audits completed.

4.29 Appendix 3 includes details of the 27 audits completed during 2021/22 for the Council (including those carried forward from 20/21), and the outcomes of the 4 LPF reviews that were provided to the Pensions Committee for review and scrutiny.

Status of Internal Audit Findings as at 31 March 2022

4.30 There was significant progress with implementation of agreed management actions to address the risks associated with IA findings raised during 2021/22, reflecting significant focus from management and the impact of two IA secondments into the Place directorate and Health and Social Care Partnership.

4.31 Consequently, the final (31 March 2022) position confirms that proportion of overdue findings is at the lowest level across the last five years.

4.32 It is also important to note that a number of open findings were closed based on management's acceptance of either the full or residual aspects of risks associated with these findings, most notably in Digital Services.

4.33 There were 66 open IA findings across the Council as at 31 March 2022.

4.34 Of the 66 open IA findings, Appendix 4 highlights that:

4.34.1 a total of 43 (65%) findings were open, but not overdue;

4.34.2   a total of 23 (35%) were reported as overdue as they had missed all of their originally agreed implementation dates (6 High; 15 Medium; and 2 Low);

4.34.3   evidence in relation to 3 (13%) of the 43 overdue findings was being reviewed by IA to confirm that it was sufficient to support their closure; and

4.34.4   20 (87%) residual overdue findings still required to be addressed.

4.35   Whilst the current position has substantially improved, Appendix 4 illustrates the importance of ensuring that this progress is sustained, and highlights that further work is required to improve the proportion of findings that are more than three months overdue, with particular focus on those between six months and one year overdue.

Comparison with Prior Year Outcomes

4.36   The 2021/22 IA annual opinion has improved in comparison to the 2020/21 position, with IA's assessment having moved from the red (significant improvement required) down to the top end of the amber rated 'some improvement required' category.

4.37   The rationale supporting the improved opinion considered the following IA assurance outcomes across the last five financial years as detailed in Appendix 5:

4.37.1   alignment between the total number of audits completed across the Council and LPF;

4.37.2   the areas where improvement is required highlighted above;

4.37.3   an ongoing Improvement (a decrease) in the total number of IA findings raised each year;

4.37.4   an ongoing improvement (a decrease) in the proportion of high rated findings raised each year;

4.37.5   a significant improvement (a decrease) in the proportion of open findings that are overdue, with the 31 March 2022 position at the lowest level across the last five years.

4.37.6   Stability in the ageing profile of overdue findings across the last five years, recognising that further work is required to address the risks associated with IA findings that are between three months and one year overdue.

Internal Audit Independence

4.38   PSIAS require that IA must be independent, and internal auditors' objective, in performing their work. To ensure conformance with these requirements, IA has established processes to ensure that both team and personal independence is consistently maintained and that any potential conflicts of interest are effectively managed.

4.39   IA does not consider that we have faced any significant threats to our independence during 2021/22, nor do we consider that we have faced any inappropriate scope or resource limitations (for example headcount restrictions) when completing our work.

4.40   Implementation of the governance process that requires approval of changes to the IA annual plan by both the Corporate Leadership Team and Governance, Risk and Best Value Committee in January 2018 also effectively supports ongoing IA independence.

Conformance with Public Sector Internal Audit Standards and IA External Internal Quality Assurance

4.41   An external quality assurance review was performed by the Institute of Internal Auditors (IIA) in line with PSIAS requirements for an external review every five years. This confirmed that IA is generally conforming with the PSIAS which includes the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards.

4.42   The final report is currently being agreed with the IIA and will be shared with the Committe once finalised.

Internal Quality Assurance Outcomes

4.43   In advance of the IIA external quality review, IA also completed their own self-assessment of compliance with the standards. This was shared with the IIA and used to support their assessment process.

5.   Next Steps

5.1   The remaining 18% of the 2021/22 annual plan has been carried forward into the 2022/23 annual plan, and work is currently underway on these audits. Progress with delivery of these reviews will be provided through the quarterly IA update report provided to the Committee and the outcomes of any reports with an overall significant improvements required (red) outcomes and those that include any high (red) rated findings will be reported to the Committee in line with the process agreed with the Committee in July 2020.

5.2   IA will continue to monitor the open and overdues findings position, providing monthly updates to the Corporate Leadership Team, and quarterly updates to the Governance, Risk and Best Value Committee.

5.3   Whilst all relevant IA reports have been formally presented to the Committee for review and scrutiny, elected members may not have had sufficient time to review all reports that do not meet these criteria, to determine whether they should be specifically requested for presentation at Committee. This is mainly attributable to the ongoing impacts of Covid-19 impacting finalisation of some reports.

5.4   Consequently, some reports may be presented to the Committee for review and scrutiny following their review of the 2021/22 IA annual opinion.

5.5 Details of the dates when IA reports were reviewed or made available for elected member consideration are included at Appendix 3.

6. Financial impact

6.1 Whilst there is no direct financial impact associated with the content of this report, it is important to note the indirect financial impacts (service resources and time) associated with supporting completion of audits and implementation of agreed management actions to address IA findings raised.

7. Stakeholder/Community Impact

7.1 As the 2021/22 annual opinion reflects an improved position in comparison to the 2020/21 assessment, IA is providing reasonable assurance (based on the outcomes of our reviews) that risks are being managed, and the Council's objectives should be achieved.

7.2 However, it is important to note that Council's risk profile is consistently changing, with workforce currently the Council's most significant risk. Consequently, if this risk is not effectively managed, services delivered and support provided to citizens; stakeholders; community groups; and employees could be adversely impacted.

8. Background reading/external references

8.1 [Internal Audit Annual Plan 2021-22](#)

8.2 [Public Sector Internal Audit Standards](#)

8.3 [Institute of Internal Auditors Three Lines Model](#)

8.4 [Internal Audit Opinion for the Year Ended 31 March 2021](#)

8.5 [Internal Audit Opinion for the Year Ended 31 March 2020](#)

8.6 [Internal Audit Opinion for the Year Ended 31 March 2019](#)

8.7 [Internal Audit Opinion and Annual Report for the Year Ended 31 March 2018](#)

9. Appendices

9.1 Appendix 1   Internal Audit Annual Opinion Definitions

9.2 Appendix 2   Limitations and Responsibilities of Internal Audit and Management Responsibilities

9.3 Appendix 3   Audits Completed Between 1 April 2021 and 31 March 2022

9.4 Appendix 4   Analysis of IA Overdue Findings and Management Actions from 31 March 2018 to 31 March 2022

9.5 Appendix 5   Prior Year Comparisons

Appendix 1 – Internal Audit Annual Opinion Definitions

The PSIAS require the provision of an annual Internal Audit opinion, but do not provide any methodology or guidance detailing how the opinion should be defined. We have adopted the approach set out below to form an opinion for the Council.

We consider that there are 4 possible opinion types that could apply to the Council. These are detailed below:

1. Effective	The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed, and the Council's objectives should be achieved.
2. Some improvement required	Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the Council's objectives should be achieved.
3. Significant improvement required	Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.
4. Inadequate	The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the Council's objectives will not be achieved.

Appendix 2 - Limitations and Responsibilities of Internal Audit and Management Responsibilities

Limitations and responsibilities of internal audit

The opinion is based solely on the internal audit work performed for the financial year 1 April 2021 to 31 March 2022. Work completed was based on the terms of reference agreed with management for each review. However, where other matters have come to our attention, that are considered relevant, they have been taken into account when finalising our reports and the annual opinion.

Professional judgement is exercised in determining the appropriate opinion, and it should be noted that in giving an opinion, assurance provided can never be absolute for the reasons noted below:

1. Internal Audit endeavours to plan its work so that it has a reasonable expectation of detecting significant control weaknesses and, if detected, performs additional work directed towards identification of potential fraud or other irregularities. However, internal audit procedures alone, even when performed with due professional care, do not guarantee that fraud will be detected. Consequently, Internal Audit reviews should not be relied upon to detect and disclose all fraud, defalcations or other irregularities that may exist.

2. There may be additional weaknesses in the Council's control environment and governance and risk management frameworks that were not identified as they were not included in the Council's 2021/22 annual Internal Audit plan; were excluded from the scope of individual reviews; or were not brought to Internal Audit's attention. Consequently, management and the Committee should be aware that the opinion may have differed if these areas had been included or brought to Internal Audit's attention.

3. Control environments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and the impact of unplanned events.

Future periods

The Internal Audit opinion is based on an assessment of the controls that operated across the Council during the year ended 31 March 2022. This historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or

- the degree of compliance with policies and procedures may deteriorate.

Management responsibilities

It is management's responsibility to develop and operate effective control environments and governance and risk management frameworks that are designed to prevent and detect current and future irregularities and fraud. Internal audit work should not be regarded as a substitute for these responsibilities.

Appendix 3 - Audits completed between 1 April 2021 and 31 March 2022

Ref	Review Title	Report Outcome	Number of Findings Raised					Report Available for Scrutiny
			Critical	High	Medium	Low	Total	
Council Wide								
1.	Health and Safety - Implementation of asbestos recommendations (bf 2020/21)	Some Improvement Required	-	-	3	2	5	August 2022
2.	Fraud and Serious Organised Crime (bf 2020/21)	Significant Improvement Required	-	1	2	-	3	September 2022
3.	Complaints Management	Some Improvement Required	-	-	2	1	3	August 2022
4.	Employee Wellbeing	Some Improvement Required	-	-	3	-	3	September 2022
5.	Management and Allocation of Covid-19 Grant Funding	Effective	-	-	1	-	1	August 2022
6.	Implementation of Historic Whistleblowing Recommendations	Some Improvement Required	-	1	-	1	2	
7.	Implementation of Child Protection Recommendations	Effective	-	-	1	1	2	
	Totals – 7 audits		-	**2**	**12**	**5**	**19**	
Corporate Services								
8.	Elections in Covid Environment - design review	Effective	-	-	1	-	1	Reviewed Aug 2021
9.	Design of the Scottish Local Government Living Wage Requirements	Effective	-	-	-	-	-	Reviewed Nov 2021
10.	Cyber Security - technology vulnerability management	Significant Improvement Required	-	1	2	-	3	September 2022
11.	CGI performance reporting	Some Improvement Required	-	-	2	1	3	
12.	Employee Lifecycle Data & Compensation and Benefits Processes	Effective	-	-	-	1	1	August 2022
13.	Verint system	Effective	-	-	-	-	-	
14.	Capital Budget Setting and Management	Effective	-	-	1	1	2	
15.	Payment Card Industry Data Security Standard Compliance	Significant Improvement Required	-	1	3	-	4	
16.	Planning and Performance Framework design review	Some Improvement Required	-	1	1	1	3	
17.	Digital and Smart City Strategy (bf 2020/21)	Effective	-	-	-	2	2	
18.	Council Tax and Business Rates (bf 2020/21)	Some Improvement Required	-	-	2	2	4	September 2022
	Totals – 11 audits		-	**3**	**12**	**8**	**23**	
Education and Children's Services								
19.	Criminal Justice Social Work – Community Payback Orders	Effective	-	-	1	-	1	August 2022

Ref	Review Title	Report Outcome	Critical	High	Medium	Low	Total	Report Available for Scrutiny
	Totals – 1 audit		**-**	**-**	**1**	**-**	**1**	
Health and Social Care Partnership								
20.	Transformation and Benefits Realisation	**Effective**	-	-	2	-	**2**	**September 2022**
21.	Health and Social Care Partnership Volunteer Support Arrangements	**Effective**	-	-	-	-	**-**	**August 2022**
	Totals – 2 audits		**-**	**-**	**2**	**-**	**2**	
Place								
22.	Parking and Traffic Regulations (bf 2020/21)	**Significant Improvement Required**	-	3	1	-	**4**	**August 2022**
23.	Householder Planning Applications and use of Uniform System	**Some Improvement Required**	**-**	**-**	2	**-**	**2**	
24.	The Management of Development Funding	**Effective**	-	-	-	1	**1**	
25.	Housing Property Services Repairs Management During Covid-19	**Some Improvement Required**	-	1	1	3	**5**	
	Totals – 4 audits			**4**	**4**	**4**	**12**	
Projects								
26.	Trams to Newhaven	**Effective**	-	-	-	-	**-**	**Ongoing**
27.	Enterprise Resource Management	**Effective**	-	-	-	-	**-**	**Ongoing**
	Totals – 2 audits		**-**	**-**	**-**	**-**	**-**	
Lothian Pension Fund								
28.	LPF2003: Technology Model Development (bf 2020/21)	**Some Improvement Required**	-	-	3	-	**3**	**All reports reviewed and scrutinised by the Pensions Committee**
29.	LPF2101: Capital Calls	**Effective**	-	-	-	1	**1**	
30.	LPF2102: Employer Contributions	**Effective**	-	-	-	4	**4**	
31.	LPF2103: Risk Management	**Effective**	**-**	**-**	1	2	**3**	
	Totals – 4 audits		**-**	**-**	**4**	**7**	**11**	
2021/22 Summary								
31 audits completed – 4 Significant Improvement Required; 10 Some Improvement Required; 17 Effective			**-**	**9**	**35**	**24**	**68**	

Governance, Risk and Best Value Committee – 23 August 2022

Appendix 4 – Analysis of IA Overdue Findings and Management Actions from 31 March 2018 to 31 March 2022

	Key Performance Indicator (KPI)		31/03/2018		31/03/2019		31/03/2020		31/03/2021		31/03/2022		Average Trend
IA Findings													
1	Open findings		86	100%	83	100%	85	100%	107	100%	66	100%	Not Applicable
2	Not yet due		45	52%	32	39%	43	51%	43	40%	43	65%	Not Applicable
3	Overdue findings		41	48%	51	61%	42	49%	64	60%	23	35%	🟩
4	Overdue - IA reviewing		*Not measured		20	39%	7	16%	18	28%	3	13%	🟧
5	High Overdue		4	10%	13	28%	15	36%	17	27%	6	26%	🟩
6	Medium Overdue		27	66%	33	57%	23	54%	38	59%	15	65%	🟧
7	Low Overdue		10	24%	5	15%	4	10%	9	14%	2	9%	🟧
8	<90 days overdue				4	8%	13	31%	11	17%	1	4%	🟩
9	90-180 days overdue		*Not measured		8	16%	5	12%	10	16%	8	35%	🟥
10	180-365 days overdue				14	27%	6	14%	16	25%	5	22%	🟧
11	>365 days overdue				25	49%	18	43%	27	42%	9	39%	🟧
Management Actions													
12	Open actions				209	100%	221	100%	296	100%	135	100%	Not Applicable
13	Not yet due				98	47%	117	53%	120	41%	85	63%	Not Applicable
14	Overdue actions		*Not measured		111	53%	104	47%	176	59%	50	37%	🟩
15	Overdue - IA reviewing				26	23%	16	15%	61	35%	6	12%	🟥
16	Latest date missed				45	41%	35	34%	95	54%	6	12%	🟩
17	Date revised > once				54	49%	33	32%	71	40%	18	36%	🟧

*These indicators were not measured in 2017/18 as this was prior to implementation of the IA follow-up system, and manual processes were applied.

Trend Analysis - Key

🟥 Adverse trend - action required

🟧 Stable with limited change

🟩 Positive trend with progress evident

No trend analysis is performed on open findings and findings not yet due as these numbers will naturally increase when new IA reports are finalised

Appendix 5 – Prior Year Comparisons

	2021/22			2020/21			2019/20			2018/19			2017/18		
Annual Opinion	**Some Improvement Required**			**Significant Improvement Required (Limited Opinion)**			**Significant Improvement Required**			**Significant Improvement Required**			**Significant Improvement Required**		
Prior Year Audit Report Outcomes															
Inadequate	29 Audits Completed	-	-	32 Audits Completed	1	3%	30 Audits Completed	-	-	35 Audits Completed	-	-	30 Audits Completed	3	10%
Sig Impvt		4	13%		7	22%		12	36%		14	38%		11	37%
Some Impvt	2 ongoing Agile audits	10	32%	2 ongoing Agile audits	13	40%	2 ongoing Agile audits	11	32%	2 ongoing Agile audits	13	35%		11	37%
Effective		17	55%		11	34%		11	32%		10	27%		5	16%

Findings raised	2021/22				2020/21				2019/20				2018/19				2017/18			
	High	**Med**	**Low**	**Total**	**High**	**Med**	**Low**	**Total**	**High**	**Med**	**Low**	**Total**	**High**	**Med**	**Low**	**Total**	**High**	**Med**	**Low**	**Total**
	9	35	24	68	16	42	11	69	27	38	18	83	30	32	20	82	42	54	24	119
Proportion of total findings	13%	52%	35%	100%	23%	61%	16%	100%	32%	46%	21%	100%	36%	39%	25%	100%	35%	45%	20%	100%

Appendix 6 – Summary of 2021/22 IA Annual Plan Changes

2021/22 IA annual plan changes	Council	LPF	ALEOs	Total
Audits included in original plan approved in March 2022 (excluding ongoing follow-up activity)	35	4	7	46
Add: Audits added to the plan 1. Health and Social Care Partnership Volunteer Support Arrangements	1	-	-	1
Less: Combined audit now separated into two reviews – Statutory Requests and Complaints • Complaints completed in 2021/22 (refer Appendix 3) • Records management and statutory requests c/f to 2022/ 23 – (refer Appendix 6)	(1)	-	-	(1)
Add: 2020/21 audits brought froward (as detailed in 2020/21 IA annual opinion) 1. " Health and Safety – Implementation of Asbestos Recommendations 2. " Digital and Smart City Strategy 3. " Parking and Traffic Regulations 4. " Council tax and business rates 5. " Fraud and Serious Organised Crime 6. Active Travel – Project Management and Delivery 7. HSCP – Management of Waiting Lists and Assessments 8. Adaptation and Renewal Programme Governance	8	-	-	8
Less: Audits removed from the plan (approved by GRBV November 2021) 1. * HSCP – Management of Waiting Lists and Assessments 2. * Place – Council Housing Allocation Process 3. * Place – Port Facility Security Plan 4. Adaption and Renewal Programme Governance 5. * Empowered Learning Programme 6. * Active Travel - Project Management and Delivery 7. * Place - Design of the New Repairs and Maintenance Framework (Operational Properties) 8. * Council Emissions Plan 9. * HSCP / ECS - Transition Arrangements from Day Care to Adult Social Care 10. * Partnership Financial Sustainability 11. ^Rebased EIJB annual plan (approved by EIJB Audit and Assurance Committee) 12. ^ * Lothian Valuation Joint Board 13. ^ * Royal Edinburgh Military Tattoo	(10)	-	(3)	(14)
Total Audits to be completed in 2021/22 per rebased annual plan	33	4	4	41
Less: Audits not yet complete, but in progress and c/f to 2022/23 (refer Appendix 6 below)	(6)	-	-	(6)
Total audits completed during 2021/22 financial year	27	4	4	35
Proportion of plan completed	82%	100%	100%	85%

31 – total audits for the Council and LPF included in the 2021/22 annual opinion

"Completed in 2021/22

^Arms' Length External Organisations

* Carried forward into 2022/23 IA annual plan

Appendix 7 – Audits Carried Forward into the 2022/23 IA Annual Plan

Audits carried forward into the 2022/23 IA Annual Plan	
1. Records Management and Statutory Requests	Audit in progress. Aiming to complete by end October 22
2. Application Technology Controls: SEEMiS and SWIFT	Audit in progress. Aiming to complete by end September 22
3. Covid-19 thematic lessons learned	Audit has not started as the Council has not yet completed an assessment of Covid-19 thematic lessons learned for IA to review.
4. Early Years Education	Audit in progress. Aiming to complete by end October 22
5. Health and Safety of Outdoor Infrastructure	Currently being planned. Aiming to complete by December 2022 subject to PwC co-source specialist availability.
6. Scientific Services – Food Testing and Environmental Health	Audit was delayed tin response to the Council's organisational structure change and is currently being planned. Aiming to complete by December 2022 subject to PwC co-source specialist availability.