

Governance, Risk and Best Value Committee

10:00am, Tuesday, 11 October 2022

Internal Audit: The Chartered Institute of Internal Auditors - External Quality Assessment

Item number

Executive/routine

Executive

Wards

Council Commitments

1. Recommendations

- 1.1 It is recommended that the Governance Risk and Best Value Committee:
 - 1.1.1 notes the outcomes of the External Quality Assessment (EQA) of the Council's Internal Audit function (IA) completed by the Chartered Institute of Internal Auditors (IIA) in March 2022;
 - 1.1.2 notes the IIA recommendations to address the issues identified, together with IA's management response and action dates;
 - 1.1.3 notes the continuous improvement opportunities identified in the EQA and improvement actions taken by IA to realise these opportunities; and
 - 1.1.4 notes that updates on IA's EQA improvement activities will be provided to Committee on a quarterly basis through the IA quarterly update report.

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Report

Internal Audit: The Chartered Institute of Internal Auditors External Quality Assessment

2. Executive Summary

- 2.1 During 2021/22, the Chartered Institute of Internal Auditors (IIA) undertook an External Quality Assessment (EQA) of the Council's Internal Audit (IA) function in line with the requirements of the Public Sector Internal Audit Standards (PSIAS).
- 2.2 The EQA concluded that the Council's IA function generally conforms with the PSIAS, which set out the expected standards for internal auditing, including a code of ethics, core principles and international standards.
- 2.3 Two recommendations were made by the IIA to address partial conformance with standards. Management responses and action dates have been agreed.
- 2.4 The EQA report also identifies a series of continuous improvement opportunities and suggestions which IA should use as a basis for future development. IA has implemented a range of improvement actions to take forward these opportunities.

3. Background

External Quality Assessment (EQA)

- 3.1 PSIAS require IA to have an external quality effectiveness review completed on a five-yearly basis. The objective of the review is to promote further improvement in the professionalism, quality, consistency, and effectiveness of IA across the public sector.
- 3.2 An EQA of the City of Edinburgh Council's IA function was undertaken by the Chartered Institute of Internal Auditors (IIA) during 2021/22. The timescales for completion of the review were as follows:
 - planning for the review was completed in November / December 2021;
 - and

- fieldwork including review of processes and stakeholder engagement was completed between January and March 2022.

4. Main report

- 4.1 This report provides the Committee with a summary of the outcomes of the EQA of the Council's IA function completed by the IIA in 2021/22.
- 4.2 The IIA assessed the Council's IA function, through review of:
- IA processes including methodology, policies, procedures, and reporting;
 - the IA charter, audit plan and internal quality assurance processes;
 - a sample of completed files and working papers from recent audits; and
 - IA follow-up and risk acceptance protocols.
- 4.3 In addition, the IIA:
- conducted interviews with members of the IA function management team and a range of key stakeholders including elected members and directors; and
 - issued a survey to a wider range of stakeholders and the full internal audit team.
- 4.4 A copy of the final IIA report in full is provided at Appendix 1.

External Quality Assessment Outcomes

- 4.5 The IIA concluded that the Council's IA function is generally conforming with the PSIAS.
- 4.6 Two recommendations to address partial conformance with the standards were made by the IIA. Details of these together with IA's management response and actions dates are provided in the table below:

Recommendation 1 - Audit Planning (to address partial conformance with standard 2010)

We recommend that the methodology for the design of the audit plan is updated to ensure a risk-based approach focused more on the Council's strategic risks, core governance and control areas. We recommend the approach includes:

- Presentation of the plan starting from the Council's critical risks with demonstration of alignment and explanations of any different views held by internal audit on the risk areas.
- A mix of engagement styles from more light touch to more in-depth reviews and upfront advisory work.

- Highlighting the engagements on which the annual opinion has a key dependency at the outset to ensure these can be prioritised for delivery.

Management Response and Action Date

Agreed, the methodology applied to the risk and control effectiveness assessments supporting the IA annual plan was revised in March 2021 to align with the Council's refreshed operational risk management framework and therefore the Council's key risks. This included extending the rolling coverage of all areas from 3 to 5 years and introducing a range of engagement styles (including light-touch Covid-19 reviews and consultancy work).

It is acknowledged that further refinement of the annual planning process would be beneficial to enable a dynamic and flexible approach aligned to priorities and available resources. This will be taken into consideration for the mid-year review of the 2022/23 plan and the 2023/24 plan year onwards.

Action date: 31 March 2023

Recommendation 2 - Audit Co-ordination (to address partial conformance with standard 2050)

As the maturity of the risk management framework improves and further second line activity is embedded (e.g. in the role of the Operations Managers), the approach to internal audit planning should be re-considered to take account of other sources of assurance even if they are not yet fully mature.

Management Response and Action Date

Agreed, work is ongoing to design and roll-out the Council's Governance and Assurance framework which will help coordinate and / or complete first line governance; risk management; and assurance activities which IA can then take account of and place reliance on. The framework is expected to be operational by 31 March 2023.

In the interim, and in addition to the above, IA will take into account other first line assurance processes and sources in operation when planning engagements to establish the extent to which reliance can be placed and to avoid duplication where possible.

Action date: 30 June 2023

- 4.7 Further detail on the IIA feedback and recommendations is provided in section 2 (pages 8 - 9) of the full EQA report at Appendix 1.

Continuous Improvement Opportunities

- 4.8 The EQA also provides suggestions for further development based upon the wide range of guidance published by the IIA, with an aim to offer advice and a degree of challenge to help IA functions continue their journey towards best practice and excellence.

- 4.9 The IIA identified a series of continuous improvement opportunities and suggestions which the Council's IA function should use as a basis for future development.
- 4.10 Once addressed, these should strengthen and enhance the engagement with and the impact of IA in the Council. These observations are not conformance points but support IA's ongoing development.

Internal Audit EQA improvement actions

- 4.11 The Council's IA function is committed to continuous improvement and have implemented a range of improvement actions to realise the continuous improvement opportunities identified by IIA the during the EQA.
- 4.12 Following receipt of the report, IA identified 'quick wins' and introduced, with immediate effect, a number of changes to IA processes and procedures.
- 4.13 Details of the improvement opportunities identified during the EQA and IA improvement actions to address these are set out in the table below:

1. Engagement Audit Methodology
<ul style="list-style-type: none"> a) The approach to the audit plan should be revised to focus on business-critical risks and core controls at organisational level. Re-based audit plans should provide an option for delivering an internal audit opinion only in relation to the work completed, (i.e. limited in scope). b) A clearer focus is required on the link between the Council's critical risks, the internal audit programme, and core controls with consideration of completing quarterly or six-monthly planning reviews. c) The audit engagement process should be redesigned, and the scope of the audits undertaken should clearly focus on the key risks and key controls under review.
IA Improvement actions
<ul style="list-style-type: none"> a) IA has engaged with services to develop a proposal for a re-based 2022/23 IA annual plan with the aim of ensuring a focus on the current business-critical risks and core controls aligned to available resources. Details of the proposed re-based plan is provided to Committee in the October 2022 IA quarterly update. b) It is proposed that the annual plan is reviewed quarterly from 2023/24 onwards. c) A review of our electronic working papers and audit methodology has been completed and the audit process has now been simplified and streamlined. Scoping of audits has also been streamlined to ensure a focus on key risks and controls, with shorter focused terms of reference.
2. Closure of Audit Actions
<ul style="list-style-type: none"> a) The follow-up process should be revised to review supporting evidence on a risk-based approach.

IA Improvement actions

- a) The IA follow-up process has been revised, with a move from the current full review and validation of 100% of management actions to a risk-based approach based on the rating of recommendations made.

The revised approach was approved by Corporate Leadership Team in September 2022, and details of the revised approach is provided to Committee in the October 2022 Open and Overdue findings report.

3. Risk Resolution Processes and Responsibility for Acceptance of Risk

- a) If the audit plan and audit engagements undertaken focused on key controls the need for risk acceptance would be far less as the audit recommendations would be more likely to align to significant matters.
- b) The boundaries of responsibility require to be clearly re-drawn, internal audit are responsible for exposing the risk, management are responsible for considering and responding to this. A clear understanding must be in place that the level of risk tolerance and risk appetite is a matter for management, as are the potential consequences of deciding to accept a risk.

IA Improvement actions

- a) Scoping of audits and terms of reference have been streamlined to focus on key controls. In addition, recommendations made will consider management's risk appetite in the relevant areas.
- b) IA are clear on responsibilities for risk acceptance – with recognition that management is responsible for considering and responding to this. The IA risk acceptance proforma captures the service's understanding of mitigating actions and residual risk. This is processed by IA following approval from the relevant Executive Director/Chief Officer.

Details of risk acceptances are provided to the Committee on a quarterly basis.

4. Audit Reporting

- a) The internal audit reporting we reviewed including the annual plan, engagement reports and annual opinion were lengthy, largely word-based documents. This makes it more difficult to ascertain key messages and hinders stakeholders who have limited time available to review and comment on the content of the reporting.

We suggest the style of reporting requires an overhaul to introduce more concise reporting with headlines key messages and use of graphics, to convey messages

IA Improvement actions

- a) The style of the internal audit report has been revised to ensure that our reporting is more concise and clear, with key messages highlighted and easy to understand.

A dashboard has been introduced for monitoring and reporting IA activity including progress with implementing agreed actions; audit plan delivery and key performance indicators for both services and IA.

Reports for Committee and CLT have been streamlined to ensure a focus on key messages and scrutiny of performance.

5. Monitoring of Internal Audit Performance

- a) The audit engagements reviewed were significantly over their day's budget which appears to be a frequent issue. A revision of the engagement methodology will help in this regard.

Internal Audit have a timesheet system to enable greater insight as to the usage of internal audit resources. This is a positive step and should be used to provide insight on the usage of internal audit time and comparison to budget allocations.

We also note there is an intention to introduce metrics reporting (e.g. against the audit reporting milestones) and undertake an annual stakeholder survey. We welcome both of these initiatives which will provide information on the effective delivery of the internal audit programme.

IA Improvement actions

- a) The proposals for the re-based 2022/23 IA annual plan will enable delivery of the IA plan within the capacity and resource available with limited need for external co-source (PwC) resources, with the exception of audits in specialist areas such as Information Technology and Pensions.

Revisions to the IA methodology and scoping have been implemented to ensure a focus on key risks and controls only, and alignment to the time budgeted for the audit.

Timesheets are currently completed for each audit and audit stage; this data will be used to inform a realistic and achievable 2023/24 IA annual plan.

Audit surveys are issued following completion of every audit, with generally positive feedback received from service areas. Key themes are reviewed, and improvements identified where required. It is proposed that a summary of audit survey outcomes are provided to the Committee and CLT on a six-monthly basis.

6. Role of Head of Audit and Risk

- a) The need for more deputising of the Head of Audit & Risk role was commented on by internal audit team members and stakeholders. Whilst it is understood deputising takes place to some degree, this is not transparent to many stakeholders who would value more 1:1 engagement with other senior internal audit team members.
- b) We note that the Head of Audit took on the additional role of Head of Risk in 2020. There are adequate safeguards in place to ensure this does not impact on the independence of internal audit. However, we note that, considering the challenging environment especially in relation to debates around risk appetite, having the same individual responsible for both audit and risk, may not be the best option in this

case. A range of voices in regard to risk management arrangements would be preferable in the longer term.

IA Improvement actions

- a) The structure of the IA function is currently being reviewed to ensure less key person dependency at Head of Audit level, and to enhance opportunities for stakeholder engagement and development across the IA team.
- b) The structure of the Risk Management function is also being reviewed, with the Head of Health and Safety (who has considerable local government risk management experience) currently managing the function on an interim basis.

4.14 Full details of the improvement opportunities are provided at section 3.2 (pages 12 -13) within the EQA report at Appendix 1.

5. Next Steps

- 5.1 Outcomes of the EQA and improvement actions will be included in IA's ongoing 'Quality Assurance and Improvement Programme' which will be monitored quarterly.
- 5.2 Progress updates on IIA recommendations and improvement opportunities will be provided on a quarterly basis through the IA quarterly update report.
- 5.3 IA will complete an ongoing annual self-assessment of compliance with the PSIAS, the outcomes of which will be reported in the IA annual opinion.

6. Financial impact

- 6.1 There are no direct financial impacts arising from this report, although continued failure to effectively plan audit engagements in line with available internal resources would have a financial impact.

7. Stakeholder/Community Impact

- 7.1 Stakeholder impacts are detailed within this report and will continue to be captured through audit surveys and summary of key themes.

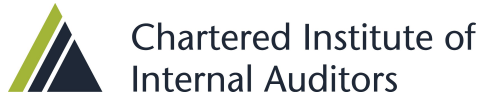
8. Background reading/external references

- 8.1 [Public Sector Internal Audit Standards \(PSIAS\)](#)

9. Appendices

- 9.1 Appendix 1: External Quality Assessment of Internal Audit – report by the Chartered Institute of Internal Auditors

Appendix 1



REPORT



External Quality Assessment of Internal Audit

A report for the City of Edinburgh Council



Prepared by Claire Ashby and Bethan Jones approved EQA
Reviewers for: The Chartered Institute of Internal Auditors

16 September 2022

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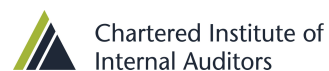
Contents



External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022
www.iaa.org.uk/eqa



1 Executive Summary	3
1.1 Background and scope	3
1.2 Key Findings	3
1.3 Assessment conclusion	5
1.4 SWOT Analysis	6
1.5 Conformance opinion	7
2 Feedback and recommendations	8
2.1 Audit Planning (to address partial conformance with standard 2010)	8
2.2 Audit Co-ordination (to address partial conformance with standard 2050)	9
3 Supporting continuous improvement	10
3.1 Maturity matrix	11
3.2 Improvement opportunities	12
4 Global grading definitions	14
4.1 Definitions	14
5 Interviews	15
5.1 Stakeholder interviews and surveys	15
6 Disclaimer	17
6.1 Disclaimer	17

1

Executive Summary



External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022
www.iaa.org.uk/eqa



1.1 Background and scope

The Chartered Institute of Internal Auditors (Chartered IIA) has undertaken an external quality assessment (EQA) of the City of Edinburgh Council's Internal Audit function.

The review has assessed internal audit against the Public Sector Internal Audit Standards (the PSIAS). These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) (the global framework for internal audit), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. The EQA approach recognises that effective internal audit goes further than purely conformance with internal auditing standards. A quality effectiveness review is required on a 5-yearly basis under the PSIAS.

The Internal Audit team in the City of Edinburgh Council is comprised of the Head of Audit & Risk, two principal audit managers, three senior auditors and six auditors. PwC are appointed to provide co-source internal audit services. At the time of our review, one team member was on long term absence and two auditors were on secondment to City of Edinburgh Council departments to assist with the implementation of agreed management actions following internal audit engagements.

Our review included interviews with members of the internal audit team and a range of key stakeholders (see Section 5 for a full list). These interviews were supplemented by the results of a wider stakeholder survey and a survey of the internal audit team. We have also reviewed internal audit policies, procedures and reporting, the internal audit plan, follow-up protocols and a sample of working papers from recent audits.

1.2 Key Findings

Internal audit is a hard-working, meticulous and dedicated team. The team are meeting the Standards (PSIAS) required to generally conform at an overall level. They are achieving a high level of conformance with the individual standards (generally conforming on all except for two which are partial conformances). In our experience, internal audit teams in the public sector, whilst generally conforming overall, often have a far higher number of partial conformances with individual standards. We suggest the performance of City of Edinburgh Council's internal audit team in this regard is reflective of the very detailed working style of the team.

Our review has found that internal audit rely on PSIAS to justify some of the very detailed working practices they have adopted. However, on investigation we have found that some of these working practices go well beyond what is required to generally conform with PSIAS. The most obvious examples are the follow up and risk resolution processes. A lack of trust by internal audit of City of Edinburgh Council Officers is a driver for many of the working practices. Rather than the processes being designed to conform to PSIAS, the processes appear to have been developed to enable internal audit to gather, track and record information at a very detailed level throughout the audit cycle. Internal audit utilise the information gathered, as justification, when challenged by management on audit findings or other audit related matters. This approach is not conducive to building a collaborative partnership between internal audit and management.

Whilst there is evidence of some positive delivery, internal audit is facing an uphill battle in terms of being fully effective i.e. having an overall positive impact on the risk, control and governance arrangements. The overall tone of delivery is not landing in a manner which encourages engagement from the City of Edinburgh Council directorates. Internal audit are seen very much as a policing function rather than a modern, collaborative team. The latter is current best practice within the internal audit profession as the style of working which is most likely to lead to improvements in the risk, governance and control environment.

1

Executive Summary



External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022
www.iaa.org.uk/eqa



Heads of internal audit face increasing challenges and higher expectations from stakeholders, especially in helping organisations look forward. Regardless of how the internal audit service is provided the Head of Internal Audit must be able to operate at the heart of the organisation, challenging and supporting the leadership team with authority and credibility. They should also be seen as a leader, promoting improvement and good governance [CIPFA Statement on the Role of the Head of Internal Audit in the Public Sector (Principle 3)]. In this context, a significant amount of adverse feedback on internal audit has been received.

In our extensive experience of undertaking EQAs, we have not previously received such a level of adverse feedback from management. The key themes in the feedback are:

- The level of detail required by the internal audit process directs limited resource away from operational priorities. This means that the City of Edinburgh Council officers are less willing to engage with internal audit.
- There is a widely held perception that internal audit work to standards beyond which the City of Edinburgh Council has the resources to achieve. In effect, the City of Edinburgh Council Officers are providing feedback that often the risk appetite of internal audit is not in line with that of officers of the Council.

We received feedback from a small number of Governance, Risk and Best Value (GRBV) Committee members and this feedback was generally of a positive nature. There is however a concern that internal audit outputs are perceived by management as being used as part of the political debates of the City of Edinburgh Council. This perception further diminishes the value placed on the function by management.

We understand the City of Edinburgh Council is a complex and resource constrained organisation. This makes it a challenging environment in which to deliver internal audit. City of Edinburgh Council officers are struggling with a large work programme and the resultant impact of the pandemic. Considering the multiple pressures on Services, internal audit delivery needs to be more proportionate and give greater consideration of the context of the environment.

We have noted the need to update the approach to designing the internal audit plan. Whilst it incorporates consideration of the key City of Edinburgh Council risks, it is presented as an audit universe comprised of City of Edinburgh Council directorates with an intention to cover all the organisation over a five-year period on a risk assessed basis (changed from a three-year cycle). We recommend that this approach is revised to focus on business-critical risks at the organisational level and core controls. A clearer focus is required on the link between the City of Edinburgh Council's critical risks, the internal audit programme, and the core controls, with quarterly or six-monthly planning reviews. Such an approach would be more proportionate and appropriate in the resource constrained City of Edinburgh Council environment.

We noted the audits we reviewed went over the allocated days budget (significantly in some cases). This has been explained as due to issues with City of Edinburgh Council engagement and internal audit team efficiency. The audit engagements often have a wide scope and cover processes at a very detailed level. We suggest that audits with tighter scopes focused clearly on key controls would assist in building an assurance picture for the annual opinion and provide more proportionate feedback for management together with being less onerous for those being audited.

Internal audit are able to provide many examples of lack of engagement from colleagues e.g. push back on audit priorities, delays in receiving responses to audit scope documents and reports. We understand this reflects both the environment (with many priorities) but is also a result of management not wanting to engage with internal audit due to the time that is required to fulfil audit requirements.

1

Executive Summary



External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022
www.iaa.org.uk/eqa



In the last 4 years, internal audit has struggled to deliver the annual plan. In 2021/22, £350k was requested from the internal audit budget to provide additional resource from PwC to deliver a re-based plan (we have been advised that the actual amount spent was less). The fact that the delivery of the plan has not been achievable year-on-year, suggests a significant change is needed in the way the plan is designed and delivered to avoid annual re-occurrence of the same challenge. We also note that the re-based plan did not provide an option for delivering an internal audit opinion only in relation to the work completed (i.e. limited in scope). This is an approach which can be adopted by internal audit when there are challenges delivering the approved audit programme and could be considered in future.

We have received some examples of positive feedback on internal audit activities in relation to agile/advisory reviews (where the pandemic has required fast design or re-design of process and controls). This work is more collaborative in nature and has been welcomed by stakeholders as providing a valuable contribution to the control environment.

We have made a number of recommendations to revise internal audit working practices with a view to the team adopting an approach which focuses on key risks and core controls whilst considering the context and challenges of the public sector environment of the City of Edinburgh Council.

We feel there is an onus on internal audit to revisit its approach and build an approach which recognises the maturity of the risk framework and has stakeholder buy-in to ensure an annual opinion can be delivered without the need for additional resource or significant plan revisions.

This EQA was undertaken in February 2022 and the draft report issued in March 2022. Following discussions with management, the final report is being issued in August 2022. We note that since we issued the draft report, the Head of Internal Audit has left the City of Edinburgh Council.

We would like to thank the internal audit team and stakeholders for their input and assistance to the review process.

1.3 Assessment conclusion

We have concluded that City of Edinburgh Council's internal audit team is generally conforming with the PSIAS which includes the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards.

On the following pages we provide:

- A SWOT analysis highlighting the key themes from our review. ([section 1.4](#))
- Further details on our conformance opinion. ([section 1.5](#))

1

Executive Summary



External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022
www.iaa.org.uk/eqa



1.4 SWOT Analysis

Strengths What works well	Weaknesses What could be done better
<ul style="list-style-type: none"> • Hardworking internal audit team with professional qualifications at a senior level. • Detailed internal audit policy and procedure documents. • Internal Audit Charter setting out remit, authority and scope. • Independent internal audit reporting line to the GRBV Convenor. • Co-source partner arrangement providing specialist skills where required. • Tracking system for management actions with access for stakeholders. 	<ul style="list-style-type: none"> • Completion of the annual audit programme within the financial year (without use of additional co-source resource over and above the planned co-source requirement). • Tone of engagement with City of Edinburgh Council officers which aligns to a traditional “policing style” of internal audit. • Building constructive relationships with management stakeholders. • More concise reporting with clarity of headline messages. • Overly detailed requirements for closure of audit actions. • Efficiency in internal audit working practices (with a heavy focus on capturing and tracking detailed information for all audits).
Opportunities What could deliver further value	Threats What could stand in your way
<ul style="list-style-type: none"> • Adopting a more collaborative, business partnering engagement style. • Changing the approach of the internal audit plan to concentrate on the top critical City of Edinburgh Council risks. • Undertaking a greater range of types of engagements from lighter-touch health checks to in-depth and in progress reviews. • Simplification of the audit methodology including removing some of the administrative burden of capturing and tracking detailed information. • More advisory and upfront reviews to promote good practice controls and governance frameworks as arrangements are designed. • Clear linkage between the output of engagements and top-level risks. • Shorter, less wordy reporting with greater use of dashboards and summary information. • Enhancing metrics reporting and reporting on the use of internal audit team time. 	<ul style="list-style-type: none"> • Excessive application of and reference to the PSIAS at the expense of effective working practices. • Internal audit outcomes are perceived as being used as part of the political workings of the City of Edinburgh Council. • Willingness and ability of the internal audit team to adopt proportionate working practices throughout the audit cycle. • Stakeholder engagement with internal audit processes and ability to accommodate audit requirements. • Over-reliance on the Head of Audit & Risk without sufficient delegation and deputising to other internal audit team members. • A lack of trust in the relationship between internal audit, the directors and senior management.

1

Executive Summary



External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022
www.iaa.org.uk/eqa



1.5 Conformance opinion

The Public Sector Internal Audit Standards (PSIAS) includes the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards.

There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles.

It is our view that the City of Edinburgh Council's internal audit function generally conforms to 59 of these principles with 3 not currently applicable, and 2 partial conformances. This is summarised in the table below.

Overall, the department **Generally Conforms** to the PSIAS.

Summary of conformance	Standards	Generally conforms	Partially conforms	Does not conform	Not applicable	Total
Definition of IA and Code of Ethics	Rules of conduct	12	-	-	-	12
Purpose	1000 - 1130	8	-	-	-	8
Proficiency and Due Professional Care (People)	1200 - 1230	4	-	-	-	4
Quality Assurance and Improvement Programme	1300 - 1322	6	-	-	1	7
Managing the Internal Audit Activity	2000 - 2130	9	2	-	1	12
Performance and Delivery	2200 - 2600	20	-	-	1	21
Total		59	2	-	3	64

*Not applicable standards relate to: disclosure of non-conformance with the PSIAS and use of an outsourced internal audit provider.

2

Feedback and recommendations



External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022
www.iaa.org.uk/eqa



2.1 Audit Planning (to address partial conformance with standard 2010)

The audit planning approach has been in place for a number of years. It is based on a risk assessment of the activities of the City of Edinburgh Council with an aim to cover all areas over a five-year cycle. Whilst we have been advised there is a good alignment between the critical Council risks and the plan, the presentation of the plan does not set out the critical risks as the basis of the plan (they are incorporated into the detailed commentary). The objective of covering all areas over a 5-year cycle does not align to focusing the audit plan on business-critical risk areas.

Utilising the City of Edinburgh Council's strategic risks as the basis of the risk register is the good practice approach. Where internal audit has a differing view on the strategic risks, this should be explored with management and explained in the audit plan. Fundamental aspects of the control environment such as financial controls, governance and risk management may also be identified as core audit areas. Within the internal audit profession, there has been a move to shorter term plans (e.g. re-assessing audit priorities each quarter) to ensure the plan aligns to the changing risk environment.

We note the internal audit plan is largely comprised of detailed reviews of areas generally ranging from 20 to 30 budget days (although in practice the audits often take many more days to execute – see section 3.2). A range of engagement types, from more detailed reviews to lighter touch health-checks, broad scope reviews to those with a very narrow scope, would provide a more nuanced approach to coverage of critical risks and core controls. For example, if the key processes mitigating a risk area are not yet fully designed and implemented, internal audit may undertake a short, sharp review to flag the key improvement areas. A more detailed review may then be appropriate once the key processes have been designed and embedded.

We note that internal audit has undertaken some “in progress” reviews on major projects and upfront reviews of process changes in response to Covid. We would encourage greater focus on this type of activity, which helps ensure adequate controls are adopted from the start of activities.

Considering the challenges in delivering the annual opinion, highlighting the top priority engagements which directly feed the internal audit opinion, is a good practice way of building a plan. This approach ensures it is clear from the outset which engagements must be undertaken.

Recommendation	Response and Action Date
<p>We recommend that the methodology for the design of the audit plan is updated to ensure a risk-based approach focused more on the City of Edinburgh Council's strategic risks, core governance and control areas. We recommend the approach includes:</p> <ul style="list-style-type: none"> • Presentation of the plan starting from the City of Edinburgh Council's critical risks with demonstration of alignment and explanations of any different views held by internal audit on the risk areas. • A mix of engagement styles from more light-touch to more in-depth reviews and upfront advisory work. • Highlighting the engagements on which the annual opinion has a key dependency at the outset to ensure these can be prioritised for delivery. 	<p>Agreed, the methodology applied to the risk and control effectiveness assessments supporting the IA annual plan was revised in March 2021 to align with the Council's refreshed operational risk management framework and therefore the City of Edinburgh Council's key risks. This included extending the rolling coverage of all areas from 3 to 5 years and introducing a range of engagement styles (including light-touch Covid-19 reviews and consultancy work).</p> <p>It is acknowledged that further refinement of the annual planning process would be beneficial to enable a dynamic and flexible approach aligned to priorities and available resources. This will be taken into consideration for the mid-year review of the 2022/23 plan and the 2023/24 plan year onwards. Action date: 31 March 2023</p>

2

Feedback and recommendations



External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022
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2.2 Audit Co-ordination (to address partial conformance with standard 2050)

Internal audit should co-ordinate with other assurance providers, placing reliance where possible on their work, and avoiding duplication. Internal audit has explained that there is very limited second line assurance activity which can inform the internal audit work programme. The City of Edinburgh Council does not have an integrated model of assurance. Internal audit does take account of the work of the health & safety team, regulators and other assurance providers such as the external auditors.

Recommendation	Response and Action Date
As the maturity of the risk management framework improves and further second line activity is embedded (e.g. in the role of the Operations Managers), the approach to internal audit planning should be re-considered to take account of other sources of assurance even if they are not yet fully mature.	<p>Agreed, work is ongoing to design and roll-out the City of Edinburgh Council's Governance and Assurance framework which will help coordinate and / or complete first line governance; risk management; and assurance activities which IA can then take account of and place reliance on. The framework is expected to be operational by 31 March 2023.</p> <p>In the interim, and in addition to the above, IA will take into account other first line assurance processes and sources in operation when planning engagements to establish the extent to which reliance can be placed and to avoid duplication where possible.</p> <p>Action date: 30 June 2023</p>

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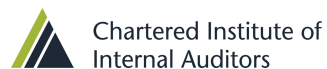
Supporting continuous improvement



External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022
www.iaa.org.uk/eqa



The Chartered IIA regards conforming with the IPPF as the foundation for effective internal audit practice. However, our EQA reviews also seek feedback from key stakeholders and we benchmark each function against a range of professional practice seen during our EQA reviews and through other interviews with heads of internal audit. This is summarised in the internal audit maturity matrix – see below.

We then make suggestions for further development based upon the wide range of guidance published by the Chartered IIA.

It is our aim to offer advice and a degree of challenge to help internal audit functions continue their journey towards best practice and excellence.

In the following pages we present this advice in two formats:

- A matrix describing the key criteria of effective internal audit, highlighting the level that the team has achieved and the potential for further development, recognising that effective internal audit goes further than purely conformance with internal auditing standards. ([See 3.1](#))
- A series of continuous improvement opportunities and suggestions which the internal audit team should use as a basis for future development. ([See 3.2](#))

3

Supporting continuous improvement



External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022

www.iaa.org.uk/eqa



3.1 Maturity matrix (yellow highlight indicates current position of the Internal Audit team)

		IIA Standards	Focus on performance, risk and adding value.	Coordination and maximising assurance	Operating with efficiency	Quality Assurance and Improvement Programme
assessment levels	Excellent	Outstanding reflection of the IIA standards, in terms of logic, flow and spirit. Generally, Conforms in all areas.	IA alignment to the organisation's objectives risks and change. IA has a high profile, is listened to and is respected for its assessment, advice and insight.	IA is fully independent and is recognised by all as a 3rd line function. The work of assurance providers is coordinated with IA reviewing reliability of.	Assignments are project managed to time and budget, using tools / techniques for delivery. IA reports are clear, concise and produced promptly.	Ongoing efforts by IA team to enhance quality through continuous improvement. QA&IP plan is shared with and approved by AC.
	Good	The IIA Standards are fully integrated into the methodology – mainly Generally Conforms.	Clear links between IA engagement objectives to risks and critical success factors with some acknowledgement of the value-added dimension.	Coordination is planned at a high level around key risks. IA has established formal relationships with regular review of reliability.	Audit engagements are controlled and reviewed while in progress. Reporting is refined regularly linking opinions to key risks.	Quality is regarded highly, includes lessons learnt, scorecard measures and customer feedback with results shared with AC
	Satisfactory	Most of the IIA Standards are found in the methodology with scope to increase conformance from Partially to Generally Conform in some areas.	Methodology requires the purpose of IA engagements to be linked to objectives and risks. IA provides advice and is involved in change, but criteria and role require clarity.	The 3 lines model is regarded as important. Planning of coordination is active and IA has developed better working relationships with some review of reliability.	Methodology recognises the need to manage engagement efficiency and timeliness, but further consistency is needed. Reports are informative and valued.	Clear evidence of timely QA in assignments with learning points and coaching. Customer feedback is evident. Wider QA&IP may need formalising
	Needs improvement	Gaps in the methodology with a combination of Non-conformances and Partial Conformances to the IIA Standards.	Some connections to the organisation's objectives and risks but IA engagements are mainly cyclical and prone to change at management request.	The need to coordinate assurance is recognised but progress is slow. Some informal coordination occurs but reviewing reliability may be resisted.	Multiple guides that are slightly out of date and form a consistent and coherent whole. Engagements go beyond deadline and a number are deferred	QC not consistently embedded across the function. QA is limited / late or does not address root causes
	Poor	No reference to the IIA Standards with significant levels of non-conformance.	No relationship between IA engagements and the organisation's objectives, risks and performance. Many audits are ad hoc.	IA performs its role in an isolated way. There is a feeling of audit overload with confusion about what various auditors do.	Lack of a defined methodology with inconsistent results. Reports are usually late with little perceived value.	No evidence of ownership of quality by the IA team.



External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022
www.iaa.org.uk/eqa



3.2 Improvement opportunities

This section of the report details additional feedback and observations which, if addressed, could strengthen the impact of internal audit. These observations are not conformance points but support the department's ongoing development.

These suggestions do not require a response and will not form part of any subsequent follow up, if undertaken.

3.2.1 Engagement Audit Methodology

The methodology for audit engagements is very detailed in nature. Whilst there are some higher-level pieces of work, we note that the majority of audit engagements have a wide scope and cover the related policies and procedures in depth. We received feedback from both stakeholders and internal audit team members that this makes the audit process very challenging and time-consuming. We also noted that the internal audit team record information in great detail on the working papers (for example, every email relating to an audit is uploaded to the file). We suggest that the audit engagement process is redesigned with a view to:

- Focusing the scope of the audits on the key risks under review versus the breadth of activities of the department/topic in question.
- Setting the testing strategy to ascertain the effectiveness of key controls at a reasonable level.
- Removing the administrative burden on internal audit to track and record information at a comprehensive level. We suggest a more proportionate approach to collecting and recording information is adopted.

3.2.2 Closure of Audit Actions

The internal audit team verify evidence before the closure of any agreed management actions arising from audits. We note that the evidence requirements are very thorough in nature and in some cases, management are required to provide evidence an action has been in place for a quarter before closure is agreed. This approach was adopted after an exercise to review closed management actions which resulted in a large number being re-opened. As a result of the approach taken, 625 days (out of a total budget of 1870 days / 33% of the budget) was allocated from the internal audit budget to follow up activity.

It is unusual to see an approach whereby 100% of agreed management actions are fully verified to detailed evidence (even in cases where a review has re-opened previously closed actions). The approach adopted appears to stem from a lack of trust in the information provided by management. We would expect an approach whereby actions are verified on a risk-prioritised basis. In many cases, confirmation from Directors with minimal supporting evidence that actions have been addressed should be sufficient to close actions. In our view, the current approach utilises a disproportionate amount of internal audit and management resource to the benefits achieved by verification of every agreed action.

We suggest that the follow up process is revised to review supporting evidence on a risk basis approach.

3.2.3 Risk Resolution Processes and Responsibility for Acceptance of Risk

There is a risk resolution process in place (completion of a form by management explaining the risk acceptance rationale) and management are advised that they can risk accept any audit findings. In theory, this process does appear to ensure that risks within the risk appetite of management are risk accepted. Management have provided feedback that internal audit has a higher threshold of risk appetite than is practical considering the resource constraints of the City of Edinburgh Council.

3

Supporting continuous improvement



External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022
www.iaa.org.uk/eqa



We suggest that if the audit plan and audit engagements undertaken focused on key controls the need for risk acceptance would be far less as the audit recommendations would be more likely to align to significant matters.

In addition, it appears that the boundaries of responsibilities need to be clearly re-drawn – internal audit are responsible for exposing the risk, management are responsible for considering and responding to this. A clear understanding must be in place that the level of risk tolerance and risk appetite is a matter for management, as are the potential consequences of deciding to accept a risk.

3.2.4 Audit Reporting

The internal audit reporting we reviewed including the annual plan, engagement reports and annual opinion were lengthy, largely word-based documents. This makes it more difficult to ascertain key messages and hinders stakeholders who have limited time available to review and comment on the content of the reporting. We suggest the style of reporting requires an overhaul to introduce more concise reporting with headlines key messages and use of graphics, to convey messages.

3.2.5 Monitoring of Internal Audit Performance

The audit engagements we reviewed were significantly over their day's budget. We have been advised, by members of the internal audit team, that this is a frequent issue. A revision of the engagement methodology will help in this regard. We have been advised that internal audit have a timesheet system to enable greater insight as to the usage of internal audit resources. This is a positive step and should be used to provide insight on the usage of internal audit time and comparison to budget allocations.

We also note there is an intention to introduce metrics reporting (e.g. against the audit reporting milestones) and undertake an annual stakeholder survey. We welcome both of these initiatives which will provide information on the effective delivery of the internal audit programme.

3.2.6 Role of Head of Audit & Risk

We have the following observations on the Head of Audit & Risk role:

- The need for more deputising of the Head of Audit & Risk role was commented on by internal audit team members and stakeholders. Whilst it is understood deputising takes place to some degree, this is not transparent to many stakeholders who would value more 1:1 engagement with other senior internal audit team members.
- We note that the Head of Audit took on the additional role of Head of Risk in 2020. There are adequate safeguards in place to ensure this does not impact on the independence of internal audit. However, we note that, considering the challenging environment especially in relation to debates around risk appetite, having the same individual responsible for both audit and risk, may not be the best option in this case. A range of voices in regard to risk management arrangements would be preferable in the longer term.

4

Global grading definitions



External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022
www.iaa.org.uk/eqa



4.1 Definitions

The following rating scale has been used in this report:

Generally, Conforms (GC)	The reviewer has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.
Partially Conforms (PC)	The reviewer has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.
Does Not Conform (DNC)	The reviewer has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. They may also represent significant opportunities for improvement, including actions by senior management or the board.

Often, the most difficult evaluation is the distinction between general and partial. It is a judgement call keeping in mind the definition of general conformance above. The reviewer must determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices does not reduce a “generally conforms” rating.

5

Interviews



External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022
www.iaa.org.uk/eqa



5.1 Stakeholder interviews and surveys

The following individuals were interviewed by video conference as part of the review. Stakeholder surveys were also sent to City of Edinburgh Council Directors, Service Heads and GRBV Committee members. We received 11 responses. 11 internal audit team members also received and responded to a staff survey. The comments received are reflected in the body of this report.

Stakeholder / Internal Audit Team	Title/position
City of Edinburgh Council Officers	
Hugh Dunn	Service Director, Finance and Procurement
Amanda Hattan	Executive Director, of Education and Children's Services
Andrew Kerr	Chief Executive
Paul Lawrence	Executive Director of Place
Stephen Moir	Executive Director, Corporate Services
Nick Smith	Service Director, Legal and Assurance
Judith Proctor	Chief Officer of the Edinburgh Health and Social Care Partnership
GRBV Members	
Phil Duggart	Elected Member and Chair of EIJB Audit and Assurance Committee
Joanne Mowat	Convenor of GRBV
Other	
Nick Bennett (Partner) and Karen Jones (Director)	Azets (External Auditors)
Fraser Wilson (Partner) and Eye Ayeni (Senior Associate)	PwC (Co-source Partners)

0



External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022
www.iaa.org.uk/eqa



Stakeholder / Internal Audit Team	Title/position
Internal Audit Team Members	
Lesley Newall (no longer an employee of City of Edinburgh Council)	Head of Internal Audit & Risk
Laura Calder	Principal Audit Manager
Colin McCurley	Principal Audit Manager

6

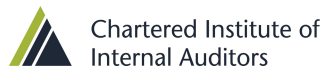
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External Quality Assessment
of Internal Audit

A report for:
the City of Edinburgh Council

16 September 2022
www.iaa.org.uk/eqa



6.1 Disclaimer

Disclaimer: This review was undertaken in January and February 2022 by Claire Ashby and Bethan Jones on behalf of the Chartered Institute of Internal Auditors UK and Ireland. The review was carried out remotely due to the restrictions resulting from the COVID-19 pandemic. This report provides management and the GRBV Committee of City of Edinburgh Council with information about the internal audit function as at that date. Future changes in environmental factors and actions taken to address recommendations may have an impact upon the operation of internal audit in a manner that this report cannot anticipate.

Considerable professional judgment is involved in evaluating. Accordingly, it should be recognised that others could draw different conclusions. We have not re-performed the work of Internal Audit nor aimed to verify their conclusions.

This report is provided on the basis that it is for your information only and that it will not be quoted or referred to, in whole or part, without the prior written consent of the Chartered Institute of Internal Auditors.

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