

Governance, Risk, and Best Value Committee

10.00am, Tuesday, 3 December 2019

Capacity to deliver the 2019/20 Internal Audit plan

Item number

Executive/routine

Wards

Council Commitments

1. Recommendations

- 1.1 It is recommended that Committee notes:
- 1.1.1 the estimated shortfall in Internal Audit's (IA) capacity to deliver the 2019/20 annual plan by 31 March 2020 as at 1 October 2019;
 - 1.1.2 the supporting rationale for the shortfall;
 - 1.1.3 that following review of the annual plan, it is IA's opinion that reduction in the content of the plan would impact IA's ability to provide sufficient assurance across the 2019/20 financial year, resulting in a qualified IA annual opinion for 2019/20; and
 - 1.1.4 the solution agreed with the Executive Director of Resources to enable delivery of the plan by 31 March 2020.

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Capacity to deliver the 2019/20 Internal Audit plan

2. Executive Summary

- 2.1 The purpose of this paper is to address the Governance, Risk and Best Value (GRBV) Committee's request in August 2019 to confirm the capacity of Internal Audit (IA) to deliver the 2019/20 IA plan by 31 March 2020.
- 2.2 It is currently estimated that there is a shortfall of 239 audit days between the period 1 October 2019 to 31 March 2020 (which is the equivalent of approximately 2.7 FTE and/or delivery of 10 audits) that will impact IA's ability to fully deliver the 2019/20 IA plan by 31 March 2020.
- 2.3 This estimated shortfall is attributable to higher than anticipated sickness absence within the team; longer than anticipated notice periods for new starters; additional turnover within the team; late finalisation of a number of 2018/19 audit reports; the addition of two audits to the plan (as approved by the Committee in August 2019); and the impact of a significant investigation performed by the Chief Internal Auditor. These activities have also fully utilised the contingency of 100 days that was originally included within the plan.
- 2.4 Following review of the 2019/20 IA annual plan, it is IA's opinion that reduction in the content of the plan would impact IA's ability to provide sufficient assurance on how effectively the Council is managing its most significant risks, resulting in a qualified IA annual opinion for 2019/20.
- 2.5 The Executive Director of Resources has agreed that support should be provided to IA to support delivery of the current plan to address the estimated shortfall in IA capacity as at 1 October 2019 to support delivery of the 2019/20 IA annual plan by 31 March 2020. This will be through use of the PwC co-source agreement.

3. Background

- 3.1 The Public Sector Internal Audit Standards (PSIAS) require Internal Audit to deliver an annual plan of work that is scoped using a risk-based assessment of Council activities. Additional reviews are added to the plan where considered necessary, to address any emerging risks and issues identified during the year.

- 3.2 GRBV approved the proposed 2019/20 IA plan in March 2019. It was noted that the plan may need to be reviewed during the year to deal with any unplanned changes in resource availability or to address new areas that may require changes to the plan.
- 3.3 The 2019/20 internal audit plan includes a total of 42 audits for completion by the Council's IA team (across the Council; the Edinburgh Integration Joint Board; Lothian Pension Fund; and three arms-length organisations), requiring an estimated total of 2,225 audit days. This included 600 days for follow up activity; 100 days contingency time and five days for delivery of training across the Council.
- 3.4 In addition to this, the plan also includes eight specialist audits (audits where the IA team does not have the necessary specialist skills) that will be delivered by PwC under the existing co-source agreement.
- 3.5 The delivery of the originally approved plan was based on approximately 1,862 days of projected available capacity of IA resources as at 1 April 2019 to support delivery of the plan. This calculation was based on the following assumptions:
- 3.5.1 that the IA team would be at full capacity by 1 July 2019;
 - 3.5.2 that sickness absence would be circa 2% of available days; and
 - 3.5.3 that circa 30% of available time would be required to support team training and personal development; performance management; ongoing enhancement of our audit system; and governance and committee reporting activities.
- 3.6 The proposed plan approved by Committee in March 2019 also highlighted that (based on the IA capacity model outlined at 3.5 above) IA was approximately 1 FTE short to enable delivery of the proposed plan. This equates to a total of 8 audits based on an average of 25 days per audit. It was hoped that good progress would allow this shortfall to be reduced over the year. However, this has not been possible.
- 3.7 Following discussion at Committee in August 2019, GRBV requested a paper to confirm IA's capacity to deliver the 2019/20 plan.

4. Main report

Internal Audit's capacity to deliver the 2019/20 annual plan

- 4.1 Following approval of the proposed plan by the Committee in March 2019, IA's capacity to deliver the plan has been closely monitored. Review of IA's capacity to deliver the remainder of the 2019/20 plan, as at 1 October 2019, highlighted a shortfall of 239 days. This equates 2.7 FTE or a total of circa 10 audits based on an average of 25 days per audit between 1 October 2019 and 31 March 2020.
- 4.2 This shortfall is attributable to:
- 4.2.1 higher than anticipated sickness absence across the team (due to no single factor);

- 4.2.2 delays in achieving full team capacity due to notice periods etc (end of July 2019 in comparison to the beginning of July 2019);
 - 4.2.3 additional staff turnover within the team resulting in extra management time spent on recruitment and training;
 - 4.2.4 late finalisation of 2018/19 audit reports with divisions and directorates;
 - 4.2.5 the addition of two audits to the 2019/20 annual plan (the Transfer of the Management Development Funds and review of the financial processes supporting the Edinburgh and South East Scotland City Region Deal) that were approved by Committee in August 2019; and
 - 4.2.6 the impact of a significant and complex investigation performed by the Chief Internal Auditor.
- 4.3 The 2019/20 Internal Audit annual plan has been reviewed and it is the Chief Internal Auditor's opinion that reduction in the content of the plan would impact IA's ability to assess how adequately and effectively of the Council's established governance, risk management, and control frameworks are supporting the Council in managing its most significant risks, resulting in a qualified IA annual opinion.
- 4.4 Consequently, the Executive Director of Resources has approved drawdown and use of PwC generalist resources under the terms of the existing co-source agreement to support delivery of the remainder of the 2019/20 IA plan by 31 March 2020.

5. Next Steps

- 5.1 IA has secured resources from PwC to support delivery of ten planned audits included in the 2019/20 IA annual plan and will work with PwC teams to engage with the relevant divisions and directorates to support their delivery.

6. Financial impact

- 6.1 The additional costs associated with using PwC support are circa £200K.

7. Stakeholder/Community Impact

- 7.1 Provision of full and effective assurance across the Council's most significant risks following completion of the 2019/20 IA plan and implementation of associated management actions should have an indirect positive impact on services delivered to citizens, stakeholders, and communities.

8. Background reading/external references

- 8.1 [Internal Audit 2019-20 Annual Plan](#)

9. Appendices

9.1 None