

Governance, Risk and Best Value Committee

10.00am, Tuesday, 23 March 2021

Internal Audit Update Report: 1 November 2020 to 31 January 2021

Item number

Executive/routine

Executive

Wards

Council Commitments

1. Recommendations

- 1.1 The Governance, Risk and Best Value is recommended to:
- 1.2 note the outcomes of completed 2020/21 audits;
- 1.3 note progress with the delivery of the 2020/21 Internal Audit (IA) plan;
- 1.4 approve the proposed change to the 2020/21 IA annual plan;
- 1.5 note the extended delivery timeframes for completion of two audits;
- 1.6 approve the proposed response to the April 2020 CIPFA Internal Audit Engagement Opinions: Setting Common Definitions Paper; and,
- 1.7 note the progress of the delivery of IA key priorities and ongoing areas of focus;

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Report

Internal Audit Update Report: 1 November 2020 to 31 January 2021

2. Executive Summary

- 2.1 There has been good progress with delivery of the 2020/21 annual plan, with 41 of the 45 planned audits (89% of the plan) either completed or underway.
- 2.2 Of the 45 planned audits, 36 will be delivered across the Council, and 32 of these (89%) are currently in progress.
- 2.3 7 audits have now been completed across the Council with 4 assessed as 'some improvement required' (amber) outcomes; and 3 'effective' (green) outcomes.
- 2.4 IA has completed 3 agile consultancy reviews on the pre-implementation design of Covid-19 grant allocation and administration processes, with feedback on the design of process controls provided to management for their consideration.
- 2.5 It is proposed that 1 audit is removed from the 2020/21 plan and carried forward into the 2021/22 IA annual plan in response to the impacts of Covid-19.
- 2.6 Extended delivery timeframes are proposed for 4 audits, reflecting additional time required by Directorates/Divisions to support their delivery due to the ongoing impacts of Covid-19.
- 2.7 It is proposed that the non-mandatory CIPFA recommendations on Internal Audit Engagement Opinions are not implemented by the Council, and that IA continues to apply its established methodology for allocating opinions to individual audit reports.

3. Background

2020/21 Internal Audit Annual Plan

- 3.1 On 29 September 2020, the Committee approved the refreshed 2020/21 IA annual plan that would deliver a total of 45 audits, and also included time for ongoing IA follow-up assurance across the Council.
- 3.2 Of these, 36 audits will be delivered across the Council, with 9 audits completed for arm's length external organisations (ALEOs).

- 3.3 This plan includes 11 audits approved by the Committee in July 2020, designed to provide assurance on the design of new and amended processes implemented in response to the Covid-19 pandemic.
- 3.4 On 8 December 2020, the Committee approved the inclusion of the Edinburgh Tram Network Supplier Arrangements audit, increasing the total number of audits to 46, with 37 of these to be delivered across the Council.

Internal Audit Reports

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

Agile Auditing and Consultancy Support

- 3.10 Public Sector Internal Audit Standards (PSIAS) permits IA to provide consulting services, providing that the scope is agreed with the client, that they add value and improve an organisation's governance, risk management, and control processes without the internal auditor assuming management responsibility (refer 2220.A2).
- 3.11 The PSIAS also notes that the results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.
- 3.12 The PSIAS also specifies that details of any consulting services must be included in the annual plan and included in their evaluation of the organisation's control processes.
- 3.13 A paper on [Agile Auditing and Consultancy Support](#) (paper 8.2) was presented to the Committee in July 2020 that detailed IA's methodology and approach supporting delivery of consulting services across the Council, and confirmed that it was compliance with PSIAS requirements.

CIPFA Internal Audit Engagement Opinions: Setting Common Definitions Paper April 2020

- 3.14 The Chartered Institute of Public Finance and Accountancy (CIPFA) produced a paper in April 2020 that highlighted the importance of, and the benefits associated with, applying standardised opinions to the audit reports produced at the conclusion of each audit engagement, and noted a lack of common practice across the public sector in this area. The paper also includes a recommended set of opinions and supporting definitions for IA teams to use.
- 3.15 The paper also notes use of the CIPFA standardised definitions is recommended but is not mandated, and that there is no obligation to adopt the definitions where it is not considered appropriate.
- 3.16 The paper also encourages heads of internal audit to discuss adoption of the proposed CIPFA standardised audit opinions with their audit committees.

4. Main report

2020/21 Plan delivery progress

- 4.1 Of the 46 audits to be completed:
- 9 are now finalised, including one for the EIJB that was presented to the January 2021 EIJB Audit and Assurance Committee;
 - 4 are with management for final approval of the draft report;
 - 4 draft reports are currently being prepared;
 - 12 audits are in progress;
 - 12 audits are currently being planned;
 - 4 are not yet started; and,
 - 1 audit will be carried forward into the 2021/22 annual plan year.
- 4.2 Further detail is included at [Appendix 1](#).

Completed reports

- 4.3 8 audits have now been completed across the Council, including the agile Support for Business Grants consultancy review. Of these, 4 were assessed as 'some improvement required' (amber), and three 'effective' (green).
- 4.4 The Support for Business Grants was an agile consultancy review of the pre-implementation design of the new grant allocation and administration process. IA advice on the controls to be considered for inclusion in the process design was provided to management, and no audit report was prepared.
- 4.5 IA has also provided consultancy support on the pre-implementation design of the Covid-19 Taxi and Private Hire Driver Support Fund, and the Covid-19 Scottish Government Discretionary Grant Funding for Businesses. Advice on the controls for inclusion in the design of these processes was also provided to management prior to implementation, and no audit reports prepared.

4.6 A further review that will assess the effectiveness of all Covid-19 grant funding processes has been included in the proposed 2021/22 IA annual plan.

Progress with delivery of Covid-19 Audits

4.7 6 of the 11 Covid-19 audits that were approved by the Committee in June 2020 are now complete, including the Support for Business Grants agile consultancy review detailed above, for which no final report was prepared.

4.8 The outcomes of the 5 completed Covid-19 audits where reports were produced are two 'effective' (green); and three 'some improvement required' (amber).

4.9 The remaining 5 Covid-19 reviews are in progress, with 3 draft reports with management for review, and 2 draft reports currently being prepared. It is expected that these will be completed by the end of March 2021.

Proposed Change to the 2021/21 IA Annual Plan

4.10 The 2020/21 IA annual plan includes an audit of the Development and Implementation of the Council's Carbon Neutral / Climate Change Strategy.

4.11 Management has advised that development of the strategy has been impacted by Covid-19, and that the Council's emissions plan will now be prepared by October 2021.

4.12 Consequently, it is proposed that this audit is removed from the 2020/21 plan and instead included in the proposed 2021/22 IA annual plan.

Extended Delivery Timeframes

4.13 It is proposed that delivery timeframes for 3 audits included in the 2020/21 annual plan for delivery across the Resources Directorate, and the GRBV Committee Effectiveness review are extended to May 2021 in response to the ongoing Covid-19 impacts on Directorates/Divisional workloads.

4.14 It is expected that these audits will be completed in time to support preparation of the Council's 2020/21 IA annual opinion.

4.15 The 3 Resources Directorate related audits are:

- Council Tax and Business Rates;
- Fraud and Serious Organised Crime; and,
- Direct Access and Mobile Device Management.

CIPFA Internal Audit Engagement Opinions: Setting Common Definitions Paper April 2020

4.16 Following review of the CIPFA recommendations that public sector IA teams adopt a standard approach for reporting opinions on IA engagements; review of current IA methodology; and feedback obtained from 14 of the 32 Scottish Local Authority IA teams, it is proposed that IA continues to apply its established methodology with no change.

- 4.17 A comparison has been performed between the proposed CIPFA engagement reporting opinions and those currently applied by the IA team, which confirms that the current IA methodology is broadly aligned with the CIPFA proposals. Further detail is included at Appendix 2.
- 4.18 Feedback has also been obtained from 14 of the 32 Scottish Local Authorities on whether they plan to implement the CIPFA recommendations. Of these:
- 1 will apply the new CIPFA reporting opinions with effect from 2021/22;
 - 2 are currently undecided; and,
 - 11 will not implement the CIPFA recommendations.
- 4.19 Further detail is included at Appendix 3.

Progress with Internal Audit key priorities

- 4.20 Progress with IA key priorities and ongoing areas of focus is detailed below:
- 4.20.1 Induction and development of new team members;
- 4.20.2 Internal quality review of the IA follow-up process;
- 4.20.3 The Institute of Internal Auditors has been engaged to support delivery of the GRBV Committee Effectiveness Audit which is now underway;
- 4.20.4 Procurement of a new co-source provider is in progress, as the current PwC co-source arrangements will conclude on 31 March 2021. The existing PwC contract will be extended to support completion of audits where timeframes have been extended due to the ongoing impacts of Covid-19.
- 4.20.5 Procurement of external services to support completion of an external IA quality assessment 2021/22 in line with Public Sector Internal Audit Standards (PSIAS) requirements is also in progress;
- 4.20.6 Specification and procurement of a new IA system as the current system will be out of support in circa 18 months. It is hoped that a combined Internal Audit and Risk Management system can be procured and implemented; and,
- 4.20.7 Developing and publishing new IA pages on the refreshed intranet (the Orb) in alignment with the refresh of Corporate Risk Management pages.

5. Next Steps

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

6. Financial impact

- 6.1 There are no financial impacts directly arising from this report.

7. Stakeholder/Community Impact

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

8. Background reading/external references

- 8.1 [Approved IA 2020/21 annual plan September 2020 - item 8.1](#)
- 8.2 [Addition to the 2020/21 Internal Audit Annual Addition to the 2020/21 Internal Audit Annual Plan - item 11.2](#)
- 8.3 [Public Sector Internal Audit Standards](#)
- 8.4 [CIPFA: Internal Audit Engagement Opinions - setting common definitions](#)

9. Appendices

- 9.1 [Appendix 1](#) Summary of 2020/21 IA Plan Delivery Progress
- 9.2 [Appendix 2](#) Comparison: Council Ratings and Descriptions to Proposed CIPFA Ratings and Definitions

Appendix 1 – Summary of 2020/21 IA Plan Delivery Progress as at 31 January 2021

Audit Review			
Completed Audits		Report Rating	Available for Committee
1.	Covid-19 Newly Self-Employed Grant Application Process	Effective	March 2021
2.	Covid-19 Purchase and allocation of Personal Protective Equipment (PPE)	Effective	
3.	Covid-19 Allocation of estimated Scottish Qualifications Authority (SQA) grades	Some improvement required	
4.	Covid-19 Health and Social Care Command Centre	Some improvement required	
5.	Covid-19 Workforce Management during Covid-19	Some improvement required	
6.	Payroll – 2019/20 Employee Lifecycle Data and Compensation and Benefits Processes	Effective	
7.	*Digital Services Change Implementation	Some Improvement Required	
8.	**EIJB Capital and Workforce Planning	Reported to the January EIJB Audit and Assurance Committee	
9.	Covid-19 Support for Business Grants – consultancy review of the design of the new process prior to implementation. Advice on the controls for inclusion in the design of was provided to management, and no audit report was prepared.		
Total completed audit / consultancy reviews		9	
Draft Reports Issued to Management		Expected Completion	
10.	Covid-19 Spaces for People	March 2021	
11.	Covid-19 Supplier Relief		
12.	Covid-19 Employee Testing		
13.	**Lothian Pension Fund – Bulk Transfers (PwC)		
Total draft reports issued to management		4	
Draft Reports Being Prepared		Expected Completion	
14.	Covid-19 Shielding and Vulnerable People	March 2021	
15.	Covid-19 Data and Scottish Government Returns		
16.	Registrations and Bereavement Services		
17.	Edinburgh Tram Network Infracompany Supplier Management Arrangements	April 2021	
Total reports being prepared		4	
Audits in progress		Expected Completion	
18.	**Royal Edinburgh Military Tattoo - Data Protection Review	March 2021	

Audit Review		
19.	**SEStran - Covid-19 Resilience Arrangements	April 2021
20.	Arm's Length External Organisations (ALEOs) (PwC)	
21.	Public and Private Partnership and Design, Build, Finance, and Maintain Schools - Contract Management	
22.	Parking and Traffic Regulations	
23.	Health and Safety - Managing Aggressive and Violent Behaviour	
24.	Physical Distancing and Employee Protection	
25.	Covid-19 Lessons Learned	
26.	*Technology Resilience (PwC)	Ongoing agile audit
27.	**Lothian Pension Fund – Employee Cessation Strategies, Valuations, and Exit Calculations (PwC)	
28.	Tram – extension to Newhaven	
29.	Enterprise Resource Planning (ERP)	Ongoing agile audit
Total reviews in progress		12
Audits currently being planned		Expected Completion
30.	Chief Social Work Officer's Assurance and Annual Report	April 2021
31.	Management of waiting lists and assessments	
32.	GRBV Committee Effectiveness review	
33.	**EIJB Management Information	
34.	**EIJB Financial Management	
35.	**Lothian Valuation Joint Board	
36.	Fraud and Serious Organised Crime (including Physical Security controls)	
37.	Health and Safety - Implementation of asbestos recommendations (PwC)	
38.	*Learning and Teaching Technology Network Management (PwC)	
39.	*Corporate Network Management (PwC)	
40.	*Direct Access and Mobile Device Management (PwC)	July 2021
41.	Council Tax and Business Rates	July 2021
Total reviews at planning stage		12
Audits not yet started		Expected Completion
42.	Active Travel – Project Management and Delivery	To be confirmed
43.	Adaptation and Renewal Programme Governance	To be confirmed
44.	Development of the Council's Technology Strategy	To be confirmed
45.	**Lothian Pension Fund - Technology Model Development	To be confirmed

Audit Review	
Total reviews not yet started	4
Audits to be carried forward into the 2021/22 annual plan	
46.	Development and Implementation of the Council's Carbon Neutral / Climate Change Strategy
	Deferred
Total reviews deferred	1

* reviews where support is required from CGI

** reviews performed for Arm's Length External Organisations

Appendix 2 – Comparison: Council Ratings and Descriptions to Proposed CIPFA Ratings and Definitions

Current Council Ratings and Descriptions		Proposed CIPFA Ratings and Definitions	
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.	Substantial Assurance	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
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.	Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
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.	Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
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.	No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.