

Governance, Risk, and Best Value Committee

10.00am, Tuesday, 14 December 2021

Internal Audit Update Report: 1 September to 15 November 2021

Item number

Executive/routine

Executive

Wards

Council Commitments

1. Recommendations

- 1.1 It is recommended that the Committee:
 - 1.1.1 notes the outcomes of the completed 2021/22 audits;
 - 1.1.2 notes progress with delivery of the rebased 2021/22 Internal Audit (IA) plan; and
 - 1.1.3 notes progress with delivery of IA key priorities and ongoing areas of focus.

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Report

Internal Audit Update Report: 1 September to 15 November 2021

2. Executive Summary

- 2.1 Delivery of the 2021/22 IA annual plan is progressing, with 33 of the 41 planned audits (80% of the plan) underway, which includes 25 (80%) of the 31 audits to be completed across the Council.
- 2.2 The Design of the Scottish Local Government Living Wage Pay Requirements audit has been completed since the quarterly updated presented to Committee in September, and was assessed as 'effective (green)', with no IA findings raised.
- 2.3 Two PwC colleagues joined the IA team in November 2021 to provide generalist backfill capacity for the two IA team members seconded to Directorates.
- 2.4 Planning is underway for the specialist audits that will be delivered by PwC.
- 2.5 The specification for a combined IA and Risk Management system has been finalised, and procurement is underway.
- 2.6 The majority of IA risks are currently being managed within risk appetite, with appropriate actions agreed to mitigate current risks that are outwith appetite.

3. Background

2021/22 Internal Audit Annual Plan

- 3.1 On 23 March 2021, the Committee approved the 2021/22 IA annual plan that would deliver a total of 47 audits (36 across the Council and 11 for ALEOs) and included time for ongoing IA follow-up assurance.
- 3.2 Changes made to the annual plan since approval has decreased the total number of audits due to be delivered to 41, with 10 audits across ALEOs and 31 across the Council.
- 3.3 Of the 41 audits to be completed, 13 specialist audits will be delivered by co-source partners (PwC 12 and NHS Lothian 1), with the remaining 28 audits delivered by the Council's IA team.
- 3.4 A full reconciliation of the movements in the IA annual plan is included at Appendix 1.

Internal Audit Capacity

- 3.5 In October 2021, two IA team members were seconded into the Place Directorate and Health and Social Care Partnership to support their implementation of agreed management actions associated with open and overdue IA findings.
- 3.6 In November 2021 the Committee approved additional generalist support from PwC to backfill these secondments and support delivery of the IA annual plan and opinion, subject to approval from the Finance and Resources Committee on 18 November 2021.

Internal Audit Reports

- 3.7 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 these criteria at Committee.
- 3.8 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.
- 3.9 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.
- 3.10 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.
- 3.11 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

- 3.12 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).
- 3.13 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.
- 3.14 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.
- 3.15 A paper on [Agile Auditing and Consultancy Support](#) (paper 8.2) was presented to the Committee in July 2020 that detailed IA's methodology and approach supporting

delivery of consulting services across the Council, and confirmed that it was compliance with PSIAS requirements.

4. Main report

2021/22 Plan delivery progress

4.1 Of the 41 audits to be completed:

- 3 are finalised;
- 4 draft reports are with management for review and approval;
- 1 draft report is currently being prepared by IA;
- 10 audits are in progress;
- 15 audits are currently being planned; and
- 8 are not yet started.

4.2 The 18 audits either completed or in progress include 13 (42%) of the 31 audits to be delivered across the Council, and 3 'agile' audit reviews.

4.3 Of the 8 audits not yet started (6 for the Council and 2 for ALEOs), 2 specialist audits will be delivered by PwC, and 1 will be delivered by NHS Lothian (for the Edinburgh Integration Joint Board), leaving a balance of 5 audits to be delivered by the Council's IA team.

4.4 Further detail is included at [Appendix 2](#).

Completed Audits

4.5 Since the September update, the Design of the Scottish Local Government Living Wage Pay Requirements audit has now been completed and was assessed as 'effective (green)', with no IA findings raised.

4.6 One audit has also been completed for the EIJB with outcomes reported to the EIJB Audit and Assurance Committee on 12 November 2021.

Internal Audit Capacity and Resources

4.7 Two PwC colleagues commenced 15 November 2021 to generalist backfill support for the two IA team members currently seconded into directorates.

4.8 Following approval of the rebased annual plan at the November 2021 Committee, a further two PwC colleagues are currently scheduled to start in January 2022, subject to approval of the associated additional costs being approved at the November 2021 Finance and Resources Committee.

IA Risk Profile

- 4.9 The IA risk register has been refreshed as part of the operational risk management framework pilot. This highlights that IA's most significant current risks that currently exceed target risk appetite are:
- 4.9.1 Assurance – delivery of the IA annual plan; and,
 - 4.9.2 Applications and systems design – the current IA system needs to be replaced as the current version will no longer be supported by the supplier within the next twelve months.
 - 4.9.3 Budget Management – refreshed PwC contract; system procurement costs; and additional PwC support for plan delivery has created unplanned budget pressures.

Progress with Internal Audit key priorities

- 4.10 Progress with IA key priorities and ongoing areas of focus is detailed below:
- 4.10.1 Refreshed IA intranet (Orb) pages have been designed and will be published by the end of December 2021, together with refreshed Corporate Risk Management content.
 - 4.10.2 Preparation is underway for commencement in January 2022 of the quinquennial external IA quality assessment in line with Public Sector Internal Audit Standards (PSIAS) which will be completed by the Institute of Internal Auditors (IIA).
 - 4.10.3 Work is progressing with Commercial and Procurement Services to procure a combined IA and Risk Management system. If it is not possible to source a combined IA and Risk Management system that meets the needs of the Council, separate IA and Risk systems will be procured.

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 The refreshed co-source arrangement has created a budget pressure of at least £80K per annum. These costs are also variable as they are dependent on the number of specialist (for example technology and health and safety) and general (for example audits where potential conflicts of interest could occur) audits completed each year.
- 6.2 Procurement of a new combined IA and risk management system will incur additional unplanned costs that have not yet been quantified.
- 6.3 Additional PwC resources to support delivery of the rebased IA annual plan that was approved at the November 2021 Committee are expected to cost £350K (worst case scenario). The Finance and Resources Committee was requested to approve

these additional costs at their meeting on 18 November 2021, and a verbal update on the outcomes of this decision will be provided at the GRBV Committee meeting in December.

7. Stakeholder/Community Impact

- 7.1 If Internal Audit cannot deliver the agreed annual plan, it will be unable to provide and annual IA opinion and assurance regarding how effectively the Council is managing its most significant risks. This would result in non-compliance with Public Sector Internal Audit Standards requirements.

8. Background reading/external references

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

9. Appendices

- 9.1 Appendix 1 - 2021/22 Annual Plan Reconciliation
- 9.2 Appendix 2 - Summary of 2021/22 IA Plan Delivery Progress as at 10 November.

Appendix 1 - 2021/22 Annual Plan Reconciliation

	Council	ALEO's	Total
Total Audits per 2021/22 Annual Plan	36	11	47
Less:			
Ongoing follow-up activity (covered by quarterly GRBV reporting)	(1)	-	(1)
Audits Combined (Historic Whistleblowing and Child Protection Recommendations)	(1)	-	(1)
Reduction in 2021/22 Lothian Pension Fund Audits	-	(1)	(1)
Add			
2020/21 audits brought forward	7	3	10
Total Audits to be delivered in 2021/22	41	13	54
Reduction in 2021/22 audits as agreed November 2021	12	1	13
Rebased 2021/22 internal audit plan November 2021	31	10	41
Audits to be delivered by PwC / NHS Lothian (for EIJB)	14	4	18
Audits to be delivered by the Council	17	6	23

Appendix 2 – Summary of 2021/22 IA Plan Delivery Progress as at 10 November 2021

Completed Audits			Report Rating	Available for Committee
1.	Corporate Services	Elections	Effective	August 2021
2.	Corporate Services	Design of the Scottish Local Government Living Wage Pay Requirements	Effective	November 2021
3.	^Edinburgh Integration Joint Board	Strategic Implications of Covid-19 Lessons Learned	Some improvement required	November 2021
Total completed audits			3	
Draft Reports Issued to Management			Expected Completion	
4.	Council Wide (20/21)	*Health and Safety – Implementation of Asbestos Recommendations (PwC)	November 2021	
5.	Corporate Services	Planning and Performance Framework	December 2021	
6.	^Royal Edinburgh Military Tattoo (20/21)	*Data Protection Review		
7.	Place (20/21)	*Parking and Traffic Regulations		
Total draft reports issued to management			4	
Draft Reports Being Prepared			Expected Completion	
8.	Corporate Services	Employee Lifecycle Data and Compensation and Benefits Processes	December 2021	
Total reports being prepared			1	
Audits in progress			Expected Completion	
9.	^Lothian Valuation Joint Board (20/21)	*Council Tax Valuation Process	December 2021	
10.	^Edinburgh Integration Joint Board	Delivery of EIJB legislative and statutory requirements		
11.	Corporate Services (20/21)	*Council Tax and Business Rates	January 2022	
12.	Council Wide (20/21)	*Fraud and Serious Organised Crime		
13.	Corporate Services (20/21)	*Digital and Smart City Strategy		
14.	Education and Children's Services	Criminal Justice	February 2022	

15.	Council Wide	Implementation of Whistleblowing and Child Protection Recommendations	March 2022
16.	Corporate Services	Enterprise Resource Planning (ERP)	Ongoing agile audits
17.	Place	Tram to Newhaven	
18.	^Lothian Pension Fund (20/21)	*Technology Model Development	
Total reviews in progress			10
Audits currently being planned			Expected Completion
19.	Place	Transfer of the Management of Development Funds Grant (PwC)	January 2022
20.	Place	Planning	
21.	Council Wide	Management and Allocation of Covid-19 grant funding	February 2022
22.	Council Wide	Employee wellbeing (PwC)	
23.	Corporate Services	Capital Budget Setting and Management (PwC)	
24.	Council Wide	Records Management and Information Security with Focus on Remote Working (PwC)	March 2022
25.	Corporate Services	Statutory Request and Complaints Processes (PwC)	
26.	Corporate Services	Use of the Verint System to Support Recording and Remediation of Citizen Complaints and Queries (PwC)	
27.	Health and Social Care Partnership	Transformation / Project Benefits Realisation	
28.	Education and Children's Services	Early Years Education and Alignment with Poverty Strategy	
29.	Place	Housing Property Services Repairs Management (PwC)	
30.	^Lothian Pension Fund (21/22)	Capital Calls (PwC)	
31.	^Lothian Pension Fund (21/22)	Employer Contributions (PwC)	
32.	^Lothian Pension Fund (21/22)	Risk Management (PwC)	
33.	Corporate Services	Cyber Security – Technology Vulnerability Management (PwC)	
Total reviews at planning stage			15
Audits not yet started			Expected Completion
34.	Council Wide	Covid-19 Thematic Lessons Learned	To Be Confirmed

35.	Corporate Services	CGI Performance Reporting (PwC)	
36.	Corporate Services	Payment Card Industry Data Security Standard Compliance (PwC)	
37.	Education and Children's Services / Health and Social Care Partnership	Application technology controls - SEEMIS and SWIFT (PwC)	
38.	Place	Health and Safety of Outdoor Infrastructure (PwC)	
39.	Place	Food and Water Testing (PwC)	
40.	^Edinburgh Integration Joint Board	Risk Management and Board Assurance rotation and induction arrangements (NHS Lothian)	
41.	^Sustran (21/22)	To be confirmed	
Total reviews not yet started – note that 7 of these audits will be delivered by PwC (6) / NHS Lothian for EIJB (1)			8

* Audits carried forward from 2020/21

^Audits completed for Arm's Length External Organisations