

Governance Risk and Best Value Committee

10.00am, Tuesday, 8 March 2022

Internal Audit Update Report: 15 November 2021 to 31 January 2022

Item number	
Executive/routine	Executive
Wards	
Council Commitments	

1. Recommendations

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

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Report

Internal Audit Update Report: 15 November 2021 to 31 January 2022

2. Executive Summary

- 2.1 Positive progress is evident with delivery of the 2021/22 IA annual plan, with 93% of the plan underway. This includes 90% of the audits to be completed across the Council.
- 2.2 IA has sufficient capacity to support delivery of the annual plan with additional co-source resources now in place, successful plan delivery is also dependent on support from directorates and services to support completion of audit reviews.
- 2.3 The specification for a combined IA and Risk Management system has been finalised, and procurement is underway.
- 2.4 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 (see [Appendix 1](#)).
- 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.

Internal Audit Capacity

- 3.4 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.
- 3.5 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, with approval for these costs coming from underspends within the allocated Corporate Services Directorate revenue budget given by the Finance and Resources Committee on [18 November 2021](#).

Internal Audit Reports

- 3.6 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.
- 3.7 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.
- 3.8 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.
- 3.9 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.
- 3.10 All audits performed for other Arms-Length External Organisations (ALEOs) are reported to the relevant management teams and audit and risk committees of those organisations as appropriate.

Agile Auditing and Consultancy Support

- 3.11 [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).
- 3.12 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.
- 3.13 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.
- 3.14 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:

- 5 are complete;
- 6 draft reports are with management for response;
- 1 draft report is currently being prepared by IA;
- 16 audits are in progress;
- 10 audits are currently being planned; and
- 3 are not yet started.

4.2 The 28 audits either completed or in progress include 20 of the 31 (64%) audits to be delivered across the Council, including 2 ongoing 'agile' major project reviews.

4.3 Of the 3 Council audits not yet started, 2 are specialist audits that will be delivered by PwC, leaving a balance of 1 audit to be delivered by the Council's IA team.

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

Completed Audits

4.5 No new Council audits have been completed in the current quarter.

4.6 Three audits have been completed for ALEO's, one each for the EIJB; Lothian Valuation Joint Board; and Lothian Pension Fund.

4.7 Six audit reports have been issued by IA (four for the Council and two for ALEO's) for management response.

Internal Audit Capacity and Resources

4.8 The paper on Capacity to Deliver the 2021/22 IA Annual Plan presented to the Committee in November 2021 highlighted the IA capacity' challenges resulting from the secondment of two team members into Directorates in October 2021, and a significant number of requests from services to delay completion of planned audits until quarter 4.

4.9 To address this capacity challenge PwC backfill resources started in November, with the addition of further resources in January to support plan delivery.

4.10 IA now has sufficient capacity to support delivery of the annual plan; however, this is also dependent on support from directorates and services to support completion of audit reviews.

IA Risk Profile

- 4.11 The IA risk register (refreshed as part of the operational risk management framework pilot) continues to highlight that IA's most significant current risks that currently exceed target risk appetite are:
- 4.11.1 Assurance – delivery of the IA annual plan;
 - 4.11.2 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; and
 - 4.11.3 Budget Management – refreshed PwC contract; system procurement costs; and additional PwC support for plan delivery has created unplanned budget pressures.
- 4.12 Appropriate actions are currently being mitigated to address these risks.

Progress with Internal Audit key priorities

- 4.13 Progress with IA key priorities and ongoing areas of focus is detailed below:
- 4.13.1 Refreshed IA intranet (Orb) pages have been designed and will be published by the end of February 2022, together with refreshed Corporate Risk Management content.
 - 4.13.2 The Institute of Internal Auditors (IIA) commenced the IA quinquennial external quality assessment in January 2022, in line with Public Sector Internal Audit Standards (PSIAS). The assessment is due to be complete in March 2022 and outcomes will be reported to GRBV and reflected in the 2021/22 IA annual opinion.
 - 4.13.3 Work to procure a combined IA and Risk Management system is progressing with support from Commercial and Procurement Services.

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 as approved at the November 2021 Committee are expected to cost £350K (worst case scenario). The Finance and Resources Committee approved these additional costs at their meeting on 18 November 2021, and a verbal update on this decision was provided at the GRBV Committee meeting in December 2021.

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 – item 8.3](#)
- 8.4 [Public Sector Internal Audit Standards](#)
- 8.5 [Capacity to deliver the 2021/22 Internal Audit Plan – item 7.5](#)

9. Appendices

- 9.1 Appendix 1 – 2021/22 IA Annual Plan Reconciliation
- 9.2 Appendix 2 - Summary of 2021/22 IA Plan Delivery Progress as at 31 January 2022

Appendix 1 – 2021/22 IA 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)
Council annual plan rebase approved by GRBV November 2021	(10)	(2)	(12)
EIJB annual plan rebase approved by Audit and Assurance Committee November 2021	-	(1)	(1)
Add			
2020/21 audits brought forward	7	3	10
Total Audits to be Delivered in 2021/22	31	10	41
Audits to Be Delivered by PwC / NHS Lothian (for EIJB)	9	4	13
Adits to be Delivered by the Council	22	6	28

Appendix 2 – Summary of 2021/22 IA Plan Delivery Progress as at 31 January 2022

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	N/A	November 2021
4.	^Lothian Valuation Joint Board (20/21)	*Council Tax Valuation Process	N/A	N/A
5.	^Lothian Pension Fund (20/21)	*Technology Model Development	N/A	N/A
Total completed audits			5	
Draft Reports Issued to Management			Expected Completion	
6.	^Edinburgh Integration Joint Board	Delivery of EIJB legislative and statutory requirements	February 2022	
7.	Council Wide (20/21)	*Health and Safety – Implementation of Asbestos Recommendations (PwC)		
8.	Corporate Services (20/21)	*Digital and Smart City Strategy		
9.	Corporate Services	Planning and Performance Framework		
10.	^Royal Edinburgh Military Tattoo (20/21)	*Data Protection Review		
11.	Place (20/21)	*Parking and Traffic Regulations		
Total draft reports issued to management			6	
Draft Reports Being Prepared			Expected Completion	
12.	Corporate Services	Employee Lifecycle Data and Compensation and Benefits Processes	February 2022	
Total reports being prepared			1	
Audits in progress			Expected Completion	
13.	Place	Transfer of the Management of Development Funds Grant	February 2022	
14.	^Sustran (21/22)	Active Travel Network Development		

15.	Corporate Services (20/21)	*Council Tax and Business Rates	March 2022	
16.	Council Wide (20/21)	*Fraud and Serious Organised Crime		
17.	Education and Children's Services	Criminal Justice		
18.	Council Wide	Implementation of Whistleblowing and Child Protection Recommendations		
19.	Place	Planning - Householder Applications		
20.	Council Wide	Management and Allocation of Covid-19 grant funding (PwC)		
21.	Corporate Services	Capital Budget Setting and Management (PwC)		
22.	Corporate Services	Complaints Management (PwC)		
23.	Education and Children's Services	Early Years Education and Alignment with the End Poverty Delivery Plan		
24.	^Lothian Pension Fund (21/22)	Employer Contributions (PwC)		
25.	^Lothian Pension Fund (21/22)	Capital Calls (PwC)		
26.	Corporate Services	Payment Card Industry Data Security Standard Compliance (PwC)		
27.	Corporate Services	Enterprise Resource Planning (ERP)		Ongoing agile audits
28.	Place	Tram to Newhaven		
Total reviews in progress			16	
Audits currently being planned			Expected Completion	
29.	Corporate Services	Cyber Security – Technology Vulnerability Management (PwC)	March 2022	
30.	Corporate Services	CGI Performance Reporting (PwC)		
31.	Corporate Services	Verint System (PwC)		
32.	Council Wide	Employee wellbeing (PwC)		
33.	Council Wide	Records Management and Statutory Requests (PwC)		
34.	Place	Housing Property Services Repairs Management (PwC)		
35.	Education and Children's Services / Health and Social Care Partnership	Application technology controls - SEEMIS and SWIFT (PwC)		
36.	Health and Social Care Partnership	Transformation / Project Benefits Realisation		

37.	^Lothian Pension Fund (21/22)	Risk Management (PwC)	
38.	^Edinburgh Integration Joint Board	Risk Management and Board Assurance rotation and induction arrangements (NHS Lothian)	
Total reviews at planning stage			10
Audits not yet started			Expected Completion
39.	Council Wide	Covid-19 Thematic Lessons Learned	To Be Confirmed
40.	Place	Health and Safety of Outdoor Infrastructure (PwC)	
41.	Place	Food and Water Testing (PwC)	
Total reviews not yet started			3

* Audits carried forward from 2020/21

^Audits completed for Arm's Length External Organisations