

Governance, Risk and Best Value Committee

10am, Tuesday 13 August 2019

Internal Audit: Proposed additions to the 2019/20 Internal Audit Plan

Item number

Executive

Wards

Council Commitments

1. Recommendations

1.1 It is recommended that:

- 1.1.1 the Committee notes the addition of the Transfer of the Management Development Funds (TMDF) Internal Audit (IA) review added to the 2019/20 IA annual plan at the request of the Scottish Government;
- 1.1.2 the Committee approves incorporation of a review of the financial processes supporting the Edinburgh and South East Scotland City Region Deal (City Deal) into the planned review of Budget Setting and Management that is included in the 2019/20 Internal Audit annual plan.
- 1.1.3 the Committee notes that inclusion of these reviews can be accommodated using currently available resources, with no requirement to reprioritise or replace any existing audits included in the plan.

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Report

Internal Audit: Proposed additions to the 2019/20 Internal Audit Annual Plan

2. Executive Summary

- 2.1 This report requests retrospective approval from the Committee for inclusion of the TMDF review that was added to the 2019/20 IA annual plan at the request of the Scottish Government.
- 2.2 The report also recommends approval for incorporation of a review of the financial processes performed by the Council on behalf of the City Deal into the planned review of Budget Setting and Management that is included in the 2019/20 Internal Audit annual plan.
- 2.3 It is IA's opinion that inclusion of these additional reviews in the 2019/20 IA plan will not have a significant impact on the delivery of the plan, with no requirement to reprioritise or replace any existing audits.

3. Background

- 3.1 Public Sector Internal Audit Standards (PSIAS) require IA to deliver an annual plan, that focuses on the organisation's most significant risks, and is scoped using a risk based assessment of Council activities.
- 3.2 PSIAS also specify that the Chief Internal Auditor (CIA) must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.
- 3.3 Additionally, PSIAS also require that IA activity must be independent, with freedom from any conditions that threaten the ability of IA to deliver their responsibilities in an unbiased manner.
- 3.4 Consequently, it is important to ensure that there is a clearly established and defined process for approval of changes to the annual plan, to ensure that it continues to focus on the Council's most significant risks; is not unduly influenced by management; and that IA independence is maintained.
- 3.5 The Governance, Risk and Best Value Committee approved a process for approving changes to the IA annual plan in August 2018.

4. Main report

Transfer of the Management of Development Funds Grant

- 4.1 An annual review of the Transfer of the Management Development Funds (TMDF) Grant has been included in the IA annual plan for a number of consecutive years at the request of the Scottish Government.
- 4.2 Following implementation of a new Scottish Government system in 2017/18 that significantly enhanced the control environment in relation to the Council's ongoing management and allocation of development funding, it was agreed with the Scottish Government that based on low level of risk associated with the process and the positive assurance outcome from the 2018/19 audit, there was no requirement for an annual review. The Government would then advise the Council as to an appropriate audit cycle (for example, every three years) for completion of further audits. Consequently, the review was not included in the 2019/20 IA plan approved by GRBV in March 2019.
- 4.3 The Scottish Government subsequently advised that they would require a review to be completed for 2019/20 by the end of July 2019. Given the timescales and the fact that it was effectively a mandatory audit, the review was added to the IA plan and carried out. Given the urgency, the Convener was informed in accordance with the processes agreed for changes to the IA Plan in August 2018.

Edinburgh and South East Scotland City Region Deal (City Deal)

- 4.4 Whilst separate governance arrangements have been established for the Edinburgh and South East Scotland City Region Deal (City Deal), the Council remains the body financially accountable and responsible for distributing funds from Government to relevant regional City Deal partners.
- 4.5 A request has been received from the Council's Finance team on behalf of the City Deal for IA to review the established City Deal financial processes and provide independent assurance to the Council's City Deal partners on their design and effectiveness. Management has advised that this will involve reviewing the operational processes and key controls supporting the drawdown of funding from the Scottish Government and its subsequent allocation to the Council and City Deal Partners to fund their expenditure.
- 4.6 There is opportunity to accommodate the City Deal request within the planned audit of Budget Setting and Management that is included in the 2019/20 Internal Audit annual plan. This review is currently scheduled for 25 days, and IA estimates that extending this to 40 days would support inclusion of the City Deal funding drawdown and allocation process, and provision of a separate City Deal report detailing the outcomes of the review. This approach would not have a significant impact on delivery of the remainder of the 2019/20 IA annual plan.

5. Next Steps

- 5.1 The outcomes of the TMDF review have been finalised, with the report shared with the Scottish Government at the end of July. The final report will be shared with the Governance, Risk, and Best Value Committee as part of the next quarterly Internal Audit quarterly update provided to the Committee.
- 5.2 If the City Deal request is approved, IA will incorporate this within the planned audit of Budget Setting and Management and will engage with management to determine the most appropriate timeframes for completion of the review.

6. Financial impact

- 6.1 Potential risk of financial loss if controls supporting the drawdown; allocation; and ongoing management of Scottish Government funding is are not effective.

7. Stakeholder/Community Impact

- 7.1 Potential risk of reputational damage with both the Scottish Government and City Deal partners if funds are not drawn down; allocated; and managed effectively.

8. Background reading/external references

- 8.1 [Process for approving changes to the Internal Audit annual plan](#)

9. Appendices

- 9.1 None.