

Edinburgh and South East Scotland City Region Deal Joint Committee

10am, Friday 6 September 2024

Internal Audit Update

Item number 5.2

Executive Summary

This report provides the Edinburgh and South East Scotland City Region Deal Joint Committee with details of Internal Audit assurance activities.

This includes an update on recent communications with the Scottish Government on Internal Audit arrangements for the City Region Deal and a proposed three-year assurance plan.

The report also sets out the outcomes from the recently completed Internal Audit which considered the controls and arrangements for management of cost inflation.

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Internal Audit Update

1. Recommendations

The Joint Committee is requested to:

- 1.1 Note the update on of Internal Audit assurance activities for the City Region Deal including recent communications with the Scottish Government.
- 1.2 Note the outcomes of the 2024/25 Internal Audit (IA) review of the arrangements place within the City Region Deal to manage cost inflation.
- 1.3 Agree the proposed three-year assurance programme and note this will be reviewed annually to ensure it remains aligned to the City Region Deal risk profile.

2. Background

- 2.1 There is a requirement within the City Region Deal Grant Offer letter that an Internal Audit (IA) review should be undertaken every second year. All City Region Deal IA assurance to date, has been undertaken by the Accountable Body (The City of Edinburgh Council) IA function.
- 2.2 In 2023, it was determined that more frequent assurance than this may be required, due to the programme's total value, risk profile and nature of some projects. It was also recognised, that due to the specialist nature of some projects, performance of audit work by the IA functions of Partner organisations may be more appropriate.
- 2.3 In June 2023, a paper was provided to the Joint Committee on the [Internal Audit Forward Plan](#) for the City Region Deal which set out proposed audit areas for future years and considered which City Region Deal partner organisations IA functions should carry out future audits.
- 2.4 The Committee [agreed](#) that cost inflation should be the audit topic for 2024/25. A review of managing cost inflation was completed by the City of Edinburgh Council's IA function in July 2024 and a report detailing the outcomes of that work is presented to the Joint Committee for review in Appendix 1.
- 2.5 Between January and May 2024, discussions were held between the PMO, the City of Edinburgh Council's Head of Internal Audit, regional partners and the Scottish Government, who set the terms of the Grant Offer letter, to ensure relevant clauses reflected agreement for partner organisations to complete audit work, while

providing clarity on roles and responsibilities including ensuring all audit work meets required quality standards.

- 2.6 IA assurance should be risk based and proposed areas for audit work should be reviewed regularly in line with current and emerging risks. A review of the City Region Deal risk register was undertaken recently by the Programme Management Office (PMO) Manager and the Accountable Body's Head of Internal Audit. A proposed IA programme for three years is provided for members to review and agree.

3. Main report

Internal Audit Assurance Arrangements and Grant Offer Terms

- 3.1 Following agreement in June 2023 by the Joint Committee that, where appropriate, the IA functions of partner organisations would perform audit and assurance work on their projects, the PMO team engaged with the Scottish Government to ensure that grant offer letters acknowledged and permitted these arrangements to be utilised, where required and to ensure clarity on roles and responsibilities.
- 3.2 All IA work must be undertaken in line with relevant standards, including Public Sector Internal Audit Standards and the Global Internal Audit Standards. In 2023, the wording of the relevant clause was amended to enable public sector or Scottish Funding Council-funded Higher Education Institution partner's IA functions to conduct specific audits for City Deal activities with the Accountable Body determining the scope of the audit and maintaining oversight.
- 3.3 In practice, however, the requirement for the Chief Audit Executive of the Accountable Body to retain oversight for the quality of work undertaken presents challenges, as the Chief Audit Executive cannot attest to, or be held accountable for, the quality of work performed by external partner organisations.
- 3.4 It was agreed that where a partner organisation IA function conducts a future audit, a statement from the partner's Chief Audit Executive would be provided to confirm that the audit was undertaken in line with professional standards, including confirmation that the audit work performed was adequately supervised and reviewed for accuracy.

2023/24 Internal Audit Assurance

Managing Cost Inflation

- 3.5 As agreed by the Joint Committee in June 2023, the 2024/25 City Region Deal assurance programme considered Managing Cost Inflation.
- 3.6 Through discussion with the PMO team, it was established that there were limited formal controls in place for managing cost inflation, and therefore, an advisory approach which involved consideration of key risks associated with cost inflation and scrutiny of project costs set out in business cases would be more appropriate and add more value than a traditional assurance review of controls.

- 3.7 The format of the advisory review was workshop based, with support from the City of Edinburgh Council’s Chief Risk Officer.
- 3.8 A report detailing the outcomes and recommendations of the review is presented in Appendix 1 for consideration.
- 3.9 As this is an advisory review, an overall engagement opinion is not provided, however, priority ratings aligned to associated risks are applied to the audit recommendations made.

Internal Audit Assurance Programme

- 3.10 In June 2024, following review of the City Region Deal risk register (as at June 2024), the PMO Manager and the Council’s Head of Internal Audit met to discuss the risk profile, including new and emerging risks, and to determine proposals for a three-year forward looking IA programme for the City Region Deal.
- 3.11 The following audit areas are proposed for the Joint Committee to considered:

Year	Audit Area	High-level scope	Lead IA function
2024/25	Project Assurance – Granton Waterfront	A review of major projects and programme assurance including Granton Waterfront is included in the City of Edinburgh Council’s 2024/25 IA plan . Outcomes of this review will be referred to the Joint Committee.	City of Edinburgh Council
2025/26	Benefits realisation	Review of the adequacy and effectiveness of key controls established for the benefits realisation measurement framework approved by Committee in March 2023.	City of Edinburgh Council
2025/26	Data Driven Innovation (DDI) Programme	Scope to be agreed in due course with the City Region Deal and DDI Programme Management Office.	University of Edinburgh Management Office
2026/27	City Region Deal Governance and financial management	Review of established governance, oversight and financial management arrangements including regional governance; decision making and delegated powers; change controls; funding agreements; and expenditure controls including transparency, scrutiny and accuracy of reporting.	City of Edinburgh Council
2027/28	Project Assurance –	Review of established project management and assurance controls for the West Edinburgh Transport Improvement Programme (WETIP)	City of Edinburgh Council

	West Edinburgh Transport Improvement Programme	including governance and oversight; financial modelling and management; change control, risk management and accuracy and consistency of reporting.	
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- 3.12 It should be noted that in line with good practice, audit areas will be reviewed on an ongoing basis to ensure they remain aligned to the City Region Deal's risk profile.
- 3.13 A proposal for the audit area for the coming year will be presented to the Joint Committee annually for agreement.

4. Financial impact

- 4.1 Costs for performing internal audit work will be met from relevant partner organisations budgets. The City of Edinburgh Council will perform up to one audit per year, and should any further assurance work be required, costs will be recharged on an actual time occurred basis as recorded via timesheets.

5. Alignment with Sustainable, Inclusive Growth Ambitions

- 5.1 Inclusion and sustainability are key drivers for the City Region Deal, and audit work will help to provide assurance that risks are effectively identified and managed.

6. Background reading/external references

- 6.1 [Public Sector Internal Audit Standards](#)
- 6.2 [Global Internal Audit Standards](#)
- 6.3 [City of Edinburgh Council – approved 2024/25 Internal Audit Plan](#)
- 6.4 [City of Edinburgh Council – approved 2024/25 Internal Audit Charter](#)

7. Appendices

- 7.1 Appendix 1: Internal Audit report: City Region Deal - Managing Cost Inflation