

Governance, Risk and Best Value Committee

10.00am, Tuesday 20 March 2018

Internal Audit Quarterly Update Report: Quarter 3 – (1 October – 31 December 2017)

Item number 7.1
Report number
Executive/routine
Wards
Council Commitments

Executive summary

This report provides details of Internal Audit (“IA”) reviews completed in Quarter 3 and an update on progress with delivery of the 2017/18 Internal Audit plan.

As at 31 December, Internal Audit had issued a total of 11 reports (5 were issued in Quarter 2). The 5 reports issued in Quarter 2 included 18 Findings (2 High; 8 Medium; 5 Low and 3 Advisory). The 2 High rated Findings related to Lothian Pension Fund. Further detail is included at 3.1 below.

The Edinburgh Alcohol and Drug Partnership, Contract Management and Asset Management Strategy reports are recommended for referral to the Edinburgh Integration Joint Board (EIJB) Audit and Risk Committee. No reports were referred by the EIJB Audit and Risk Committee to the Governance, Risk and Best Value Committee (“GRBV”) at their meeting on 1 December 2017.

The rebased IA plan presented to GRBV on 16 January 2018 included a balance of 29 audits to be completed by 31 March 2018. Of these, 2 are completed; 25 are in progress, of which 13 are at draft reporting stage; with 2 audits to be started.

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1. Recommendations

1.1 Committee is recommended to:

- 1.1.1 Note the content of this report;
- 1.1.2 Note that only 2 High rated Findings were raised from work completed in Quarter 3. These relate to the Lothian Pension Fund and will be presented to the Pensions Sub-Audit and Audit Committees respectively for scrutiny at their March 2018 meetings;
- 1.1.3 Approve the recommendation to refer the Edinburgh Alcohol and Drug Partnership Contract Management and Asset Management Strategy audit reports to the EIJB Audit and Risk Committee as the findings raised in these reports could have a direct impact on the services delivered by the Health and Social Care Partnership; and
- 1.1.4 Note that no reports were referred by the EIJB Audit and Risk Committee to GRBV at their meeting on 1 December 2017.

2. Background

- 2.1 Internal Audit is required to deliver an annual plan of work, which is scoped using a dynamic and risk-based assessment of Council activities. Additional reviews are added to the plan where considered necessary to address any emerging risks and issues identified during the year, subject to approval from the relevant Committees.
- 2.2 Status of work and a summary of findings are presented to the GRBV Committee for consideration on a quarterly basis.

3. Main report

Internal Audit 2017/18 Plan Progress

- 3.1 As at 31 December 2017 Internal Audit had issued a total of 11 final reports in the 2017/18 plan year, with 5 reports issued in Quarter 3. These reports included 2 High; 8 Medium; 5 Low; and 3 Advisory rated recommendations. Further analysis is included at Appendix 1. Details of the High rated findings have not been provided as they relate specifically to Lothian Pension Fund and will be presented at the March Pensions Sub-Audit and Audit Committees for scrutiny.

Referrals to and from the Edinburgh Integration Joint Board

- 3.2 The reviews of Edinburgh Alcohol and Drug Partnership, Contract Management and Asset Management Strategy completed in Quarter 2 could have a direct impact on the services delivered by the Health and Social Care Partnership. These reports are therefore being recommended for referral by GRBV Committee to the next meeting of the EIJB Audit and Risk Committee.
- 3.3 No reports were referred by the EIJB Audit and Risk Committee to GRBV at their meeting in December 2017.

2017/18 Annual Plan Completion

- 3.4 The position at 31 December 2017 left a balance of 29 audits, based on the rebased IA plan, to be completed by 31 March 2018. Progress with these audits as at 9 February is detailed below:

| | |
|--|----|
| Audits to be completed by 31st March (per rebased IA plan) | 29 |
| Completed | 2 |
| Draft reports issued | 4 |
| Draft reports in preparation | 9 |
| Audits in progress (fieldwork) | 3 |
| Audit in progress (planning) | 9 |
| Audits to be started – note that these are PwC specialist audits | 2 |

- 3.5 Further detail is included at Appendix 2 below.

Overdue Internal Audit Recommendations

- 3.6 The current status of all overdue recommendations from reports issued prior to this period is discussed in the report 'Internal Audit follow-up arrangements: status report' presented separately to the Committee.

Resourcing

- 3.7 Sufficient temporary resource has been obtained from a combination of the market and PwC to support delivery of the 2017/18 IA plan. This will enable completion of all remaining audits in the Plan to draft reporting stage by 31 March 2018.
- 3.8 Recruitment for the vacant Principal Audit Manager has been successfully completed and the appointed candidate will join the team in March 2018. Further recruitment is being undertaken for the increased Senior Auditor capacity approved by the Executive Director of Resources. Workload and capacity issues are being reviewed on an ongoing basis within the team at present.

4. Measures of success

- 4.1 Once implemented, the recommendations contained within these reports will further strengthen the Council's control framework.

5. Financial impact

- 5.1 Additional unplanned costs of up to £100k have been incurred that are not reflected in the current 2017/18 Internal Audit budget. This additional spend has been approved by the Executive Director of Resources on a one-off basis using Resources Directorate contingency funding. This will not lead to a recurring increase in the Internal Audit budget.

6. Risk, policy, compliance and governance impact

- 6.1 If the rebased Internal Audit plan is not fully delivered, there will be insufficient coverage of the Council's High and Medium rated risks, which could impact upon the 2017/18 Internal Audit opinion.

7. Equalities impact

- 7.1 There are no specific equalities implications arising from the content of this report. Individual IA reports with equalities impacts are addressed with the responsible management owner.

8. Sustainability impact

8.1 None.

9. Consultation and engagement

9.1 None.

10. Background reading/external references

10.1 None.

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11. Appendices

Appendix 1: Summary of Internal Audit reports issued and findings raised during Quarter 3 2017/18 (1st October 2017 – 31st December 2017).

Appendix 2: Summary of work in progress as at 9th February 2017.

Appendix 1

Summary of Internal Audit reports issued and findings raised during Quarter 3 2017/18 (1 October 2017 – 31 December 2017)

| Internal Audit reports | Findings | | | |
|---|----------|--------|-----|----------|
| | High | Medium | Low | Advisory |
| Ross Bandstand Project Assurance Review | - | 1 | - | - |
| * Lothian Pension Fund – Information Governance | - | 2 | 3 | 1 |
| *Lothian Pension Fund Business Continuity / Disaster Recovery | 2 | - | - | - |
| # Edinburgh Alcohol and Drug Partnership – Contract Management | - | 2 | - | 1 |
| # Asset Management Strategy | - | 3 | 2 | 1 |
| <i>Total</i> | 2 | 8 | 5 | 3 |
| No Audit reports have been referred to the Governance, Risk and Best Value Committee by the Edinburgh Integration Joint Board Audit and Risk Committee. | | | | |
| *These reports are subject to scrutiny by the Pensions Audit Committee, but have been included for completeness. | | | | |
| # These reports are recommended for referral to the Edinburgh Integration Joint Board as they may have either a direct or indirect impact on the services delivered by the Edinburgh Health and Social Care Partnership. | | | | |

Appendix 2

Audits to be completed by 31 March 2018 – Status as at 9 February 2018

| <u>Audit Title</u> | <u>Status</u> | <u>Comments</u> |
|---|--------------------------|--|
| Health and Social Care | | |
| Care Homes | Complete | Final report issued 11 th February 2017 |
| Health and Social Care Social Work Centres – Bank Account Reconciliations | Draft report issued | Will complete end February 2018 |
| Care Inspectorate Report | Planning | |
| IJB | | |
| Purchasing Budget Management | Fieldwork | Timeframes for completion extended to 31 March 2018. |
| Community Care Capacity and Access | Planning | |
| Resources | | |
| Customer Transformation | Draft Report issued | Will complete end February 2018 |
| HR and Payroll - Drivers | Planning | This review will cover a number of Service Areas where drivers are employed. |
| CGI Contract Management and Cyber Maturity (PwC) | Not started | Will be delivered by PwC specialists, but will require IA time and support |
| Safer and Stronger | | |
| CCTV Infrastructure | Draft report issued | Will complete end February 2018 |
| Communities and Families | | |
| Foster Care | Draft report preparation | Will complete end February 2018 |

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|---|--------------------------|--|
| | | |
| Resources - Lothian Pension Fund | | |
| Payroll Outsourcing | Draft report preparation | Will complete end February 2018 |
| Pension Tax | Draft report preparation | Draft report being prepared. Will complete end February 2018 |
| Place | | |
| Port Authority Security | Draft report preparation | Will complete end March 2018 |
| St James project | Draft report preparation | Will complete end February 2018 |
| Zero Waste project | Draft report preparation | Will complete end February 2018 |
| Planning Control | Draft report issued | Will complete end February 2018 |
| Edinburgh Building Services | Draft report preparation | Will complete end February 2018 |
| Edinburgh Roads Services | Cancelled | Engagement with Place has confirmed that there has not been sufficient progress with implementation of the new roads plan to support IA review. This has now been replaced with a review of Structures and Flood Prevention (see below). |
| Structures and Flood Prevention | Planning | Replaces planned review of Edinburgh Roads Services. |
| Meadowbank Project | Cancelled | Engagement with Place has confirmed that the project has not progressed sufficiently to support IA review. Discussions ongoing with Place to determine whether this can be replaced with a review of the Fleet project. |
| Fleet Project | Planning | Was removed from plan as per December 2017 rebase. Discussions are ongoing with Place to determine whether project has sufficiently progressed to reinstate in plan and replace Meadowbank project review. |

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|---|--------------------------|---|
| Health and Safety – Waste and Recycling (PwC) | Not started | Will be delivered by PwC specialists, but will require IA time and support |
| Chief Executive's - Strategy and Insight | | |
| Programme Management and Benefits Realisation | Complete | Final report issued 30 th January 2017. |
| Resilience | Planning | |
| Council Wide | | |
| Phishing | Draft report preparation | Will be delivered by PwC specialists, but will require IA time and support. |
| Records Management – St Katherine's | Fieldwork | Completion date to be determined. A project has now been established within Strategy and Insight to support completion. Likely that this review will continue into the 2018/19 plan year. |
| Validation of previously closed recommendations | Fieldwork | Addition to the plan in quarter 3. |
| GDPR Readiness (PwC) | Planning | Will be delivered by PwC specialists, but will require IA time and support. |
| Other | | |
| Edinburgh Tattoo | Draft Report preparation | One review performed per annum. |
| SesTran | Planning | One review performed per annum. |
| Lothian Valuation Joint Board | Planning | One review performed per annum. |