Internal Audit

2025/26 Annual Report and Overall Conclusion

August 2026

Overall Conclusion	**Reasonable Assurance**	There is a generally an overall sound system of governance, risk management and control in place. While some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives, individually these do not significantly impair the Council's system of internal control.

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1. Introduction

The Local Authority Accounts (Scotland) Regulations 2014 require all Councils to review the effectiveness of its system of internal control annually and to assess the efficiency and effectiveness of the Internal Audit function.

Standard 11.3 of Global Internal Audit Standards (GIAS) (UK Public Sector) requires the Chief Audit Executive to prepare an overall conclusion, at least annually, on the overall adequacy and effectiveness of the City of Edinburgh Council's (the Council) governance, risk management and control framework.

The annual conclusion includes consideration of:

- a summary of the information that supports the conclusion
- disclosure of any impairments to scope and / or independence
- a statement of conformance with the GIAS including the results of the quality assurance and improvement programme and progress against any improvement plans, and
- consideration of any other relevant issues.

The Regulations also require Councils to approve an Annual Governance Statement. The Internal Audit Annual Conclusion supports the Council's Annual Governance Statement which is included within the Annual Accounts.

Basis for the annual conclusion

The annual conclusion is informed by the results of a risk-based programme of assurance work, aligned to the Council's strategic objectives, key risks and control environment. The programme is approved annually by the Corporate Leadership Team and the Governance, Risk and Best Value Committee and is reviewed regularly to ensure it remains responsive to emerging risks and Council priorities.

The conclusion is based on assurance obtained from audit work completed across the Chief Executive's Office and the three Council Directorates - Customer and Corporate Services, Place, and Children, Education Communities, and the Edinburgh Health and Social Care Partnership together with follow-up work, advisory activity, agile assurance and consideration of other sources of assurance during 2025/26.

This includes overall progress with implementation of management actions from previously completed audits which contributes to improving the overall governance, risk, and control environment.

The conclusion also considers the results of external audit, inspection activity and regulatory reviews undertaken during the year together with the Council's progress in responding to significant recommendations.

The conclusion reflects the Council's operating environment during 2025/26. The Council continues to face significant financial pressures, increasing demand for services and the need to deliver major transformation programmes while maintaining effective governance and resilient services. These challenges increase the importance of effective risk management, governance and internal controls to support informed decision making and sustainable service delivery.

During the year, the Council continued to progress several significant strategic objectives including implementation of Scotland's first Visitor Levy, development of a new social care operating system, establishment of new budget processes including zero-based budgeting, delivery of various strategies including climate ambitions and organisational transformation as well as commencing implementation of Artificial Intelligence (AI) and supporting governance arrangements.

These initiatives and programmes present opportunities to improve outcomes but also increase the importance of effective programme governance, risk management and oversight. The assurance work completed during the year reflects that the Council is delivering significant projects and programmes whilst continuing to maintain an overall effective governance framework.

The evidence presented throughout this report reflects both the strengths of the Council's governance framework and the areas where continued attention is required. Collectively, the audit work provides assurance over the adequacy of governance, risk management and internal control while identifying opportunities to enhance organisational resilience and support delivery of the Council's strategic objectives.

2. Summary and Overall Conclusion

Based on the assurance work completed during 2025/26 the annual conclusion confirms that the Council's framework of governance, risk management and internal control provides ***'reasonable assurance'***. Whilst the overall control environment is operating effectively, targeted improvements in a number of areas remain necessary to strengthen governance, enhance organisational resilience and support the delivery of strategic objectives.

The conclusion is based on a comprehensive programme of risk-based assurance work across all Council Directorates together with advisory engagements, agile assurance, follow-up activity and consideration of external assurance. It also reflects the significance of audit findings, recurring organisational themes, implementation of actions and professional judgement.

Internal Audit activity and number of findings raised

The 2025/26 Internal Audit plan comprised of 45 engagements across the Council and partner organisations, including assurance, advisory and agile reviews. During the year work was performed on 39 engagements (86%) including 24 audits completed for the Council, 12 for partner organisations and two agile reviews supporting major Council projects. Three reviews remained in progress at year end and will conclude during 2026/27.

Management continued to implement agreed actions throughout the year with 382 audit actions across 54 audits closed during the year. At year end, 82 (27%) actions remained overdue. Whilst no audit recommendations were formally risk accepted, timely implementation of the outstanding actions is essential to reduce exposure to known risks and enhance the control environment.

During the year Internal Audit continued to support the Council through both assurance and advisory activity, providing independent advice on major strategic programmes and emerging risks whilst maintaining independence on forming conclusions. The breadth of assurance work completed during the year provided sufficient coverage of the Council's key risks to support the annual conclusion.

Key themes and root cause

A total of 98 findings (19 high, 60 medium, 8 low and 11 advisory) were raised across the 24 audit reports completed for the Council, with 284 associated recommendations.

Analysis of root causes identified that almost half of all findings related to three recurring themes: process design and execution; data quality and records; and roles, responsibilities and accountability. Addressing these themes corporately presents an opportunity to improve consistency, support organisational learning and strengthen the overall control environment.

Key risks and alignment to risk appetite

Audit findings were most frequently aligned to the following 5 Council risk categories:

- Governance and Decision Making
- Service Delivery
- Regulatory and Legislative Compliance
- Reputational Risk
- Financial and Budget management.

These are areas where the Council has a low risk appetite for control failure. The recurrence of findings across these risk categories reinforces the importance of timely management action to ensure the Council continues to operate within its agreed risk appetite. In addition, findings related to risk management were raised across 18 audits highlighting opportunities to increase awareness and understanding of effective risk management across services.

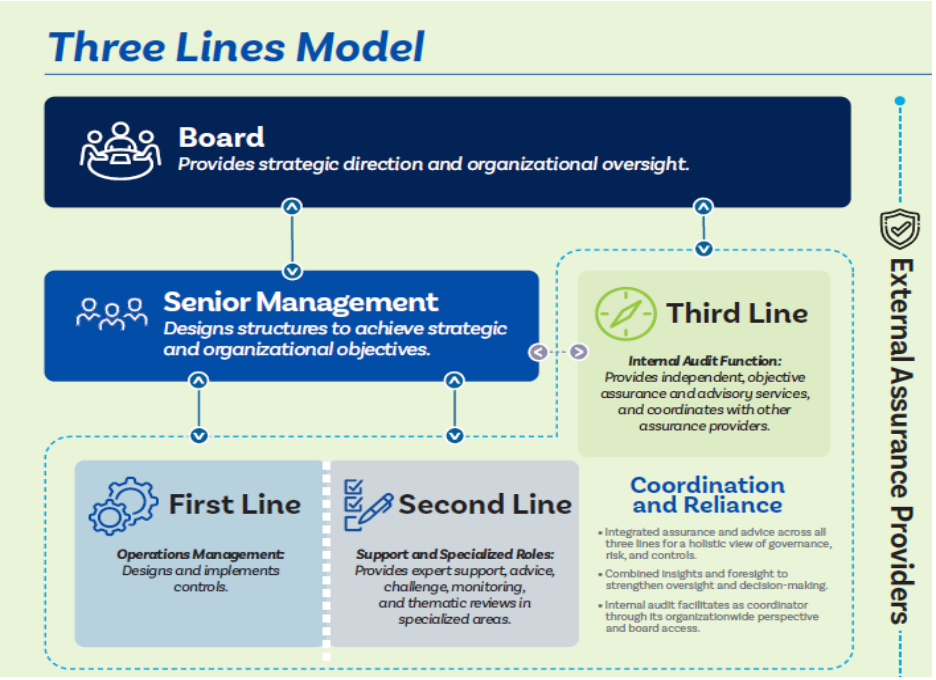
The evidence demonstrates that the Council's governance framework remains effective overall. Continued focus on addressing recurring themes, implementing agreed actions and improving corporate control arrangements will further enhance the overall framework.

The report also identifies examples of effective governance and positive practice across the Council, demonstrating management's commitment to continuous improvement and providing a strong foundation on which to address the areas identified for further development.

3. Audit approach and responsibilities

The Three Lines Model

The Institute of Internal Auditors (IIA) Three Lines Model was updated in July 2026 to reflect the Global Internal Audit Standards. The updated model reinforces a principles-based approach to coordinating and aligning assurance and advisory activities across the three lines while maintaining a clear focus on accountability, independence, and reliance. The roles across the three lines and interactions across these is set out below:



Internal Audit objectives, approach, and responsibilities

The objective of Internal Audit is to provide independent and objective assurance and a systematic and disciplined approach to evaluating and improving the effectiveness of the Council's governance, risk management and control environment.

This is achieved through development of a risk-based internal audit plan which is based on the Council's auditable areas, strategic objectives and an assessment of risk and exposures affecting the Council, with input from management, elected members, and other key stakeholders such as trade unions and external assurance bodies.

Internal Audit performs audit engagements throughout the year in line with the agreed plan and emerging areas of risk. Internal Audit reports on the findings and observations for each review and where areas of improvement are identified, findings and recommendations are raised, and management agree actions and timescales by which they will address the gaps identified.

Management responsibilities

The presence of an effective Internal Audit team contributes towards, but is not a substitute for, effective control. It is the responsibility of management to establish adequate internal controls to ensure that all activities are conducted in an efficient and effective manner, in adherence with legislation, policies and procedures, and that assets and records are safeguarded.

It is also management's responsibility to address and rectify the weaknesses identified by Internal Audit via timely implementation of agreed management actions.

Governance, Risk and Best Value Committee

In line with the terms of reference the Governance, Risk and Best Value (GRBV) Committee monitors the Internal Audit plan and reviews progress with all assurance activity towards the plan, scrutinises internal audit and external audit reports and monitors governance, risk management and internal control. The Essential Conditions set out in the GIAS, and their method of implementation was presented to the Committee in March 2026. Adherence to these will be reported in 2026/27.

Other Assurance Providers

As indicated in the Three Lines Model, Internal Audit is not the only source of assurance provided to the Council. There are several additional assurance sources including: external audit, regulators, and inspectorates, that the Committee should equally consider when forming their view on the adequacy of the Council's systems of governance, risk management and control. See Section 8 for further information on other assurance activity.

4. Summary of work completed

The 2025/26 Internal Audit (IA) Plan was approved by the GRBV Committee in March 2025 and included a total of 45 audits: 33 across the Council and 12 for other organisations including Lothian Pension Fund (LPF) and the Edinburgh Integration Joint Board (EIJB). This report focuses on the audit work completed for the Council, as separate annual reports and conclusions are presented to LPF and the EIJB.

Audit plan progress and coverage

Progress with delivery of the IA plan was reviewed and monitored quarterly by the GRBV Committee to ensure it remained aligned to the Council's strategic objective and risk profile with consideration of new and emerging risks.

The agreed IA plan included 33 audits for the Council. Following a review of resources and a risk assessment, 6 audits were approved by Committee in January 2026 for removal from the 2025/26 IA plan and consideration in the risk assessment for future years:

- Venue and Events Booking and Management (2026)
- Redeployment (2026)
- Preparedness for Martyn's Law (2026)
- Self-Directed Support - Adult Services (2026)
- Schools Insurance Arrangements (2027)
- Organisational Culture (2027)

Work was completed across 27 audits for the Council in 2025/26, with work concluding on 24 reports during the year. Work is ongoing for the following 3 audits and will be completed in 2026/27:

- Visitor Levy – ongoing agile audit work following implementation of the scheme in July 2026
- Mosaic – ongoing agile audit work for the implementation of the new social care operating system due to go live late 2026
- Transport Asset Management Plan – this work was paused due to sickness absence in the IA Team. Work has now recommenced and is due to finish in December 2026.

Details of all 2025/26 audit engagements and overall outcomes are provided at Appendix 1. The table below provides a summary of Council audit work completed, per directorate:

Directorate	Audits completed
Cross Directorate	6
Chief Executive's Office	2
Customer and Corporate Services	4
Place	6
Children, Education and Communities	4
Health and Social Care Partnership	2
Total	**24**

A total of 1,216 audit days for the Council were completed compared to the 955 days planned. In addition, Internal Audit completed a further 284 days (compared to 255 planned days) of audit work for other organisations including LPF and the EIJB. 150 days were delivered by co-source partners. Additional time was required by the Council's team to support delivery of co-source audits.

Follow-up of recommendations

Circa 1058 hours (147 days) were also used by Internal Audit to review and validate information and evidence provided by management to support closure of management actions previously raised in internal audits. See Section 7 for further information on progress of actions.

Service Level Agreements (SLAs)

In 2025/26, Internal Audit introduced a standard approach to providing assurance on SLA arrangements across the Council with standard control objectives applied across most audits. Findings related to SLAs were raised in 4 audits which highlighted the need to ensure SLAs are in existence, documented and reviewed and updated regularly to ensure they are adequate.

Information Governance

In addition, standard objectives related to Information Governance were applied across most audits with findings raised in 20 audits highlighting control gaps across the Council in areas including: development and implementation of records management processes and retention schedules, training and awareness, process improvement and standardisation of procedures, manuals and templates and need to ensure clear supporting documentation and audit trails.

Findings show that issues in these areas are not isolated to individual services. They reflect common organisational themes that, if addressed adequately have the potential to strengthen governance, improve consistency and reduce risk across multiple Council priorities.

Internal Audit representation across key governance forums

During 2025/26 Internal Audit representation continued across the following key governance forums and working groups to provide advice on emerging issues:

- Strategic Programme Board
- Strategic Complaints Group
- Essential Learning Board
- Fraud and Serious Organised Crime Group.
- Health and Safety Group
- Information Board
- Cyber Resilience Board
- Cyber and Information Security Steering Group (CISSG)

Fraud Prevention and the Economic Crime and Corporate Transparency Act 2023 (ECCTA)

A short life working group was established in August 2025 and chaired by the Chief Internal Auditor with support from the Chief Risk Officer to monitor the introduction of the Failure to Prevent Fraud requirements introduced in September 2025, across the Council.

Work was undertaken to understand the legislative requirements, assess the Council's fraud prevention arrangements and identify actions to enhance governance, fraud risk assessments and the development of proportionate fraud prevention procedures in line with the ECCTA requirements.

In addition, the Corporate Risk Team supported services in raising awareness of the Failure to Prevent Fraud requirements through a series of workshops at Service Director level and development of a Fraud Risk Assessment Toolkit, fraud risk register and supporting guidance and training.

Services are required to complete Fraud Risk Assessments at least annually. Internal Audit will review the approach including a sample of these across services from April 2027.

5. Audit outcomes, key messages, thematic areas and root cause

The results of 2025/26 audits indicate that the Council's governance, risk management and control arrangements are generally operating effectively. The number of reports and conclusions by directorate is as follows:

Directorate	Overall conclusion by rating per directorate			
	Substantial Assurance	Reasonable Assurance	Limited Assurance	Advisory
Cross Directorate	**1** (0)	**4** (8)	**1** (1)	**0** (2)
CE Office	**0** (2)	**2** (0)	**0** (1)	-
Customer and Corporate Services	**0** (1)	**3** (1)	-	**1** (0)
Place	**0** (2)	**6** (4)	**0** (2)	**1** (1)
Children, Education and Communities	**0** (1)	**2** (3)	**2** (0)	-
Health and Social Care Partnership	-	**2** (3)	-	-
Total	**1** (6)	**18** (19)	**3** (4)	**2** (3)

The previous year's results are provided in grey. A direct comparison between outcomes across years is not always possible as the number/scope of the audits included in the annual plans and the risks associated with open and overdue actions will vary in line with the changing risk profile. However, the figures above show a reduction across all ratings with less red (limited assurance) audits. There were however less green (significant assurance) audits in 2025/26.

A total of 284 recommendations were made across the 24 audits. For cross directorate audits, management actions are agreed for each directorate as well as actions for controls managed by second line corporate functions,

All audit reports are presented to the GRBV Committee for review. Progress with audit actions reported monthly to CLT and quarterly to GRBV via the performance dashboard reporting which includes overdue actions.

A total of 98 findings were raised across the 24 audits completed in 2025/26 with the priority ratings as shown below:

Directorate	Recommendations by priority rating				
	High	Medium	Low	Advisory	Total
Cross Directorate	6	16	4	0	26
CE Office	0	6	1	0	7
Customer and Corporate Services	3	6	1	11	21
Place	1	17	1	0	19
Children, Education and Communities	7	10	1	0	18
Health and Social Care Partnership	2	5	0	0	7
Total	**19**	**60**	**8**	**11**	**98**

Summary of audit outcomes

Audit work where substantial assurance was provided

- **Design of the Medium Term Financial Plan** (MTFP) – the review confirmed a sound governance framework for the MTFP, with enhancement opportunities identified to further strengthen governance, financial resilience and delivery of the Council's strategic priorities.

Audits where limited assurance was provided and improvements are required as a priority

Significant gaps, weaknesses or non-compliance issues were noted across the following audits where limited assurance was provided:

- **Core Financial Controls: Inventory Management** – action is required to strengthen inventory management controls to improve governance, consistency and accountability, reducing the risk of financial loss, inaccurate stock records and fraud.

- **Management of School Funds** – action is required to improve the governance and management of school funds to ensure financial controls, compliance and oversight, reducing the risk of misuse of funds, fraud and inconsistent practices across schools.
- **Contractors in Schools** – action is required to improve the governance and oversight of off-payroll contractors to ensure consistent compliance with Council policies, improve accountability and reduce the risk of inappropriate engagement and ineffective management.

Audits where reasonable assurance was provided but included high priority issues that require timely resolution to reduce risks and improve governance:

- **Organisational Resilience Major Incident** – action is required to enhance major incident response arrangements to improve operational preparedness and reduce the risk of delays or inconsistencies during a major incident.
- **Customer Contact Journey** – action is required to improve consistency of customer contact arrangements and support service integration reducing the risk of inconsistent customer experiences.
- **Management of Resident Funds in Care Homes** – action is required to improve the controls for management of funds to ensure accountability and compliance, reducing the risk of financial error and safeguarding of resident monies.
- **Consultation and Engagement Policy Implementation** – action is required to strengthen consultation and engagement arrangements to improve consistency and oversight, reducing the risk of ineffective or inconsistent stakeholder engagement.
- **Foster and Kinship Carer Overpayments** – action is required to improve governance and oversight of foster and kinship carer overpayments to ensure consistency accountability and debt recovery, reducing the risk of processing errors and financial loss.
- **CGI Filtering Management** – action is required to strengthen governance and oversight of the Council's web filtering arrangements to improve privileged access, change management and monitoring controls, reducing the risk of unauthorised changes or weakened security.
- **Payroll Oracle Key Controls** – action is required to strengthen payroll governance and system controls to improve data quality, reporting and oversight, reducing the risk of payroll processing errors and financial reporting inaccuracies.

Audits where reasonable assurance was provided with no high rated findings raised:

- Multi-storey & High Rise Properties (Health and Safety)
- Port Facility Security Plan
- Review of Investigations Team
- Health and Social Care – Grip and Control
- City Region Deal – Benefits Realisation
- Equalities and Diversity Framework
- Low Emission Zone Management
- Throughcare Release on Licence
- Short Term Lets Licensing
- Bio-diversity Action Plan Implementation

Advisory audit work

Advisory work was also undertaken across the following areas to support adequate design of controls, operational processes and management of key risks:

- **Back-up Regimes** – findings identified opportunities to strengthen back-up and recovery arrangements, enhancing cyber resilience and alignment with national guidance.
- **Unlicensed Houses of Multiple Occupation (HMOs)** – the evidence indicated opportunities to strengthen the Council's approach to identifying and addressing unlicensed HMOs, enhancing governance, intelligence led enforcement and partnership working.

Agile assurance

- **Visitor Levy** – identified opportunities to improve project governance, risk management and planning to support successful implementation of the programme.
- **Mosaic Social Care Operating System** – ongoing support and advice provided to support the design and implementation of the new system and to enhance key controls for governance, risk management, project delivery, data management and resource planning.

Root cause and thematic areas for improvement

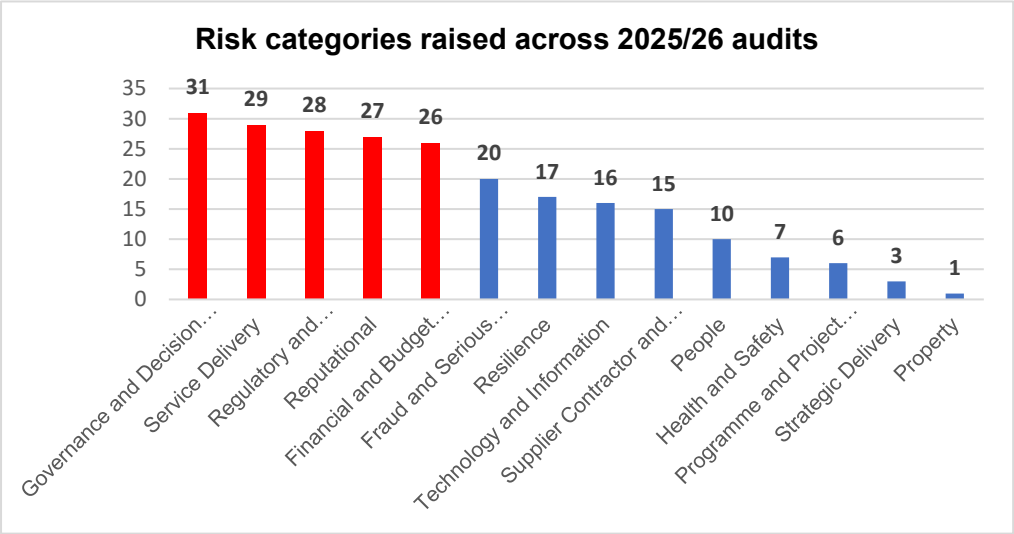
Whilst audit findings were identified across a wider range of services, analysis of root causes demonstrates that many of the issues stem from a relatively small number of recurring themes with process design and execution, data quality and clear roles and responsiblities accounting for almost half of all findings. Addressing these themes corporately is likely to have a greater impact than implementing improvements within individual services alone.

Recurring theme	What we observed	Why it matters
Process design and execution	Poorly designed, undocumented or inconsistently applied.	Leads to inconsistent service delivery, errors and control failures.
Data quality and security	Weaknesses in data quality, record keeping or information management.	Impacts decision making, compliance and information security.
Roles and responsibilities	Ownership, accountability or segregation of duties are not always clearly defined.	Increases the risk of gaps in oversight and ineffective controls.
Performance monitoring and quality assurance	KPIs, quality assurance and management oversight were not consistently embedded.	Issues may not be identified or addressed promptly.
Third-Party Assurance	Oversight of suppliers, ALEOs and delivery partners could be stronger.	Increases operational, financial and reputational risk.
Systems, business continuity and resilience	Opportunities to strengthen system controls, cyber resilience and business continuity arrangements.	Reduces the risk of service disruption and improves organisational resilience.
Training and communication	Colleague guidance, awareness or training was insufficient.	Controls may not operate as intended or errors are more likely.
Governance and risk management	Governance, risk identification, escalation and oversight did not always operate effectively.	Governance weaknesses can reduce accountability and increase organisational risk.
Policies	Key policies or strategies were missing, outdated or inadequate.	Creates inconsistency and uncertainty in service delivery.
Project management and change	Improvements needed for planning, governance and delivery of projects and change initiatives.	Increases the risk of delays, cost overruns, implementation issues and uncertainty.
Resource allocation and workforce planning	Capacity constraints and key person dependencies affecting service delivery.	Impacts resilience, sustainability and ability to deliver priorities.
Organisational Culture and ethics	Greater ownership, challenge and accountability is needed in some areas.	Culture influences the effectiveness of governance, control and continuous improvement.
Value for money and efficiencies	Opportunities to improve economy, efficiency and the use of resources in some areas.	Supports better outcomes and sustainable service delivery within financial constraints.

Taking action to address these root causes provides the Council with an opportunity to strengthen governance, improve consistency and enhance organisational resilience through completion of corporate level actions.

6. Alignment to risk management and risk appetite

Issues raised in audits completed during 2025/26 were aligned to the Council's 14 risk categories. The chart below shows the number of times the risk occurred in audit reports with the top 5 recurring risks highlighted in red:



The risk profile identified through 25/26 internal audit work remains broadly consistent with 24/25 indicating the Council continues to face similar strategic challenges. Governance and decision making, service delivery, regulatory compliance, reputational risk and financial and budget management accounted for almost half of all risks identified in audit work. The predominance of these risks aligns with the recurring organisational themes identified, demonstrating that improving the underlying control environment will help mitigate risks across multiple services and corporate priorities.

The emergence of reputational risk within the top 5 risks reflects the increasing importance of maintaining effective governance, compliance, and service delivery, recognising that weaknesses in these areas have the potential to impact public confidence and trust in the Council.

Risk appetite

The areas of risk most frequently identified through internal audit work continue to align with the Council's risk categories. Several of the highest occurring categories including governance and decision making regulatory and legislative compliance, and financial and budget management area areas where the Council has a low tolerance for control failure as reflected in its Risk Appetite Statement.

The recurrence of findings in these areas indicates that continued management focus is required to improve governance, oversight and control arrangements to support the Council in operating within its stated risk appetite.

The recurring organisational themes identified through audit work, including process design, data quality, accountability and performance monitoring represent common underlying causes that cut across multiple Council risk categories. Addressing these themes at a corporate level will support the management of strategic risks and bring the Council closer to operating within its desired risk appetite.

Risk Management and Risk Maturity

Internal Audit provides independent and objective assurance to the Audit Committee and senior management that risk management processes are adequately designed and operating effectively.

In previous years, Internal Audit has highlighted a need to raise risk awareness and promote a risk-aware culture to embed risk management in effective decision making across the Council with weaknesses at service/operational level. Findings in 2025/26 highlight the continued need to increase awareness with 27 findings related to risk management raised in audits, with issues noted in all Directorates.

An external Risk Maturity Review of the Council was completed by Gallagher Basset in 2026 which concluded the Council is operating from a credible and well-established foundation, with an overall maturity rating of 'Defined'. The review highlighted that while risk management is understood, applied, and increasingly aligned to good practice, it is not yet sufficiently integrated, intelligence-led, or consistent to fully support the Council's scale of ambition, complexity, and transformation agenda.

7. Progress with implementation of audit actions

As set out on Section 5 of this report, a total of 284 new audit actions were raised across the audit reports completed during the year. Timely and effective implementation of audit actions by management is important to prevent the Council being exposed for longer than necessary to the potential risks associated with the control gaps or deficiencies identified in audits.

A total of 382 audit actions raised across a total of 53 audits were closed during 2025/26. A total of 24 audits were closed during the year, details of these is provided in Appendix 3.

As of 31 July 2026, 119 of 284 actions raised in 2025/26 audits were closed, resulting in a 42% reduction in the risks associated with findings raised in audits during the year. Progress with completion of audit actions for 2025/26 audits is provided in Appendix 1.

Overdue Management Actions

Performance and progress of implementation of management actions are reported monthly to the Corporate Directors for monitoring and quarterly to the GRBV Committee for scrutiny.

As at 31 March 2026, 82 management actions (32 high and 50 medium rated) were overdue (27% of all open audit actions). The number of overdue actions remains stable when compared with the 2025 year end (81). The ageing of overdue actions as at 31 March 2026 was:

Days overdue	Number of Actions
0-90 days	69
90-180 days	1
180-365 days	10
365 days +	2

Actions overdue for more than 1 year relate to the Supplier and Contract Management audit completed in 2024 and include risk management for contracts within the Health and Social Care Partnership and oversight of contracts within Children, Education and Communities. Management have advised that the remaining actions should be complete by October 2026.

The following table illustrates the allocation and performance trend for overdue management actions across all directorates as at 31 March 2026 compared with last year:

Directorate	Overdue actions 31/3/25	Overdue actions 31/3/26	Performance Trend
Chief Executive's Office	9	21	↓
Customer and Corporate Services	1	3	↓
Place	44	12	↑
Children, Education and Communities	7	18	↓
Health and Social Care Partnership	20	28	↓
Total % of open actions	**81 (20%)**	**82 (27%)**	↓

Failure to complete audit actions on time means that the Council remains exposed to associated risks for longer than initially agreed.

The Council should also be alert to the potential consequences that inadequate controls in a specific area may have on other areas across the Council, the longer they remain outstanding. Directorates and services should ensure that risks associated with overdue actions including risk dependencies are adequately captured in relevant risk registers.

Annual validation review of previously implemented actions

An annual validation review which assessed ongoing adequacy and effectiveness of a sample of previously implemented actions was performed during 2025/26. The audit reviewed a total of 21 actions which had been

implemented by management between 1 January 2024 and 31 December 2024.

Based on the sample of closed management actions, the review confirmed that of the 21 actions reviewed, 17 (81%) were functioning as originally validated. However inconsistent implementation of effective controls were identified for 4 actions (19%). Therefore, new audit actions were created to track managements mitigation of associated risks:

- **Self-Directed Support** – inconsistent processes to ensure effective management and oversight of over and underspends in Children's Services
- **Complaints Management** – underdeveloped oversight processes for Directorate oversight of the management of complaints in the Customer and Corporate Services Directorate
- **Safety of Council Operated Heavy Vehicles** – limited evidence that confirmation of pre-employment checks was communicated and retained
- **Health and Safety – Asbestos Management** – migration of the final historic asbestos registers to CAFM should be completed with oversight processes implemented to provide assurance over the ongoing completeness of records held.

Actions closed due to management's acceptance of risk

No audit recommendations were formally risk accepted by management during either the reporting or follow-up stages of audit work in 2025/26. This demonstrates management's commitment to addressing the control improvements identified through internal audit work and reducing identified risks rather than accepting them within the existing control environment.

Progress with rebased audit actions

In March 2023, revised future dates for overdue historical actions across the following audits reported to the GRBV Committee. Details of progress with the rebased actions are as follows:

- **Health and Social Care Partnership - Lone Working (2020)** - the final action to update Lone Working operational procedures and monitoring controls was completed in September 2025.
- **Corporate Resilience (2018)** - 4 actions relating to reviewing and testing of resilience protocols across directorates were completed by December 2025.

  The final action is to refresh of the Council's overall Business Continuity Plan and Emergency Plan is due to be completed by August 2026.

Cyber and Organisational Resilience

The Council continues to make progress in strengthening its cyber resilience arrangements. Implementation of the audit actions from the Cyber Resilience audit completed in May 2024 remains ongoing with 37 of 82 actions still outstanding at year end. In addition, the 2025/26 Organisational Resilience – Major Incident audit identified further opportunities to improve major incident governance, escalation arrangements and operational preparedness. Given the evolving cyber threat landscape and the critical requirement for resilience services, continued focus is required to deliver the remaining improvements and enhance the Council's overall cyber and organisational resilience. It is recognised that some of the remaining actions represent longer-term improvements requiring cross-council coordination and investment.

Artificial Intelligence (AI)

In addition, during 2025/26, the Council commenced implementation of its approach to Artificial Intelligence (AI) including governance arrangements with approval of the Generative AI policy in March 2026 and plans for a pilot programme and establishment of an AI Ethics Board during 2026/27. Whilst AI presents significant opportunities to improve services and productivity, it also introduces new risks relating to governance and information security. Internal Audit will continue to monitor development of the Council's approach as it matures through focused agile audit work in 2026/27.

8. Other assurance providers – coordination and reliance

In line with the GIAS and the updated Three Lines Model set out in Section 3, Internal Audit considers the findings of external scrutiny and inspection bodies as part of assurance planning and reporting. Progress against key areas of assurance in 2025/26 is summarised below:

Information Commissioner's Office (ICO) – undertook an audit of the Council's broad data protection practices in March 2025 with 34 recommendations accepted across 3 key areas. A follow-up review took place in March 2026 which confirmed that 24 actions are complete with 10 outstanding and concluded that the Council is making meaningful progress with the remaining actions to mitigate the risk of non-compliance.

Independent Review into the Council's Handling of Allegations of Misconduct – following publication in June 2025, a comprehensive improvement plan was approved by Council in August 2025. The action plan includes improvements to governance, whistleblowing, complaints handling, safeguarding, information management and organisational culture. Internal Audit will continue to consider implementation progress as part of assurance planning.

Inspection of the leadership of children's social work services - reported to the Education, Children's and Families (ECF) Committee in January 2026 recognised strengths but identified areas for improvement including leadership visibility, communication, staff confidence, performance management and quality assurance. An improvement plan was developed with progress reported to the ECF Committee in June 2026.

Audit Scotland's Best Value Thematic Review of the Council's approach to transformation August 2025 - concluded that the Council has a strong strategic intent and understands the need to transform services but concluded that the pace and scale of transformation needs to increase and that a corporate and systematic approach was needed. An improvement plan was reported to GRBV in September 2025.

Children's Services Improvement Plan – first established in 2022, aims to improve outcomes for children and young people with several immediate and short-term actions to ensure safe services for the most vulnerable children with progress updates to Committee regularly most recently in March 2026.

Audit Scotland's Best Value Thematic Review on Asset Management February 2026 – concluded that the Council should strengthen its strategic approach to asset management by developing a corporate and integrated approach to managing assets, improve the quality of asset information to support decision making, enhance governance and accountability and improving performance reporting and benefits realisation and ensuring asset decisions are aligned to the Medium Term Financial Plan. Work is underway to develop a corporate strategic asset management framework and associated supporting arrangements. Progress will be reported to the GRBV Committee.

Education Scotland and quality improvement actions

Quality Improvement and Scrutiny updates are provided to the Education, Children and Families Committee, which detail Education Scotland scrutiny and quality improvement activity across the Council's education services. The March 2026 update provided detail on and key learning themes from Education Scotland inspections across the school estate. Improvement actions will be tracked and monitored by the Council's Education Quality Improvement Service with follow-up visits planned.

Health and Safety

The Corporate Health and Safety (H&S) Team applied the H&S workplace inspection module to myHS in 2025/26 which will support monitoring of the Council H&S policy commitment to carry out workplace inspections on a six monthly basis. In January 2026 the H&S team introduced reporting on the use of the module to record workplace inspections to each of the Directorate H&S Committees.

Collectively, the findings from other assurance providers remain broadly consistent with Internal Audit's conclusions and reinforce the areas where a continued focus is required.

9. Internal Audit Function

Internal Audit Strategy

The 2025-28 Internal Audit Strategy sets out the vision, objectives and supporting initiatives for the Council's Internal Audit (IA) function. The strategy centres around the following 4 key themes:

- **Strategic Advisor** – throughout 2025/26, the IA team has supported the Council in managing a number of key risks and opportunities including Visitor Levy, AI, Mosaic, Fraud Prevention and Strategic Boards.
- **Talent** – the IA team encountered some capacity challenges during 2025/26, and a new Audit Manager position was created to provide support and stability. There was a continued focus on training and development to increase skills and awareness in the team, A finance trainee was also part of the team on rotation to increase awareness of governance, risk and controls.
- **Technology** – work progressed to deliver the first year actions in the IA digital strategy to support the aim of becoming a technology enabled team. This included enhancing data analytics skills and use of the audit system to provide data informed analysis across audit work.
- **Process –** work continued in 2025/26 to refresh the IA processes and methodology align with the Global Internal Audit Standards and to consider efficiencies in the audit process such as automation as well as developing guidance to support key processes.

In addition, the Workforce Plan for the Internal Audit team was reviewed and refreshed during 2025/26 and progress with key actions monitored.

Global Internal Audit Standards (GIAS)

The IA team continued to embed the Global Internal Audit Standards into operational processes continued throughout the year with internal training, updates to internal audit processes and methodologies. Training was also delivered to stakeholders including GRBV members with 90 hours spent facilitating and attending training sessions to support understanding role of internal audit including the GIAS requirements for audit team members, other colleagues and elected members.

Internal Audit Structure

Internal Audit for the Council is delivered largely through an in-house team, consisting of 14 full-time equivalents. This includes a trainee as part of the Council's trainee rotation scheme. A co-source arrangement is in place to support delivery of pensions and specialist ICT audit work.

During 2025/26, capacity in the IA team was reduced significantly due to sickness absence (284 days lost) including long term sickness absence of two team members which resulted in the need to defer 6 audits to the 2026/27 IA plan. Occupational Health referrals and supporting plans are in place to support colleagues to remain in work.

During 2025/26, 33 of 39 audits were delivered by the Council's Internal Audit team. Six audits were delivered by a co-source audit partner. Co-source audits covered the following technology areas for the Council: Back-ups Regimes and Web Filtering as well as four pension related audits. An NHS Lothian auditor also supported completion of one EIJB audit in line with the audit principles. The Council's Chief Audit Executive maintained oversight of the quality all audit work completed including co-source engagements.

Learning and development

In line with audit standards, all practicing internal auditors are required to maintain their skills, knowledge, and other competencies through continuing professional development (CPD). All team members are required to complete at least 20 hours learning annually, in line with audit standards.

Circa 154 days were used for learning and development. This included completion of 409 hours role specific learning across the team including the newly developed core learning modules. Team members completed an average of 50 hours of learning / CPD, which is to be expected in supporting embedding the GIAS, Topical Requirements and upskilling the team. In addition, circa 226 hours (31 days) were spent coaching and mentoring team members including trainees. Targeted learning was provided to enhance the skills and knowledge of the team, including understanding root cause analysis, cyber resilience, topical requirements, organisational change and ethics.

Key Performance Indicators

An audit journey map and key performance indicators (KPIs) are in place to support timely completion of the audit programme. Performance is tracked throughout the audit process and reported quarterly to the Corporate Leadership Team and GRBV.

IA performance towards KPIs for the 2025/26 audit plan is set out below:

KPI	Target	25/26 Result	Comments
Close out within 5 days	90%	88%	Close out for 3 audits were delayed due to audit team leave.
Draft report within 15 days	90%	76%	Issue of 6 draft reports were delayed for several reasons including audit team leave and completion of further work following close-out.
Final report within 10 days	100%	100%	All final reports were issued on time.
Release of findings to TeamMate within 10 days	90%	92%	Release of findings for 2 audits were delayed due to audit team leave.
Audits completed within agreed number of days (15% tolerance)	90%	62%	8 audits took longer than planned to complete. 5 took 1-2 weeks longer while 3 took 3-4 weeks longer. This was due to increased scope for some audits, whilst some inefficiencies were noted for others.
Audit Surveys – overall satisfaction with audit process	90%	88%	22 of 25 survey respondents were satisfied with the overall audit process. There were 2 audits where issues with the co-source provider were raised and 1 audit where communication could be improved.

10. Conformance with Global Internal Audit Standards (UK Public Sector)

The Global Internal Audit Standards (UK Public Sector) came into effect in January 2025, with the Application note for UK Public Sector requirements effective from April 2025.

The CIPFA Code of Practice for the Governance of Internal Audit is designed to work alongside the GIAS replacing the Council's responsibilities set out in the previous CIPFA Statement on the Role of the Head of Internal Audit. Compliance with the Code was confirmed as part of the self-assessment completed in 2025/26.

In line with GIAS 5.2, an Internal Audit Strategy for 2025-28 was developed which sets out the vision, objectives and key priorities for the IA function. This included consideration of the IA Workforce Plan and Digital Strategy. Progress with the key priorities set out in the IA Strategy are provided in Section 9.

Statement of independence and limitations of scope

In line with GIAS (UK Public Sector), IA must be independent, and all internal auditors must be objective in performing their work. To ensure conformance with these requirements, processes are in place to ensure that both team and individual independence is consistently maintained and that any potential conflicts of interest are effectively managed.

Internal Audit did not face any impairments to independence during 2025/26 and there were no scope or resource limitations imposed by services when completing audit work.

Topical Requirements aim to ensure that all IA functions apply a consistent audit methodology when assessing the effectiveness of governance, risk management, and controls of topical areas such as

cybersecurity, third party management, organisational resilience, culture, and anti-corruption. Topical Requirements will be issued between 2026-28.

The only Topical Requirement issued in 2025/26 was cybersecurity which was effective from February 2026. Due to the timing of issue, it was not relevant to any 2025/26 audits.

Quality Assurance and Improvement Programme (QAIP)

Ongoing reviews to ensure quality on an audit-by-audit basis are in place. This includes Head of Internal Audit review and sign-off of terms of reference and reporting for all audit work, and ongoing supervision and review of fieldwork throughout by an audit manager.

Periodic assessments - in line with GIAS 12.1, a self-assessment was completed which concluded overall general conformance with the GIAS, the Application note and the CIPFA code. The self-assessment identified several areas where IA processes should be improved including setting out details of the 'essential conditions' in the GIAS and consideration of root cause in audit findings and thematic reporting.

The 2025/26 IQA focused on 'hot reviews' of a sample of audits to review compliance as the team continues embed understanding and demonstrate conformance with the GIAS. Several areas for improvement were identified, and a checklist has been developed to support ongoing conformance at an individual audit level during 2026/27.

External Quality Assessments (EQAs) should be completed every five years. An EQA was performed in 2022 for the IA function by the Chartered Institute of Internal Auditors (IIA) and the results reported to Committee in December 2022. There are no outstanding actions from the 2022 EQA. The next EQA for the Internal Audit function is due to be performed in 2027.

In line with GIAS 8.4, a proposal for the EQA including the timing, selection of assessor and the scope of the assessment will be presented to the Committee in early 2027.

Appendix 1 – Outcomes and status of 2025/26 audits as at 31 July 2026

	Audit title and high level scope	Outcome	% Actions completed	
Cross Directorate				
1.	**Customer Contact Journey** – considered the customer journey from the point of contact to resolution including liaison between teams as well as service standards, complaints, lessons learned, performance monitoring and reporting across a sample of key service requests /customer interactions.	Reasonable Assurance	**24%**	13 of 17 actions outstanding
2.	**Organisational Resilience: major incident –** reviewed established arrangements to enable and support the Council to respond to a major incident impacting the city or Council and included consideration of relevant plans and protocols including testing, working with key partners across the city, roles and responsibilities including on call / out of hours arrangements.	Reasonable Assurance	**81%**	4 of 21 actions outstanding
3.	**Core Financial Controls: Inventory Management** – reviewed key controls to ensure the Council adequately maintains inventories to ensure the ongoing care, custody and security of assets including equipment.	Limited Assurance	**23%**	20 of 26 actions outstanding
4.	**Consultation and Engagement Policy Implementation –** reviewed a sample of consultations across the Council and the HSCP and subsequent actions including recording and evaluating feedback and how this informs service delivery/change.	Reasonable Assurance	**0%**	6 of 6 actions outstanding
5.	**CEC Annual Validation Review** – reviewed a sample of previously implemented and closed Council management actions to confirm that they have been effectively sustained.	Reasonable Assurance	**25%**	3 of 4 actions outstanding
Chief Executive's Office				
6.	**Equalities and Diversity Framework (EDI) Development –** considered progress with the delivery of the three interim equality outcomes for 2025-26 as per the recommended approach by the Equality and Human Rights Commission. In addition, the review considered pre-development activity, the consultation approach and how feedback is used to shape the Council's 2026-30 EDI Framework.	Reasonable Assurance	**0%**	7 of 7 actions outstanding
7.	**City Region Deal: Benefits Realisation -** reviewed the approach and methodology for benefits measurement for the CRD across each of the five themes (Innovation, Housing, Skills, Transport & Culture). Includes the processes for identification, tracking and monitoring of both quantitative and qualitative benefits and ensuring that benefits are recorded and reported accurately and transparently.	Reasonable Assurance	**17%**	10 of 12 actions outstanding

Audit title and high level scope		Outcome	% Actions completed	
Customer and Corporate Services				
8.	**CGI Back-up regimes Gap Analysis –** assessed alignment of CGI's on-premises data backup processes for the Council's critical IT systems, specifically focusing on their alignment to the National Cyber Security Centre (NCSC) principles for ransomware-resilience, focusing on high-risk areas to the Council.	Advisory	**0%**	11 of 11 actions outstanding
9.	**Key Financial Systems: Payroll (Oracle HR key controls) –** following implementation of the new Oracle HR system in October 2024, reviewed the effectiveness of key payroll-related controls and processes including administering payments, integration with ledgers and overall payroll cost reporting.	Reasonable Assurance	**0%**	7 of 7 actions outstanding
10.	**Investigations Team –** reviewed the overall strategy and service delivery planning for the Council's in-house Investigations Team including service standards, monitoring, reporting and oversight arrangements.	Reasonable Assurance	**94%**	1 of 17 actions outstanding
11.	**CGI Filtering Management** – assessed the end-to-end process for managing web filtering and the web filtering solutions and controls managed and operated by both CGI and the Council.	Reasonable Assurance	**0%**	5 of 5 actions outstanding
Children, Education and Communities				
12.	**Management of School Funds –** reviewed the design and operational effectiveness of key controls established to ensure school funds are managed effectively within individual school establishments including visits to a sample of schools and review of central oversight and monitoring arrangements.	Limited Assurance	**38%**	8 of 13 actions outstanding
13.	**Foster & Kinship Carer Allowances Overpayments–** review assessed the adequacy of design and operating effectiveness of key controls established to manage the Foster and Kinship Carer overpayment process. The review will consider proposed improvements via the new Mosaic system to address identified control weaknesses.	Reasonable Assurance	**8%**	11 of 12 actions outstanding
14.	**Throughcare – Release on Licence –** considered Council adoption of the Throughcare Assessment for Release on Licence (TARL) framework and guidance developed by Social Work Scotland which aims to provide an integrated approach to Social Work submissions to the parole board for long term prisoners, and support the Council in managing associated risks in the community.	Reasonable Assurance	**36%**	7 of 11 actions outstanding
15.	**Contractors in Schools** – assessed whether adequate actions have been taken to address the risk of using off-payroll workers and contractors, and that lessons learned have been captured including root cause analysis to ensure issues are fully resolved and to prevent reoccurrence.	Limited Assurance	**0%**	8 of 8 actions outstanding

Audit title and high level scope		Outcome	% Actions completed	
Place				
16.	**Processing Applications for Unlicensed HMOs –** reviewed the processing of applications for unlicensed HMOs in line with the GRBV committee amendment in January 2025, focusing on the conflict of legal obligations.	Advisory	**25%**	3 of 4 actions outstanding
17.	**Multi-Storey and High-Rise Housing Properties: Health and Safety** – assessed the design and effectiveness of key controls in place to ensure adequate health and safety management of multistorey and high-rise housing properties.	Reasonable Assurance	**83%**	1 of 6 actions outstanding
18.	**Port Facility Security Plan** - annual review of the existence and operation of the Port Facility Security Plan as per Department for Transport requirements, also considered contract management arrangements for the new security provider onboarded in 2025.	Reasonable Assurance	**85%**	2 of 13 actions outstanding
19.	**Short Term Lets Licencing –** reviewed arrangements established to manage licencing of short-term lets including submission of required supporting information, fees, statutory notices, exemptions, compliance, and enforcement.	Reasonable Assurance	**86%**	1 of 7 actions outstanding
20.	**Low Emission Zone (LEZ) management** – reviewed the adequacy and operating effectiveness of key controls and processes established for management of the LEZ zone including signage, calculation and issue of penalty charge notices, income collection, exemptions, discounts and surcharges, processing appeals and reporting/oversight arrangements.	Reasonable Assurance	**73%**	4 of 15 actions outstanding
21.	**Edinburgh Bio-diversity Action Plan Implementation –** reviewed progress with delivery of the 2022-27 Action Plan considering key outputs and actions for which the City of Edinburgh is the lead partner, also considered arrangements for ensuring accurate and transparent monitoring and reporting including annual progress updates and statutory duty reporting.	Reasonable Assurance	**0%**	17 of 17 actions outstanding
Health and Social Care Partnership				
22.	**Grip and Control –** reviewed the HSCP's approach to strengthening financial grip and control in response to financial and service delivery challenges considering the overall approach including monitoring and authorisation processes for key expenditure and workstreams.	Reasonable Assurance	**33%**	6 of 9 actions outstanding
23.	**Management of Resident Funds in Care Homes -** reviewed the design and operational effectiveness of key controls established to ensure resident funds in care homes are managed effectively within individual care homes. The audit reviewed arrangements for all Council care homes including central oversight and monitoring.	Reasonable Assurance	**96%**	1 of 27 actions outstanding
Major Projects				

Audit title and high level scope		Outcome	% Actions completed	
24.	**Design of the Medium-Term Financial Plan (MTFP) –** assessed the adequacy of the key control arrangements for governance and oversight of the Council's MTFP established to address financial gaps including monitoring and delivery of proposed savings.	Substantial Assurance	**60%**	4 of 10 actions outstanding
Ongoing audit work in 2026/27				
25.	**Visitor Levy for Edinburgh Collection Processes (Ongoing Agile Design Review) –** of the design of controls established to manage liable persons, exemptions, rate setting, collection and remittance controls as well as fraud and error prevention controls.	Ongoing	**N/A**	Ongoing
26.	**Mosaic Social Care Operating System Implementation (Ongoing Agile Design Review) -** of progress with implementing and rolling out the new Social Care Operating System (Mosaic) which will replace SWIFT and is expected to be rolled out in November 2026.	Ongoing	**N/A**	Ongoing
27.	**Transport Asset Management Plan (TAMP) –** assessment of the effectiveness of controls and processes established to ensure strategic progress in TAMP implementation, including completion of routine, reactive and planned maintenance programmes, performance and quality assurance as well as service standards and customer satisfaction.	Ongoing	**N/A**	Ongoing

Rating	Substantial Assurance	Reasonable Assurance	Limited Assurance	Advisory	Total
No. of audit reports issued	1	18	3	2	24
No. of audits closed as at 31 July 2026	0	0	0	0	0
No. of audits with actions outstanding	1	18	2	2	24

Appendix 2 – Overall assurance and priority rating definitions

The Council uses the Chartered Institute of Public Finance and Accountancy's (CIPFA) standard definitions for audit conclusions. Details of the standard definitions are provided below:

Overall Assurance Ratings	
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of Council objectives.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of Council objectives.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of Council objectives.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of Council objectives.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

Appendix 3 – Audits closed during 2025/26

During 2025/26, all outstanding audit actions for the following 24 audits were completed and the audit closed.

No.	Directorate	Audit Title	Year of audit
1.	**Cross Directorate**	Overtime and expense payments	2023
2.		Corporate Property Helpdesk	2023
3.		Health and Safety findings only	2023
4.		Non-Contracted Spend and Waivers	2024
5.		Value for Money (Design Review)	2025
6.		Quality Assurance - Social Work and Social Care Services	2025
7.		Annual Validation Review	2025
8.	**CE Office**	UK Parliamentary Elections – Voter Photo ID	2024
9.		City Deal - Managing Cost Inflation	2024
10.	**Children, Education and Communities**	Early Years Cross-Boundary Places	2024
11.	**Customer and Corporate Services**	Key Financial Systems – Debtors	2023
12.		CGI Incident Response	2025
13.	**Place**	Management of mixed tenure works and funding/recharging	2023
14.		Scaffolding for Housing Property Repairs	2023
15.		Community Centres	2023
16.		Health and Safety - Outdoor Infrastructure	2023
17.		Safety of Council Operated Heavy Vehicles	2024
18.		Reinforced Autoclaved Aerated Concrete (RAAC)	2025
19.		New Parking Rules	2025
20.		Port Facility Security Plan 2024	2024
21.		Food Safety and Hygiene	2025
22.		Flooding and Surface Water Management	2025
23.	**Health and Social Care**	Lone working	2019
24.		Mental Health Services	2023