

**REPORT OF SERVICE DIRECTOR, FINANCE, PROCUREMENT AND  
IMPROVEMENT****INTERNAL AUDIT FOLLOW-UP PROCEDURE****Purpose of the Report**

1. To propose a revised procedure for the follow-up of management actions to implement Internal Audit recommendations.

**Information and Advice**

2. It was resolved at the previous meeting of the Committee, in March 2016, that members wished to receive periodic updates on the implementation status of high priority Internal Audit recommendations. It was determined that an update report would be prepared for the September 2016 meeting.
3. Internal Audit has recently implemented 'audit automation' software, with the aim of enhancing the efficiency of the service. The new software incorporates action tracking functionality, and the service has identified that this feature will facilitate improvements being made to the current follow-up procedure.

***Current follow-up procedure***

4. The current follow-up procedure has been in place for a number of years and is based around the audit opinion in each report issued by Internal Audit. The opinion category determines how agreed recommendations are followed up, as indicated below:
  - Limited Assurance – Internal Audit carries out a follow-up review approximately six months after the date of the audit report. The follow-up covers all recommendations made in the original report, including high, medium and low priority recommendations. A separate report is issued for all follow-ups.
  - Reasonable and Substantial Assurance – all recommendations are followed up the next time the service area is reviewed as part of a future Annual Internal Audit Plan. This may be after three to five years, depending on the relative priority rating the service area is assessed at in preparing each year's Annual Plan. Any issues arising from failure to implement previous recommendations are raised in the report at the next audit.
  - Where the follow-up of 'Limited Assurance' reports concludes that limited progress is being made in implementing the agreed actions, a second follow-up is scheduled. Should that second follow-up also conclude that limited progress is being made, the report is referred to the Audit Committee and relevant service directors and/or service managers are requested to attend to provide an update.
5. There are a number of drawbacks to the current approach:

- There may be high priority recommendations raised in reports with an overall opinion of 'reasonable assurance', but these are not followed up in a timely manner.
  - The follow-up of 'limited assurance' opinions incorporates all recommendations raised in the previous report, including those ranked as 'low priority'. Put together with the first drawback, above, this means the service is unlikely to be making the best use of the time it allocates for following up recommendations.
  - The current procedure can provoke confusion among managers regarding the opinion expressed after the follow-up of limited assurance reports. There can be an expectation that the original audit opinion will be upgraded to 'substantial assurance' if it is found that all agreed recommendations have been implemented. This is not generally possible, as follow-ups only focus on the implementation of agreed actions to address specific weaknesses, and do not comprise a full re-review of the service area to confirm that all key aspects of control continue to operate effectively. Follow-up opinions have recently been amended to focus on whether substantial, reasonable or limited **progress** is being made with implementing agreed recommendations.
6. The current follow-up arrangements do not provide for timely assurance to be provided in a consistent manner, and they do not enable the Internal Audit service to maximise its impact in the Council.

***Proposed follow-up procedure***

7. The enhanced action tracking functionality in the Internal Audit service's automation software facilitates the follow-up procedure to be revamped around the priority-rating of the recommendations raised by Internal Audit, rather than the overall opinion of a service area's controls.
8. A two-stage approach is proposed, as follows:
- a) Using the implementation dates proposed by management for the actions agreed, prompts will be issued to managers to provide an update on the implementation status of all actions, covering high, medium and low priority issues.
  - b) Internal Audit will schedule follow-up compliance testing, to provide independent assurance of the satisfactory implementation of higher priority actions.
9. All management actions are loaded in the Internal Audit software, and this will provide a basis on which to request management updates. These status updates will provide a first level of assurance within the Council that the agreed improvements have been put in place.
10. It will not be possible for Internal Audit to carry out follow-up testing for every management action. It is proposed that Internal Audit's follow-up time is applied in accordance with the priority rating of the recommendations raised, as follows:
- a) High priority recommendations – all management actions relating to these recommendations will be scheduled for follow-up testing by Internal Audit. The timing of the follow-up work will be dependent on a number of factors –
    - the proposed date of implementation by management
    - confirmation from management that the agreed actions have been implemented
    - where appropriate, allowance of a reasonable period of time to allow the Internal Auditors to provide assurance that the improved control is being applied consistently.
  - b) Medium priority recommendations – selected actions to be followed up by Internal Audit. These are likely to include those in service areas for which high priority recommendations have also been made, plus a sample of others during the year. The timing of Internal

Audit's follow-up of these recommendations will be scheduled in accordance with the same factors as for high priority actions.

- c) Low priority recommendations – no Internal Audit testing will be carried out, as it is considered that sufficient reliance can be placed on the implementation updates to be received from management.

### **Reporting**

11. It is proposed that a routine follow-up report is produced half-yearly for the Audit Committee, to continually capture the implementation status of management actions. Progress reports will also be presented at least half-yearly to the Corporate Leadership Team and departmental leadership teams.
12. The format of the half-yearly report will be kept under review as the revised procedure becomes embedded. A suggested format for an action tracking report is presented in **Appendix 1**. It is proposed that the covering report for the action-tracker will include the following:
- a) Date of the report
  - b) Commentary on the progress with implementation to date of high priority actions, highlighting the following:
    - High priority actions implemented since the date of the previous follow-up
    - High priority actions rescheduled by management
    - Follow-up testing rescheduled by Internal Audit
    - High priority actions that Internal Audit testing shows have not been implemented satisfactorily, providing brief details of the testing carried out, the test failures identified and the updated management response.
    - Service Directors/Managers due to attend the Audit Committee to provide an update on progress with implementing high priority actions.
  - c) The summary position with regard to the implementation status of medium and low priority actions, focusing on implementation rates and presenting details, by exception, of medium priority actions that have not been implemented as agreed.
  - d) Summary of planned follow-up activity in the coming period, highlighting high priority actions due to be implemented and high priority actions due to be tested by Internal Audit.
13. It is proposed that follow-up reports will be structured around departmental areas of responsibility, enabling reporting to be effected at both departmental and corporate levels. Proposed reporting routines are set out below:
- Draft follow-up reports to be presented to Departmental Leadership Teams for discussion. The content of these reports will be restricted to each department's service areas, plus audits carried out on a cross-departmental basis. Circulation of the draft reports will also include the Service Director – Finance, Procurement & Improvement and the relevant Finance Business Partners.
  - Final versions of the follow-up report will cover all areas of service and be presented initially to the Corporate Leadership Team, for discussion.
  - The report will be presented to the March and September meetings of the Audit Committee. When circulating the report to the Audit Committee members, the following

councillors and other stakeholders will also be included, to ensure compliance with the existing arrangements for the circulation of Internal Audit reports–

- Leader
- Opposition Group Leaders
- Finance & Property Committee Chair & Vice-Chair
- Service Committee Chairs and Vice-Chairs
- External Audit

### ***Officer updates to the Audit Committee***

14. A strength of the present follow-up arrangements is the request for Service Directors and/or Service Managers to attend the Audit Committee to provide an update on areas where limited progress is being made with implementing agreed actions. Currently, managers' attendance is requested where two successive follow-ups have identified limited progress. It is considered that the involvement of the Audit Committee in this regard is a key factor in ensuring agreed changes are driven through.
15. Under the revamped procedure, it is proposed that Service Director/Manager attendance at the Audit Committee should be retained and requested in the following circumstances:
  - a) Where management implementation updates declare that high priority actions have not been implemented as agreed.
  - b) Where the outcome of Internal Audit follow-up testing shows that high priority actions have not been implemented.
16. The above would remove one layer of follow-up before involving the Audit Committee and so speed up the impact the Committee can have in driving through improvements.
17. The above carries the potential for several Service Directors/Managers to be requested to attend an Audit Committee if there are numerous high priority actions that have not been implemented as agreed; this could raise difficulties for the smooth running of the meeting. Whilst acknowledging this risk at this stage, there are a number of ways in which this could be managed. It is proposed that options to address this scenario be considered, as they arise, as part of the pre-agenda meetings.

### **Other Options Considered**

18. The present arrangements for following up Internal Audit recommendations could be retained.

### **Reasons for Recommendations**

19. To maximise the effectiveness of Internal Audit's use of resources in following up actions agreed by management to implement recommendations.
20. To provide more timely assurance to the Council that agreed improvements in its system of internal control are being implemented promptly.

## **Statutory and Policy Implications**

21. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

## **RECOMMENDATION**

- 1) That the proposed changes to the arrangements for following up the agreed management actions to implement Internal Audit recommendations are approved for implementation in the current financial year.

**Nigel Stevenson**  
**Service Director (Finance, Procurement and Improvement)**

**For any enquiries about this report please contact:**

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### **Constitutional Comments (SLB 09/05/2016)**

22. Audit Committee is the appropriate body to consider the content of this report.

### **Financial Comments (SES 06/05/16)**

23. There are no specific financial implications arising directly from this report.

### **Background Papers**

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

### **Electoral Division(s) and Member(s) Affected**

- All