

**REPORT OF SERVICE DIRECTOR, FINANCE, PROCUREMENT & IMPROVEMENT**

**FOLLOW-UP OF INTERNAL AUDIT RECOMMENDATIONS**

**Purpose of the Report**

1. To report progress with the implementation of agreed management actions to address Internal Audit recommendations.

**Information and Advice**

2. At its meeting in June 2016, the Audit Committee agreed a revised procedure for the follow-up of Internal Audit recommendations. Whereas previously follow-up work was geared around the opinion in each audit report, the new procedure is driven by the priority rating of each recommendation made by Internal Audit. Assurance that agreed actions have been taken will now be obtained in two phases, as below:

Priority rating of recommendation	Management assurance	Internal Audit assurance
High	Assurance is sought from management that all agreed actions have been taken	Compliance testing scheduled to confirm all agreed actions relating to high priority recommendations are carried out consistently.
Medium		Compliance testing is scheduled for selected medium priority actions
Low		No Internal Audit compliance testing is carried out
Value For Money (VFM)		Compliance testing may be scheduled for the more significant VFM recommendations

3. Following the last meeting in June, the Internal Audit service has engaged with senior managers across the Council to bring the revised procedure to their attention and to seek feedback for the management assurance that agreed actions are being taken.
4. The approach taken for this first instance of the quarterly follow-up report may be summarised as follows:
  - Feedback from management has been sought for all actions relating to recommendations first raised in draft Internal Audit reports issued since April 2015.

This excludes final reports issued in 2015/16 which relate back to draft reports issued in 2014/15.

- The reported progress at this stage is based entirely on the assurances received from management. Follow-up compliance testing by Internal Audit is scheduled to be carried in accordance with the revised procedure and as indicated in Appendix 1.
5. **Appendix 1** sets out each high priority recommendation made during the defined period, along with details of the agreed management actions and the progress to date with implementation. The appendix also sets out the proposed timing for follow-up testing by Internal Audit.
  6. At this stage, management assurances indicate that the agreed actions have been taken on almost all of the high priority recommendations; implementation is confirmed as complete or substantially complete for 25 of 29 actions (86%). This is a very positive first level of assurance from management that the Council's system of internal control has been strengthened as a result of the work of Internal Audit.
  7. The outstanding issues relate to the following:
    - ASCH&PP District Client Accounts – implementation of one action has slipped
    - CFCS Locality-based Client Accounts – a revised procedure will be implemented in September 2016
    - Place Catering & Facilities Management – implementation of one action has been delayed but will now be implemented.
  8. With regard to the medium, low and VFM priority recommendations, the feedback received from management may be summarised as follows:

<b>Recommendation Breakdown</b>	<b>ASCH&amp;PP</b>	<b>CFCS</b>	<b>PLACE</b>	<b>RESOURCES</b>	<b>CROSS-CUTTING</b>	<b>TOTALS</b>
<b>MEDIUM PRIORITY</b>						
Agreed	18	34	16	5	16	89
Implemented	17	25	14	4	7	67 (75%)
Not yet due	1	0	0	1	7	9 (10%)
Outstanding	0	9	2	0	2	13 (15%)
<b>LOW PRIORITY</b>						
Agreed	8	4	10	4	1	27
Implemented	8	4	9	1	0	22 (81%)
Not yet due	0	0	0	2	1	3 (11%)
Outstanding	0	0	1	1	0	2 (8%)
<b>VALUE FOR MONEY</b>						
Agreed	2	1	2	1	0	6
Implemented	1	1	2	1	0	5 (83%)
Not yet due	0	0	0	0	0	0 (0%)
Outstanding	1	0	0	0	0	1 (17%)

9. It can be seen from the above table that actions to address the lesser priority control issues raised by Internal Audit are confirmed by management in over 77% of cases. Again, this is a positive first level of assurance received from management that improvements to the Council's system of internal control are being made as a result of Internal Audit's work.

10. In the second half of the year, follow-up testing will be scheduled by Internal Audit to confirm embedded implementation of each of the high priority actions listed in Appendix 1. The target quarters for this follow-up work are indicated in the appendix, and the outcomes will be reported to future meetings of the Audit Committee. Follow-up testing will also be targeted at selected medium-priority and VFM actions.
11. Arising from the above, the Committee may consider that it requires further updates and assurances from management at its next meeting in December in relation to one or more of the areas listed in the appendix.

### **Other Options Considered**

12. Given the recent approval by the Audit Committee for the change in procedure for the follow-up of internal Audit recommendations, no other options for obtaining the required assurances were considered at this time.

### **Reason/s for Recommendation/s**

13. To enable the Audit Committee to consider whether it has received sufficient assurance that actions in response to Internal Audit's recommendations are being implemented as agreed, or whether it considers that further and more detailed updates from management are required.

### **Statutory and Policy Implications**

14. 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 adults at risk, 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.

### **Financial Implications**

Many of Internal Audit's recommendations are made with specific financial implications in mind. Such recommendations, and the associated management actions, are designed to secure effective governance, internal control and risk management.

## **RECOMMENDATION/S**

- 1) The progress detailed in the report and its appendix are noted, and the Committee determines whether it wishes to receive further and more detailed updates on progress from relevant managers in any of the areas of activity covered by this report.

**Nigel Stevenson**

**Service Director – Finance, Procurement and improvement**

**For any enquiries about this report please contact: Rob Disney, Head of Internal Audit**

**Constitutional Comments [KK 11/08/2016]**

15. The proposal in this report is within the remit of the Audit Committee.

**Financial Comments [CB 12/08/2016]**

16. The financial implications are contained within the report.

**Background Papers and Published Documents**

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.

- The full Internal Audit reports containing the recommendations listed in Appendix 1.

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

- All