

Governance, Risk and Best Value Committee

10.00am, Tuesday 8 May 2018

Internal Audit Report – Historic Internal Audit Findings

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| Item number | 7.3 |
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| Executive/routine | |
| Wards | |
| Council Commitments | |

Executive Summary

The purpose of this paper is to provide Committee with an update on the validation exercise which has been carried out to establish whether the Council is exposed to significant service delivery risks relating to audit activity from 1 April 2015.

An audit risk was identified within Internal Audit (IA) in relation to follow up; recording; and closure of findings raised since 1 April 2015. Consequently, IA has been non-compliant with Public Sector Internal Audit Standards (PSIAS) requirements.

Appropriate actions to address the historic service delivery risks have been agreed with the Corporate Leadership Team (CLT), and a total of 30 historic findings will now be reopened as 'overdue' with implementation progress to be tracked as part of the IA follow up process.

These will be in addition to the 22 open findings raised in 2015/16 and 2016/17 that were already being reported as overdue to the Committee.

The service delivery risk will be reflected in the Chief Executive and Executive Director Annual Governance Statements for 2018/19 and in the Corporate Leadership Team Risk Register. The service delivery and audit risks will also be reflected in the 2017/18 IA annual opinion.

This report reinforces the importance for all service areas to take ownership for and address audit findings in a timely manner to effectively manage service delivery risks within an environment of effective and sustained operational controls.

Internal Audit Report – Historic Internal Audit Findings

1. Recommendations

- 1.1 The Committee is recommended to note:
 - 1.1.1 the significant service delivery risks associated with historic IA findings that have not yet been implemented, or which have been implemented and not sustained by service areas;
 - 1.1.2 the audit risk associated with historic IA operational failings and non-compliance with PSIAS; and
 - 1.1.3 the actions agreed by the Corporate Leadership Team (CLT) to address the historic service delivery risks.

2. Background

- 2.1 IA activities should be performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS).
- 2.2 Both PSIAS (section 2500) and International Internal Audit Standards applied by the Institute of Internal Audit require Internal Audit teams to monitor the outcomes of audit engagements to ensure that actions have either been implemented effectively (follow-up) or that management has accepted the risk.
- 2.3 The Council's IA Charter 2017/18 stated that 'Internal audit will track the status of all open recommendations. Medium and High rated recommendations that are overdue will be reported to the GRBV committee on a quarterly basis. IA will advise departments at least quarterly of all open recommendations and invite departments to provide evidence that the recommendations have been actioned'.
- 2.4 IA completed a total of 60 audits between 1 April 2016 and 31 March 2017, and raised a total of 175 IA findings (1 Critical; 48 High; and 126 Medium). These were supported by IA recommendations and management actions which were agreed by service areas to address the control gaps identified.
- 2.5 Of these 153 (87%) - 1 Critical; 44 High; and 108 Medium - had been closed by IA as part of their ongoing follow up process.
- 2.6 The Committee should note that any Low rated recommendations raised in the period have been excluded from the analysis included in this paper.

3. Main report

- 3.1 In November 2017 completion of an internal quality assurance file review indicated that IA had not effectively and consistently performed and recorded their follow-up of agreed management actions to support closure of audit findings raised in audit reports since 1 April 2015, and were potentially non-compliant with PSIAS.
- 3.2 The review was risk based and covered all High and a 20% sample of the Medium Findings that had been raised between 1 April 2015 and 31 March 2017 and were subsequently recorded as being closed.
- 3.3 The issue was highlighted to CLT in November 2017, and it was agreed that IA would perform a retrospective validation exercise across all Service Areas during December 2017, using a sample of reports that included findings previously closed by IA. The objective of this review was to determine whether the gaps identified were limited to an operational failing within IA, or whether the Council was exposed to a wider historic service delivery risk.
- 3.4 The sample validation exercise involved review of 7% of all audit reports issued in 2015/16 and 2016/17 that included High and Medium rated recommendations. The outcomes of the review were presented to CLT in January 2018, and concluded that, based on the sample reviewed, that Service Areas had either failed to implement agreed management actions, or had failed to sustain them once implemented. Consequently, the Council was to remain be exposed to the risks previously identified by IA. These issues had not been identified earlier due to weaknesses in the IA follow up process, which are now being addressed.
- 3.5 In January 2018, the CLT agreed that Directorates would self-attest to both Internal Audit and CLT by the end of February 2018 as to whether management actions to address High and Medium rated findings included in Internal Audit reports issued between 1 April 2015 and 31 March 2017 had been implemented and sustained; implemented but not sustained; not implemented; or were no longer applicable. Explanations were to be provided where exceptions were identified.
- 3.6 A separate review was added to the 2017/18 IA plan to validate whether the 9 findings raised in the IA review of 'Contract Management - Edinburgh Building Services and Housing Asset Management' audit completed in August 2016 (5 High; 2 Medium; 1 Low; 1 Advisory) had been effectively implemented and sustained. This review has now been completed, and the draft report has been shared with management.
 - 3.6.1 Testing confirmed that that three High rated findings had only been partially implemented and should not have been closed.
 - 3.6.2 Reflecting the progress made by Housing Property Services in implementing their agreed management actions, the remaining elements of the first 2 High findings raised have been consolidated, and the remaining High rated finding reduced to a Medium. Consequently 2 historic findings, (1 High and 1 Medium)

have been reopened, and included in the overall total of 34 historic IA findings to be reopened.

- 3.7 A further 4 High and 1 Medium rated findings were also excluded from both exercises as IA were satisfied that they had been satisfactorily closed. Further detail is included at Appendix 1.
- 3.8 As at 2 May 2018 senior management attested that 66% of the historic findings had been properly implemented and sustained and that a further 4% are no longer applicable. This attestation process also confirmed that agreed management actions required to address a total of 10% of the population of IA findings (15% of the 48 High; and 9% of the 126 Medium rated findings) had either not yet been implemented, or implemented but not sustained for a further 7% (8% of the 48 High and 6% of the 126 Medium rated findings). The remaining 13% of IA findings from the period are part of the findings that are already reported to the Committee as overdue. Further detail is included at Appendix 2.
- 3.9 The outcomes of the self-attestation exercise confirmed that the Council is exposed to a significant historic service delivery risk that must now be addressed.
- 3.10 In January 2018, the CLT agreed the following actions to address the outcomes of the self-attestation exercise:
 - 3.10.1 any High or Medium rated findings where management actions were not implemented, or implemented and not sustained would be reopened; recorded as overdue; and tracked through the Internal Audit monthly follow-up process;
 - 3.10.2 CLT and Directorate risk registers would be revised and refreshed to reflect historic service delivery risks that could potentially crystallise; and
 - 3.10.3 an appropriate reference to IA recommendations not implemented, or implemented and not sustained would be agreed and included as a caveat in the Annual Governance Statement prepared by each Directorate.
- 3.11 Consequently, a total of 30 historic IA findings (11 High and 19 Medium) will now be reopened as overdue and tracked as part of the monthly IA follow-up process. This will be in addition to the 22 Findings (3 High and 19 Medium) currently reported as overdue from 2015/16 and 2016/17. Analysis of the 30 historic findings by Directorate is included at Appendix 3.
- 3.12 Additionally, the historic service delivery risk and audit risk will be reflected in the Council's 2017/18 IA annual opinion.
- 3.13 The validation audit included in the 2018/19 IA plan will assess the accuracy of Directorate self-attestations and the effectiveness of action taken to address findings raised in historic IA reports. This review will revisit a sample of historic IA findings that Executive Directors have attested as having been implemented and sustained. Where control gaps are identified, the original audit recommendations will be reopened, reported as 'overdue' and tracked through the monthly Internal Audit follow-

up process. A formal audit report will also be produced and shared with CLT and GRBV detailing the review outcomes.

- 3.14 PwC, the Council's contracted co-source provider for the period in question will be assisting the Council in rectifying the position moving forward, at no cost to the Council.

4. Measures of success

- 4.1 Appropriate action is taken by Directorates and Service Areas to address historic service delivery risks associated with IA recommendations that have not been implemented, or implemented and not effectively sustained.

5. Financial impact

- 5.1 Potential financial risks associated with historic IA findings that have not been addressed (please note that these have not been quantified, but are not expected to be material as financial risk is also subject to review by external audit), and the costs associated with time required to address the historic position for both Services Areas and IA.

6. Risk, policy, compliance and governance impact

- 6.1 Audit risk and non-compliance with Public Sector Internal Audit Standards.
- 6.2 Historic Risks identified by IA have not been effectively addressed and mitigated by Service Areas.

7. Equalities impact

- 7.1 Not applicable.

8. Sustainability impact

- 8.1 Not applicable.

9. Consultation and engagement

- 9.1 The Council's Corporate Leadership Team and relevant conveners and all political groups have been briefed in relation to the issues noted in this paper.

10. Background reading/external references

- 10.1 Public Sector Internal Audit Standards: [Public Sector Internal Audit Standards](#)
- 10.2 Institute of Internal Audit: [Institute of Internal Audit](#)
- 10.3 Internal Audit Charter: [Item 7.3 Internal Audit Charter](#)
- 10.4 Internal Audit Annual Plan: [Item 7.2 Internal Audit Annual Plan 2018/19](#)

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11. Appendices

Appendix 1 – Findings excluded from the scope of the IA quality assurance review and self-attestation

Appendix 2 – Analysis of historic population as at 2 May 2018

Appendix 3 - Analysis by of findings to be reopened by Directorate as at 2 May 2018

Findings excluded from the scope of the IA quality assurance review and self-attestation

1. Property Maintenance audit - 1 High finding was appropriately closed on the basis that management accepted the risk after an additional £2m was added to the Council budget for property maintenance for 2015/16 and 2016/17. Approved by Finance & Resources Committee on 14 January 2016. (Report 7.6: para 3.34).
2. Contract Management Roads audit (3 Highs) closed on the basis of a paper to GRBV on 9 March 2017 from IA recommending that all outstanding actions are closed as they were superseded by the Edinburgh Roads Service (ERS) Improvement Plan; and
3. Governance Arrangements, Arms-Length Companies audit (1 Medium) was appropriately closed following a report taken to full Council on 30 June 2016 (Item 8.2) setting out revised governance arrangements.

Analysis historic population as at 2 May 2018

Table 1: Analysis based on the full population of 174 IA findings raised

| | High | % | Medium | % | Total | %of total |
|--|-------------|-------------|---------------|-------------|--------------|------------------|
| Findings currently reported to CLT and GRBV as overdue | 3 | 6% | 19 | 15% | 22 | 13% |
| Not Implemented | 7 | 15% | 11 | 9% | 18 | 10% |
| Implemented not sustained | 4 | 8% | 8 | 6% | 12 | 7% |
| Implemented and sustained | 30 | 63% | 84 | 67% | 114 | 66% |
| No Longer Applicable | 4 | 8% | 4 | 3% | 8 | 4% |
| Totals | 48 | 100% | 126 | 100% | 174 | 100% |

Analysis by of findings to be reopened by Directorate as at 2 May 2018

| Directorate | High | Medium |
|--|-------------|---------------|
| Resources | 2 | 5 |
| Communities and Families | 1 | 1 |
| Health and Social Care | 4 | 5 |
| Place | 2 | 3 |
| Chief Executive's Service - Strategy and Insight | 2 | 5 |
| Total | 11 | 19 |