

Committee(s): Audit and Risk Management Committee – For Decision	Date(s): 28/01/2020
Subject: Internal Audit Recommendations Update	Public
Report of: Head of Audit and Risk Management	For Decision
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Summary

This report has been prepared to provide Members with a status update on the implementation of high priority Internal Audit Recommendations made. Overall, 39% of recommendations that fell due since the last update have been implemented within agreed timescales, 37% are partially implemented and 24% not yet implemented.

There are, including those that are not yet due, 9 Red and 84 Amber live recommendations.

Members are asked to endorse a revised approach to undertaking audit follow-up activity, with a view to securing more effective implementation and operational efficiencies.

Recommendation(s)

Members are asked to:

- Note the current status of live audit recommendations.
- Endorse the proposed changes to the way that audit follow-up work is undertaken.

Main Report

Background

1. The Audit and Risk Management Committee receives regular status updates on the implementation of high priority (Red and Amber) Internal Audit recommendations made. This report provides Members with the latest position, based upon information received from departments and Audit testing undertaken.
2. Having observed the recommendations follow-up process over the past 6 months, a number of areas for improvement have been identified. This report also, therefore, seeks the views of the Audit and Risk Management Committee in relation to a revised follow-up approach.

Current Position

3. Follow-up activity has recently been completed in respect of all live red and amber priority recommendations where their due date has passed. A summary of follow-up outcomes by department is included as **Appendix 1** which shows that 10 recommendations have not been implemented in accordance with target dates set and where no revised implementation date has been received. A further 44 recommendations are outstanding for which revised implementation dates were received, these will be subject to further follow up in due course. 34 high priority recommendations have been confirmed as implemented.
4. High priority recommendations due but not implemented or only partially implemented are summarised at **Appendix 2** and a comparison of revised target dates to original agreed dates is shown where available. Departments have, in the main, provided explanations for non-implementation together with revised target dates. The appendix also identifies where revised target dates have previously been provided, i.e. where original target dates had not been met at first follow-up.
5. Including the 54 overdue recommendations, there were a total of 93 (9 Red and 84 Amber) live high priority recommendations as at 31 December 2019. A breakdown of the number of live recommendations by department is shown at **Appendix 3**.
6. The 9 live Red recommendations, all of which are not yet due for implementation, relate to the following:
 - a. City of London School – planning in relation to penetration testing of IT systems
 - b. City of London Freeman's School – improving security over the use of USB drives/devices (revised target date)
 - c. City of London Police – Improvements to the budget setting process
 - d. Community and Children's Services – formalising contract arrangements for placements for young asylum seekers (revised target date)
 - e. Community and Children's Services – ensuring that individual agreements are in place for placements for all young asylum seekers (revised target date)
 - f. Community and Children's Services – value for money in relation to the use of semi-independent living providers (asylum seekers) (revised target date)
 - g. Community and Children's Services – improved contract monitoring arrangements for providers of services to looked after asylum seekers
 - h. City Surveyors – CLFS Enabling Works – Approval of contract variations
 - i. City Surveyors – CLFS Enabling Works – Completion of interim payment certificates

Review of the Follow-up Process

7. The current process results in a follow-up recommendation by recommendation, looking at those with target implementation dates between each Committee

meeting and operates on a “self-service” basis with an Audit liaison officer gathering and submitting evidence for review.

8. Issues with the current process:

- Audit liaison officers do not have the technical knowledge and experience of the Audit team and so are not always able to verify that the evidence is sufficient to demonstrate implementation. This results in a number of queries between the Audit team and departments.
- Audit areas will be subject to some follow-up activity on multiple occasions throughout the year as recommendations fall due but at no point is there a review of the collective impact of management action taken.
- The self-service approach does not allow for an assessment as to whether compensating controls exist, i.e. the opportunity to assess whether the recommendation raised is still valid.
- The context of the issues raised is lost when reporting against individual recommendations, as a result it is not always clear whether or not a significant issue exists.
- The reconciliation of live recommendations is very complex and results in very limited management information.
- Follow-up work is undertaken en masse for each Committee meeting, which dominates management time and a large proportion of auditor time for almost a whole week for every report prepared.
- Target implementation dates provided by departments are not always well considered which results in revised implementation dates being set when follow-up activity is undertaken.

9. Proposed approach and benefits:

- Follow-up work is delivered on an audit by audit basis, examining collectively the action taken to address all issues raised in the original audit review.
Benefit: enables a revised assurance opinion to be derived.
- Follow-up work is reported to the Audit and Risk Management Committee as part of the regular Internal Audit Plan Delivery update, in the format of an assurance map/grid. **Benefits:** Members will receive revised assurance opinions where Amber or Red assurance was previously given. Where the follow-up review does not result in a revised assurance opinion, it will be clear to Members which Officers should be invited to Committee and held to account.
- Follow-up reviews are scheduled at the time of agreeing the Final Audit Report. **Benefits:** improves accountability for implementation dates agreed. Less disruptive to the flow of audit work around the Committee timetable. More efficient use of Auditor, Audit Manager and Audit Liaison time.

10. Initial discussion with some Chief Officers regarding the proposed approach has resulted in very positive feedback and it is anticipated that, in addition to the above, this will result in improved engagement and, therefore, more consistent implementation of recommendations made.

Conclusion

11. Implementation progress is broadly consistent on a proportionate basis with the position since the last report made, with only 24% of high priority recommendations due not implemented in full by the agreed due date. In total, the number of live recommendations has decreased from 117 (at 31/10/2019) to 93 (at 31/12/2019). Internal Audit work is ongoing to confirm implementation of those recommendations reported as outstanding.
12. There is opportunity to improve the implementation of audit recommendations through changing the way that we work. It is anticipated that this will also bring about operational efficiencies for the Internal Audit team and colleagues that we interact with across the organisation.

Appendices

- Appendix 1 – Summary of Formal Follow-up Outcomes
- Appendix 2 – Analysis of Follow-up Recommendations Not Implemented
- Appendix 3 – Live High Priority Recommendations at the end of August 2019

Background Papers

- Report to Audit and Risk Management Committee: Internal Audit Recommendations Follow-up (May 2019, September 2019)
- Report to Audit and Risk Management Committee: Internal Audit Update (November 2019)

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