

# Governance, Risk and Best Value Committee

10:00am, Thursday 23 June 2016

## Corporate Leadership Team action plan to address matters arising in the Internal Audit Opinion

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|-------------------|-----|
| Item number       | 7.4 |
| Report number     |     |
| Executive/routine |     |
| Wards             |     |

### Executive summary

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Internal Audit has made reasonable progress in the final quarter of the audit year. This report provides details of the activity from 1 January 2016 – 31 March 2016.

### Links

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|                          |                      |
|--------------------------|----------------------|
| Coalition pledges        | <a href="#">PO30</a> |
| Council outcomes         | <a href="#">CO25</a> |
| Single Outcome Agreement |                      |

## Corporate Leadership Team action plan to address matters arising in the Internal Audit Opinion

### Recommendations

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- 1.1 Committee is requested to note this report and the actions that it outlines.

### Background

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- 2.1 In December 2014 the Audit of Best Value and Community Planning of The City of Edinburgh Council noted that “the Council had made good progress in a number of areas, such as risk management and scrutiny.” The Best Value Audit 2016 stated that “some important elements are now in place to help such a drive for improvement. We are particularly encouraged by the progress made by the Council in embedding its governance arrangements, notably around elected member scrutiny of performance. Improved risk management and internal audit is also valuable”
- 2.2 The 2015/16 Internal Audit annual report assesses the Council’s governance, risk and control environment as *‘generally adequate but with enhancements required’*. The Internal Audit annual report advises that the current position is broadly similar to the position in 2014/15 but notes that the Council’s governance, risk and control environment remains *‘towards the lower end of this category’*.
- 2.3 The Corporate Leadership Team (CLT) would like to take the opportunity to reiterate their support for the activities of the Internal Audit team and welcome the independent challenge that they provide.
- 2.4 The CLT are pleased to note that there appears to have been no deterioration in the governance, risk and control environment during a period of the significant change through the Transformation programme.
- 2.5 Nevertheless, the CLT recognises that the governance, risk and control environment is not as fully robust they would like it to be and recognise that they need to address any current areas of weakness. This report sets out the actions that the CLT intend to take to help strengthen the Council’s governance, risk and internal control environment.

## Main report

### Strengthening the 2<sup>nd</sup> Line of defence

- 3.1 The CLT recognises the value of Internal Audit in identifying weakness and promoting improvements in the Council's governance, risk and control environment but appreciates that Internal Audit is the Council's 3<sup>rd</sup> line of defence. The CLT recognises the necessity for the Council to strengthen its 2<sup>nd</sup> line of defence (management assurance and risk management) and that it is management who are responsible for designing and implementing an adequate controls framework. Strengthening the 2<sup>nd</sup> line of defence will have a positive impact upon the effectiveness of the 1st line of defence (operational management) and the overall control framework.
- 3.2 The Council has undergone, and will continue to undergo, significant change as the Transformation project is fully implemented. These changes have resulted in different ways of operating and require changes to the controls framework to be implemented to ensure that the business is fully controlled in an appropriate manner.
- 3.3 CLT have identified three key actions for driving improvement in the controls framework:

| <b><i>Mechanism</i></b>                                 |   |
|---|---|
| Increased internal challenge                            | <p>CLT will challenge each service to self review its own internal control framework, subsequent to the completion of Transformation, to ensure that it remains appropriate.</p> <p>CLT will encourage all services to review their controls framework on an ad-hoc basis and to develop a culture of continuous internal consideration and improvement.</p>  |
| Investment in the Risk Function                         | <p>CLT are investing in the centralised Risk oversight and facilitation function. Risk register reviews/risk discussions will also be given greater prominence at CLT.</p> <p>Risk has an important role to play in indentifying and highlighting areas of potential concern (including those that cross lines of service). This assists the Directorates to focus their efforts on the areas of greatest significance.</p> |
| Strengthening of the Council's Annual Assurance process | <p>The Council has a self assessment assurance process to support the Annual Governance Statement given by the Council each year in their Audited Annual Accounts. As</p>   |

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|  | <p>reflected by the improved scrutiny and change referenced in the Best Value Audit, the Assurance process has been refined and strengthened on an ongoing basis. As part of this process, each Director is required to self assess the controls framework within their Directorate.</p> <p>Working with Risk and Governance, CLT will be encouraging each Directorate to invest in that process to obtain a more detailed understanding of the underlying controls framework and areas for improvement.</p> |
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- 3.4 The CLT recognise that improving the Council’s controls framework will be a ongoing process but would expect these actions to generate improvements over the short to medium term.

**Increasing responsiveness to Internal Audit’s activities**

- 3.5 The CLT recognises that the Internal Audit report contains a number of areas that do not reflect well on the Council’s responsiveness to addressing concerns raised by Internal Audit. In particular CLT are uncomfortable with the number of over overdue actions being reported each quarter by Internal Audit (while accepting that in a period of change there will inevitably be some recommendations in this category) and the apparently low level and/or inadequacy of responsiveness by Management to certain draft recommendations issued by the Internal Audit function.

- 3.6 In order to mitigate these issues, CLT are proposing to increase Internal Audit presence at CLT meetings by way of a monthly update on the position. Internal Audit currently present their draft Governance, Risk & Best Value report quarterly to CLT. It is proposed that Internal Audit will continue to do this but in the other two months, Internal audit will be requested to present:

- Current over-due audit actions and recommendations that will fall due in the next 3 months; and
- Internal Audit reports that have been issued in draft to Management.

Directors will provide an update on the outstanding or significant matters for CLT discussion.

- 3.7 CLT believe that this enhanced reporting will give CLT much greater visibility over the Directorates’ response to Internal Audit recommendations and that this visibility will increase accountability and responsiveness. This should result in Internal Audit recommendations being actioned earlier with a corresponding improvement to the Council’s control framework.

## Measures of success

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- 4.1 Once implemented, the recommendations contained within these reports will strengthen the Council's control framework.

## Financial impact

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- 5.1 None.

## Risk, policy, compliance and governance impact

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- 6.1 Strengthening the Council governance, risk & internal control framework will reduce the likelihood of the Council facing a negative shock.

## Equalities impact

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- 7.1 No full ERIA is required.

## Sustainability impact

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- 8.1 None.

## Consultation and engagement

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- 9.1 None.

## Background reading/external references

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- 10.1 Internal Audit Opinion for 2015/16.

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## Links

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|---------------------------------|---|
| <b>Coalition pledges</b>        | PO30 - Continue to maintain a sound financial position including long-term financial planning |
| <b>Council outcomes</b>         | CO25 - The Council has efficient and effective services that deliver on objectives            |
| <b>Single Outcome Agreement</b> |   |
| <b>Appendices</b>               |   |