

# Governance, Risk and Best Value Committee

10.00am, Tuesday 18 August 2020

## Internal Audit: Revisiting Internal Audit Extension Timeframes

Item number

Executive/routine

Executive

Wards

Council Commitments

### 1. Recommendations

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It is recommended that the Committee notes that:

- 1.1 a blended approach has been agreed by the Corporate Leadership Team (CLT) and will be adopted by Council divisions and directorates to determine whether further extensions are required to their currently open Internal Audit (IA) findings to reflect the impacts of the ongoing Covid-19 pandemic.
- 1.2 details of the blended approach proposed by each Directorate (including details of any open findings proposed for closure based on retrospective acceptance of the associated risks) will be discussed with and reviewed by IA, and reported to the Committee in November 2020.

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## Internal Audit: Revisiting Internal Audit Extension Timeframes

### 2. Executive Summary

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- 2.1 The purpose of this paper is to provide the Committee with an update on the approach agreed by the CLT that will be adopted by directorates to determine whether any further extensions are required to their currently open IA findings to reflect the impacts of the Covid-19 pandemic.

### 3. Background

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- 3.1 It is important that IA responds appropriately to the current Covid-19 pandemic situation by making appropriate adjustments to both annual plan delivery and the established follow-up process, enabling the Council to focus on key operational resilience activities whilst ensuring that existing and new and emerging risks are effectively identified, managed, and mitigated.
- 3.2 At their meeting on 9<sup>th</sup> June 2020, the Governance, Risk and Best Value Committee (GRBV) approved the application of a four month extension to current completion dates for all open and overdue IA findings.
- 3.3 This decision was based on an IA recommendation included in the Internal Audit – Covid-19 Response paper presented at the June committee, which confirmed that the position would be reviewed again at the end of July 2020.
- 3.4 A discussion was held at the Corporate Leadership team on Wednesday 29<sup>th</sup> July 2020 to determine whether further extensions were required and appropriate in relation to open IA findings in response to the impact of the Covid-19 pandemic.
- 3.5 Review of closure of both open management actions that were due for completion between April and June 2020, and closure of overdue management actions in the same period confirmed that there had been a significant decline in comparison to the previous two quarters as a result of the Covid-19.
- 3.6 As at 17 July 2020, there was a total of 82 open IA findings across the Council (36 High; 34 Medium; and 12 Low) to be addressed. It should be noted that this

population will increase following finalisation of IA reports completed during the 2019/20 annual plan year.

## 4. Main report

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### **Key points considered by the Corporate Leadership Team**

- 4.1 Recognising that the Covid-19 pandemic is likely to continue to impact the Council for the foreseeable future, the CLT considered the following points when deciding whether a further extension should be applied to current completion dates for open IA findings:
- 4.1.1 ongoing exposure to the risks associated with the 82 currently open IA findings;
  - 4.1.2 the additional impact of the risks associated with the new findings raised in the reports recently finalised by IA to support the 2019/20 annual opinion;
  - 4.1.3 the current and future capacity of divisions and directorates to address the risks associated with these open IA findings by implementing agreed management actions;
  - 4.1.4 whether the risks associated with open IA findings (for example, the risks associated with first line supplier management arrangements) have increased or decreased in the current operating environment, and in relation to the new and emerging risks associated with Covid-19;
  - 4.1.5 the effectiveness and stability of 'business as usual' operational controls given the Council's current focus on ongoing resilience and Adaptation and Renewal Programme (Programme) activities;
  - 4.1.6 whether any of the open IA findings can be closed within the scope of Programme activities; and
  - 4.1.7 the potential impacts of future known and unplanned events (for example, a 'no deal' Brexit outcome or a further wave of Covid-19) on these risks, and management's capacity to ensure that they can be effectively managed if these events materialise.

### **Potential approaches for extending open IA findings**

- 4.2 The approaches for extending completion dates for open IA findings detailed at 4.2.1 to 4.2.4 below were considered by the CLT, and IA's recommendation that a blended approach should be adopted for each directorate was agreed. This approach will involve management assessing the significance of the risks associated with their open IA findings in the current operating environment. Findings with the most significant risks will then be prioritised for implementation and closure, with extensions applied to the remainder of the findings in line with the risk based approach proposed at paragraph 4.2.3, and some retrospective risk acceptance (where appropriate) as described at 4.2.4 below.

- 4.2.1 **No further extensions applied** – no further extensions are applied to any of the open IA findings, and management continues to progress with their implementation by the extended (four month) due dates initially applied in response to Covid-19.

This approach was discounted given management's current and future capacity to focus on implementation of agreed management actions in the current operating environment, and the increase in the number of open IA findings following completion of the 2019/20 IA annual plan.

- 4.2.2 **Blanket extension** - another 'blanket' extension is applied to all currently open IA findings (for example a further three months) with directorates and divisions encouraged to close these where possible.

This approach was also discounted as a unique option as it does not recognise the likelihood that the risks associated with open findings will have changed in the current Covid-19 operating environment (for example, an open IA finding originally assessed as Medium may now be considered High or indeed vice versa), and the need to identify, prioritise and address these findings.

- 4.2.3 **Risk based approach** - adopt a risk based approach where extensions are applied based on the rating of open IA findings, for example, all Low rated findings are extended for six months; Medium rated findings for 3 months; and High rated findings extended for one month.

This approach was also discounted as a unique solution for the same reasons as the blanket extension approach outlined at 4.2.2 above.

- 4.2.4 **Retrospective risk acceptance** - consider retrospectively accepting the risks associated with Low and potentially some Medium rated open IA findings, with details of the findings closed based on risk acceptance should be reported to the GRBV committee for their review and scrutiny.

- 4.3 As noted above, IA's recommendation that a blended approach should be adopted for each directorate was agreed.

- 4.4 The CLT also agreed that management would consider whether any open IA findings could be mapped across into Programme workstreams and addressed through delivery and implementation of Programme initiatives (for example changes to existing service delivery models). Where Programme delivery is identified as a potential solution, relevant findings will be included in workstream plans; agreed management actions revisited to confirm that they remain appropriate; and revised implementation dates agreed with IA.

## 5. Next Steps

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- 5.1 Management are in the process of reviewing their open IA findings and will prepare proposals for discussion with IA by the end of August 2020. This will include details

of any open IA findings that could potentially be included in the scope of the Programme.

- 5.2 A paper detailing the holistic Council wide impacts of directorate proposals (including details of any open findings where the associated risks will be retrospectively risk accepted and closed) will be prepared by IA and presented to the Committee in November 2020.

## **6. Financial impact**

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- 6.1 There are no direct financial impacts associated with the recommendations in this paper.

## **7. Stakeholder/Community Impact**

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- 7.1 Assurance for stakeholders and elected members that management continues to apply a proportionate and balanced approach to managing and mitigating risk whilst managing ongoing operational resilience activities, and implementing organisational change.

## **8. Background reading/external references**

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- 8.1 [Internal Audit: Covid-19 Response](#)

## **9. Appendices**

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None.