Policy and Sustainability Committee

10.00am, Tuesday, 6 October 2020

Response to Internal Audit Opinion 2020

Executive/routine
Wards
Council Commitments

1.   Recommendations

1.1   To note the actions being taken to resolve the weaknesses identified in the Chief Internal Auditor's 2020 Internal Audit Opinion.

1.2   To note that additional capacity will be provided immediately to bolster assurance with initial focus on addressing open Internal Audit findings within the Council.

Andrew Kerr

Chief Executive

Contact: Andrew Kerr, Chief Executive

E-mail: andrew.kerr@edinburgh.gov.uk | Tel: 0131 469 3002

Report

Response to Internal Audit Opinion 2020

2.   Executive Summary

2.1   This report sets out the approach that the Chief Executive is taking to resolve the weaknesses identified in the Chief Internal Auditor's 2020 Internal Audit Opinion. A comprehensive approach covering the implementation of agreed management actions to address open IA findings; governance and risk management frameworks, operational processes and controls; and assurance has commenced, and this report provides details on these workstreams and identifies expected timelines.

3.   Background

3.1   The Governance, Risk and Best Value Committee (GRBV) considered the Internal Audit Annual Opinion for the year ended 31 March 2020 on 18 August 2020. The Opinion identified that there were significant and/or numerous control weaknesses in the design and/or effectiveness of the control environment and/or governance and risk management frameworks. As a result of this, only limited assurance could be provided that risks were being managed and that the Council's objectives would be achieved. The report also noted that the weaknesses identified and highlighted in Internal Audit (IA) reports supporting the 2019/20 annual opinion were predominantly attributable to lack of capacity and skills within first line divisions and directorates to ensure that key controls; governance; and risk management processes were consistently and effectively applied to support effective ongoing management of service delivery and projects.

3.2   The Committee noted the significant and thematic weaknesses that contributed to this opinion and requested a plan to be brought back on how the areas for improvement listed at 4.16 of the Chief Internal Auditor's report would be addressed to enable the significant improvements required in time for the delivery of the next annual audit opinion.

3.3   The Institute of Internal Auditor's 'Three Lines Model' is designed to help organisations identify structures and processes that best assist the achievement of objectives and facilitate strong governance and risk management. This report references the use of the Three Lines model and also seeks to ensure that improvements link with, and work alongside, the model in how the Council is approaching its governance.

3.4 The Three Lines Model includes first line divisions and directorates (the 'doers') that are responsible for delivering services in line with applicable legislation; regulations; policies; and frameworks, and ensuring that risks are identified and managed in line with the Councils risk appetite and considered when making both operational and strategic decisions. First line teams are supported by the second line teams (the 'helpers') who are responsible for maintaining policies and supporting frameworks, and providing ongoing oversight and challenge to first line teams in a constructive 'critical friend' capacity. Independent assurance is provided by IA (the 'checkers') and other relevant external bodies (for example, external audit; Audit Scotland; The Scottish Government and other external regulators). on the design and effectiveness of the Council's governance and risk management processes and operational control environment.

4. Main report

4.1 In her report, the Chief Internal Auditor indicated that any plan to address the red audit rating will require a range of solutions to be implemented and that a quick fix will not be sufficient. Resolving these weaknesses will require improvements in culture, clarity on roles and responsibilities, new improved guidance and frameworks and addressing capacity issues. Although some of these improvements are already being progressed, others will take time to research, analyse and implement.

4.2 The Chief Internal Auditor has indicated that she believes that there are currently three key issues which will improve the overall audit outcomes for the Council:

4.2.1 Improve timely closure of internal audit management actions for identified risks

4.2.2 Improve "business as usual" operational controls to minimise risks; and

4.2.3 Ensure that Covid response implementation is appropriately managed.

4.3 The Chief Executive has instructed that a plan be put in place that will address these matters, improve on the red rated (significant improvement requirement) internal audit annual opinion outcome, and to make the necessary significant improvements necessary. All of these elements will interlink, and this report outlines the following elements which make up the approach:

4.3.1 Resolving outstanding management actions from internal audits

4.3.2 Reviewing the current risk management framework

4.3.3 Reviewing current assurance capacity and structures

4.3.4 Taking all of the above into account as part of the operational governance review through the Adaptation and Renewal programme.

Resolving outstanding management actions from internal audits

4.4 On Wednesday 22 July 2020, in response to an IA paper presented to the CLT that outlined options for revisiting completion timeframes for open IA findings, the Chief

Executive instructed all directors to meet with the Chief Internal Auditor to review all open IA findings in light of the impact of Covid-19 and management's capacity to address the new findings raised in audits completed in the 2019/20 plan year.

4.5   These meetings have taken place and a paper will be presented to the CLT on 7 October and then the Governance, Risk, and Best Value Committee on 3 November that outlines the approach to be adopted. This will confirm the number of open IA findings where:

    4.5.1   the risks associated with open IA findings have been retrospectively accepted by management and the open findings will be closed based on this risk acceptance;

    4.5.2   agreed management actions have changed; and

    4.5.3   completion dates have been extended.

4.6   Following completion of this exercise, monthly reporting on the status of open IA findings to CLT will be reinstated from October 2020, with reporting to the Governance, Risk, and Best Value Committee reinstated from December 2020.

4.7   The ongoing impact of Covid-19 and management's capacity to address open IA findings will be closely monitored to determine whether any further extension to revised completion dates is required.

Review of the Council's risk management framework

4.8   The revised Enterprise Risk Management policy and Risk Appetite Statement are being presented to this Committee for approval on 6 October 2020

4.9   The Council's operational risk management framework is currently being refreshed with the objective of providing improved clarity and guidance for first line teams across divisions and directorates. The refreshed framework should support consistent application of the Enterprise Risk Management Policy and consideration of the Council's risk appetite in line with the Institute of Internal Auditors Three Lines Model; and will also address a number of the findings raised in the Scott Moncrieff Risk Management internal audit report.

4.10   The refreshed framework will be presented to GRBV Committee on 4 December 2020, and (following scrutiny by Committee) is proposed to be implemented over a three-year period. Effective implementation of the framework will be dependent on the capacity and risk management skills within first line teams to support effective ongoing risk management.

4.11   The Chief Executive is currently reviewing senior management structures within the Council and will ensure that as part of this review that we ensure there are strong risk and assurance arrangements in place across the Council. This work will be fully informed by the work set out in 4.17.

4.12   The survey issued across the 32 Scottish Local Authorities (refer para 4.19 below) also included a specific question on responsibility for providing independent challenge in relation to Council Board decisions. This information will also be used

by the Chief Executive to inform the decision on how independent challenge will be provided on CLT decisions.

Operational Governance Model

4.13 As part of the Adaptation and Renewal programme, the operational governance workstream is looking at the Council's controls processes within the governance environment and ascertaining how these could be improved.

4.14 The project will consider both directorate specific and corporate, Council wide issues that need to be resolved and will examine specific areas and controls which have been highlighted by the Chief Internal Auditor, the Corporate Governance Team and directorates.

4.15 The project will focus on the following main elements:

4.15.1 Consider the appropriateness of existing first line directorate and divisional operational structures, governance and risk management roles and responsibilities;

4.15.2 Explore officer decision making and the groups and processes that support these;

4.15.3 Consider whether second line frameworks could be reviewed to improve consistency, efficiency and the level of compliance;

4.15.4 Identify any other underlying issues that may impact negatively on the Council's governance, control and risk environments;

4.15.5 The documentation relating to, and Council's approach to, its ALEOs; and

4.15.6 Identify any training needs or gaps.

4.16 The project will aim to identify corporate solutions to the matters highlighted above within the next four months and this will link closely with the work undertaken on capacity and structures noted above. The specific areas and issues have been identified but work is still ongoing on the scope of these smaller workstreams. This work will involve officers from across the Council and is expected that this work will continue into 2021.

Reviewing the Council's current assurance model

4.17 As highlighted by the Chief Internal Auditor, a lack of first and second line assurance capacity and skills has been a significant contributing factor to the weaknesses identified in the established governance and risk management processes and operational control environment, that have contributed to the red (significant improvement required) IA annual opinion.

4.18 Consequently, the Chief Executive has instructed a review of assurance models with the objective of identifying the most appropriate assurance model for the Council that is aligned (where possible) with the Three Lines and informed by the models currently applied by other local authorities.

4.19 A survey has been issued to the 32 Scottish Local Authorities to support our understanding of the assurance models applied across Scottish Councils and their

effectiveness, and the Institute of Internal Auditors has also issued the same survey to members of its UK public sector internal audit forum.

4.20 Following completion of the survey, a paper was prepared and presented to the Chief Executive that recommends the optimum assurance model for the Council, and the steps required to support its implementation. The potential structural; resourcing; and financial implications associate with the proposed model are currently being considered as part of any organisational restructure. However, due to the need to ensure that any weaknesses are tackled immediately, the Chief Executive has agreed that additional capacity to bolster assurance in the Council will be put in place to focus on closure of open IA findings as soon as possible.

4.21 Regardless of the variation of the three lines assurance model implemented, both first and second line assurance capacity and skills and experience are an essential basis to support its effective implementation and achieve the necessary improvements in governance and risk management processes and the Council's operational control environment.

5. Next Steps

5.1 All strands of the workstreams above will be reported to the appropriate committees or through the Adaptation and Renewal Programme. As stated above the assurance capacity work will be aligned with the senior management structure review but immediate resources will be bolstered as an interim measure.

5.2 The risk management framework is due to be considered by the Governance, Risk and Best Value Committee on 4 December 2020. Reporting on open Internal Audit findings management actions is being reinstated from October 2020 and any red rated IA reports, or reports that include High rated findings will continue to be reported to the relevant executive committee.

5.3 The operational governance work is reporting to the Change, People and Finance Board and aims to have completed its core programme over the next four months. As a result the aim will be to have the foundations of an improved governance, risk and assurance structure within the Council before the start of the new financial year and in time for the Chief Internal Auditor's 2020/21 opinion.

6. Financial impact

6.1 Any cost implications will be aligned with the Adaptation and Renewal Programme and any changes made as part of the redesign of the Council's structure and will be reported to committee accordingly.

7. Stakeholder/Community Impact

7.1 The governance and compliance requirements are the foundation of the report and are outlined in the background and main report section.

8.   Background reading/external references

8.1   Governance, Risk and Best Value Committee 18 August 2020 – Internal Audit Annual Opinion for the year ended 31 March 2020

9.   Appendices

None.