

## REPORT TO AUDIT COMMITTEE – 19 SEPTEMBER 2019

### INTERIM REPORT ON THE 2018-19 AUDIT – MANAGEMENT RESPONSE

#### 1 Recommendations

The Audit Committee is recommended to:

- 1.1 Note the Action Plan for implementing the recommendations from Audit Scotland's Interim Report on the 2018-19 Audit at Appendix 1;
- 1.2 Consider and confirm which option at paragraph 2.6 should be adopted in respect of Recommendation 6 - scrutiny of Internal Audit reports;
- 1.3 Agree to receive an Annual Management Report on Outstanding Recommendations in respect of Recommendation 7, as detailed at paragraph 2.23; and
- 1.4 Confirm whether an annual Workshop for Committee to consider Outstanding Recommendations should be scheduled as detailed at paragraph 2.27.

#### 2 Discussion

2.1 At its meeting on 4 July 2019, the Audit Committee considered Item 8 [Audit Scotland's Interim Report on the 2018-19 Audit](#). Appendix 1 provides the management response to the Key Findings and Action Plan, including responsible officers and target implementation dates. In respect of Recommendation 6, this relates to the Audit Committee's consideration of Internal Audit reports and Recommendation 7 relates to outstanding internal audit recommendations. Since the Committee's input into the response to these is necessary, this report provides advice and options for the Committee's consideration, to assist in deciding how these recommendations should be actioned. Once agreed, they will be added to the Action Plan.

2.2 In respect of Recommendation 6, this is as follows:

**Recommendation:** *A decision be taken at the agenda meeting on the internal audit reports likely to attract further scrutiny at committee and to agree to include the associated full internal audit report in the agenda papers. This will enable public access to all the information subject to scrutiny by the committee.*

2.3 The current practice is for the Audit Committee to receive a report from the Chief Internal Auditor at every meeting which provides information on each audit completed in that period. A summary of each audit details the purpose of the audit, the areas examined, conclusions drawn and highlights where improvement activities have been identified and confirms if the Service have

agreed to address these. This is the “Executive Summary” taken from each of the full audit reports. The Executive Summary is written after the Audit is completed and is intended to provide assurance that the audited area is operating as expected; or, if any weaknesses have been identified, that action will be taken by the Service to remedy these within agreed timescales. Presently, the Committee uses this information to examine in further detail any aspects from the audit: this may be by asking questions to the Internal Auditor or a Service representative. This allows the application of scrutiny in a public forum.

- 2.3 Currently, the full Audit Reports (which will be referred to in this report as the “Executive Audit Report”) are shared only with senior management in the services of the audited areas, however Members of the Audit Committee also receive a courtesy copy of the Executive Audit Report – a practice that has developed quite recently. The Executive Audit Report is a much more detailed report and outlines every recommendation with the rationale along with the Service(s) response. Where the recommendations have been accepted, a lead officer is named and timescales detailed for implementation. Where the Service has not accepted a recommendation, reasons for this will be provided in the report.
- 2.4 On recent occasions, during discussion at Committee, Members have referred to paragraphs in the Executive Audit Report and asked for further information or clarification on the content or actions being taken. The concern highlighted by Audit Scotland is that since the public do not have access to the Executive Audit Reports, that there may be a lack of transparency with the scrutiny being applied.
- 2.5 Officers consider there to be four options for the Committee to consider in determining how best to respond to this issue. For options (1) and (2), there are two “sub-options” relating to the practical arrangements for implementing these.
- 2.6 The Options are as follows:
  - (1) Make all of the Executive Audit Reports publically available and
    - (a) include them within the Committee’s agenda; or
    - (b) publish them on the Council’s website
  - (2) Make only the Executive Audit Reports identified at the agenda setting meeting for discussion at Committee publically available and
    - (a) include within the Committee’s agenda pack; or
    - (b) publish them on the Council’s website
  - (3) Maintain the status quo and make no reference to Executive Audit Reports at Committee meetings
  - (4) Request that the Chief Internal Auditor provide a more detailed Executive Summary for each Audit and make no reference to Executive Audit Reports at Committee meetings

- 2.7 The first option is to publish all of the Executive Audit Reports and this could be by including them in the agenda pack or by publishing them elsewhere on the Council's website with electronic links within the agenda.
- 2.8 The effect of implementing Option 1 would be to open up the whole content of the Executive Audit Reports to the press and public and all content would be open for discussion and scrutiny at Committee. The press and public may find the discussion easier to follow as they would have access to the same level of information as the Committee Members. This would satisfy the transparency element identified by the External Auditor.
- 2.9 The implications of introducing this change would need to be weighed up alongside the benefits of increased transparency.
- 2.10 There would be additional resource requirements for the legal monitoring necessary to support this arrangement. There would be minimal implications for Finance as the Head of Finance already receives all Executive Audit Reports. There would be minimal resource implications for the Internal Audit team, however as a result of this change their capacity to undertake the same number of audits each year would reduce. This would be a result of the time required to agree the factual accuracy of the Executive Audit Report increasing. Given that these reports would be entering the public domain, Services would be more concerned about reputational protection and would be more likely to challenge the Internal Auditors on content and on recommendations. Presently, Services are willing to accept a degree of criticism or error in the Executive Audit Reports, on the basis that these are management tools, rather than public documents.
- 2.11 Presently Executive Audit Reports are not routinely shared with Monitoring Solicitors since they do not form part of the Committee agenda. If they were to be made publically available, legal monitoring of the reports would be necessary to ensure that no confidential or exempt information was published or that the Committee discuss confidential or exempt information in public session.
- 2.12 Confidential information is a legally defined concept which means that the information cannot be disclosed for legal reasons, and the press and public *must* be excluded from the meeting during discussion of that item: there is no discretion.
- 2.13 There are 15 categories of exempt information and if a report contains information or is likely to create discussion at which exempt information may be disclosed, then the item will be recommended to be considered in private. Legal monitoring officers aim to support services to draft reports so that they do not contain exempt information so that as much of the Council's business can be dealt with in public session as possible: this aids transparency. However, the contents of the Executive Audit Reports also require to be agreed between Internal Audit and the relevant Services, so there are a number of stakeholders who will be involved in finalising the contents of the

report. There is a higher probability of exempt information being detailed in the Executive Audit Report than in the Executive Summary and so careful checking will be required. The result may be that more Audits are dealt with in private session than currently, although this cannot be purely because of reputational issues.

- 2.10 To give some context to the Legal Monitoring which would be required, the Internal Audit Plans for financial years 2018/19 and 2019/20 contained 61 and 49 areas for audit respectively.
- 2.11 In respect of “sub-option” (a): If the Executive Audit Reports formed items for consideration within the agenda itself, this would negate the requirement for the summaries to be detailed in the current Internal Audit report and this would simply change into a report on Progress with Agreed Recommendations. However, the result would be to increase the volume of the agenda quite considerably which would carry additional resource requirements for Committee Officer time for preparing and checking the agenda, and printing and postage costs would also increase. Further detail about the resource implications is provided at paragraph 4.3 below.
- 2.12 In respect of “sub-option” (b): If the Executive Audit Reports were published elsewhere on the Council’s website then links to these could be provided within the Internal Auditor’s report. In such case, the Internal Audit report with summaries of each audit would continue to be included in the agenda as presently. The benefit of this approach is that there would be no increase to the size of the agenda and no additional resources required to support agenda preparation, publication, printing and postage.
- 2.13 The second option is to publish only the Executive Audit Reports which are identified in advance of the meeting as being likely to be referred to in discussion. This is the solution proposed by Audit Scotland, which is that a decision be taken at the agenda setting meeting on which Executive Audit Reports are likely to attract scrutiny at committee and to include those particular reports with the agenda (Option 2(a)).
- 2.14 The agenda setting meeting is attended by the Committee Chair and Vice Chair, and is supported by the Director of Business Services and other senior officers. They are informal meetings at which draft agendas are discussed and normally take place a few days before the deadline for submission of final reports. For this arrangement to work, the Chair and Vice Chair would need to be very clear at that stage in the process which of the Extended Audit Reports are to be discussed at the meeting. However, there is no guarantee that issues concerning other Executive Audit Reports may be brought up at the meeting by Members unexpectedly.
- 2.15 The main challenge with this approach is that a decision at this time would only take place a very short time before the agenda is finalised and published. In practical terms, this does not permit enough time for legal monitoring of identified Executive Audit Reports and could mean quite significant changes

to the draft agenda within a short space of time. These two factors will increase the risk of errors occurring, including the risk of confidential or exempt information being published in error. To safeguard against this, it would be necessary that all Executive Audit Reports be subject to legal monitoring in advance in the expectation that there may be a decision that they should be published and discussed at Committee. The same legal monitoring requirements would therefore apply as for Option 1 above.

- 2.16 If this Option were to be implemented, the Chief Internal Auditor would continue to prepare a summary report as at present. The Executive Audit Reports identified for discussion could then either be added to the agenda or published elsewhere on the Council's website. The financial implications are detailed in paragraphs 4.5-4.6 below.
- 2.17 An alternative to the options detailed above would be to continue to make no change to the agenda but to ensure that questions, debate and discussion focus only the content of the Chief Internal Auditor's report. This would mean Members would not be able to refer to paragraphs within the Executive Audit Reports at Committee. Members would not be precluded from raising any further questions or queries arising from perusal of the Executive Audit Report informally with the relevant Service outwith the Committee meeting.
- 2.18 A fourth option may be that an enhanced Executive Summary be prepared by the Chief Internal Auditor which gives the Committee more detail than is presently narrated in the covering Internal Audit report. An advantage to this approach might be that it gives the Committee enough information to allow an in-depth discussion on the pertinent issues, without requiring them to refer to the full Executive Audit Report. This would meet the necessary transparency requirements and there would be limited additional resource requirements. It should be noted however that the contents of the Executive Summary are a matter of judgement for the Chief Internal Auditor, who will determine a high level view of the outcome of the Audit. The length of the Executive Summaries would also require to be suitable for Senior Management's purposes and officers would wish to avoid a scenario where two different versions of the Executive Summary were produced.
- 2.19 Whichever option Committee prefers, it is recommended that this be initially for a trial period to ensure that the Committee feels that it is getting the right level of information and to allow officers to monitor the practical aspects of implementing the new arrangements. There may also need to be a transitional period to ensure all arrangements are put in place appropriately before introducing the changes.
- 2.20 In respect of recommendation 7, this is as follows:

***Recommendation:*** Management should have greater oversight of outstanding recommendations and seek alternative solutions to addressing them without minimising impact and importance. At least annually, the audit committee should consider a review of the outstanding recommendations, the associated risks and whether they can be managed differently with a view to

*strengthening governance overall, and addressing the number of recommendations left in abeyance for a long time.*

- 2.21 The Public Sector Internal Audit Standards require that Internal Audit monitors the implementation of agreed recommendations until they are implemented by management. At every Audit Committee meeting, progress with implementing recommendations is provided to Committee in an Appendix to the Internal Audit Report. This allows the Committee to see those outstanding recommendations where the agreed timescales have passed. Services provide an update on progress and a revised timescale. Only when all recommendations from an Internal Audit have been marked as completed by the Auditor, will it be removed from the report.
- 2.22 Audit Scotland noted in its 2018-19 Interim Report that at March 2019 11 recommendations were outstanding for more than a year and for 2 recommendations the due date had been revised 5 times. The risk flagged was that the impact of review and monitoring processes is weakened. Other than clarifying the cause of any delay, the Committee presently has no role or facility to promote progress towards closing off recommendations.
- 2.23 The proposal to address this is that management have greater insight across the range of outstanding recommendations in order that priorities are set in the context of wider work plans, competing priorities and resources. The Council's senior management team are already starting to move towards this practice, and have recently reviewed some long term outstanding recommendations in relation to iTrent. Officers are supportive of the approach of carrying out an annual management review of all recommendations which have been outstanding for over 12 months.
- 2.24 It is proposed that following consultation with the Chief Internal Auditor and the Senior Leadership Team, that an annual report be brought by the Director of Business Services to the Audit Committee detailing the recommendations which have been outstanding for 12 months with proposals for how best to deal with these most effectively.
- 2.25 This would enable the Committee to look at the issues in a holistic manner to gain a better understanding of the reasons impeding implementation, and to consider management's recommendations as to how these may be resolved. Such a management review is likely to focus on how to effectively achieve the improvements, by looking at the purpose behind the original recommendation, and balancing resource requirements with governance and risk. This would allow a more strategic approach and would move away from a simplistic view based on the technical wording or specification of the original recommendation. This will allow perspective to be brought in relation to the risk the Council is exposed to, and to decide which of the outstanding recommendations should be prioritised for implementation; discuss any alternative measures whereby the same risk mitigation could be achieved perhaps more easily and/or whether the risk is so minimal that the council can accept the risk.

- 2.26 If Committee is supportive of this proposal, it may wish to consider whether an annual Workshop would be an appropriate forum to allow an in-depth discussion by Members on this topic; or alternatively if an annual report with officer recommendations would suffice.
- 2.27 If a Workshop format were considered appropriate, this could be scheduled to take place once a year, with senior officers from relevant Services attending which would allow consideration of the wider issues and best way forward. This would then be followed up by a formal report to the next Committee meeting, at which the outcome of discussions could be formally approved. As a result, some recommendations may be closed off, some may be updated with more appropriate recommendations and new timescales, and some may be prioritised unchanged. The benefit of this approach is that the recommendations remain meaningful, improvement is delivered and risk is suitably managed.
- 2.28 In terms of the timing of the annual review, Officers consider that it may be beneficial to conduct this shortly prior to Committee's approval of the Internal Auditor's Annual Plan, currently scheduled for March 2020: this would allow any Audit Areas identified for fresh review to be included in the Plan and appropriately prioritised.
- 2.29 The Head of Finance, Chief Internal Auditor and Monitoring Officer within Business Services have been consulted in the preparation of this report and their comments are incorporated within the report and are satisfied that the report complies with the Scheme of Governance and relevant legislation.

### **3 Scheme of Governance**

- 3.1 The Committee is able to consider/comment on this item in terms of Section G.1.1 of the List of Committee Powers in Part 2A of the Scheme of Governance as the report relates to matters delegated to the Committee.

### **4 Implications and Risk**

- 4.1 An equality impact assessment is not required because this report informs the Committee of the planned reporting activity and inspection bodies and does not have a differential impact on any of the protected groups.
- 4.2 There are financial and staffing implications arising from the report if Options 1 or 2 at paragraph 2.6 are implemented, which are as follows:
- 4.3 If Option 1 (a) is implemented: this would require an extra resource for legal monitoring of 0.2 FTE Solicitor (1 day per week). The cost of a 0.2FTE Practitioner K is £7,941 per annum. There is no capacity for the Governance Team to complete this work within current staffing levels. There may be challenges with recruiting to a post with such few hours. In such event, the work could be instructed on the Council's external legal framework. This is likely to be significantly more expensive than an in-house legal provision. There would be additional resource required for Committee support to check

and prepare larger agendas equating to 0.2FTE Committee Officer (1 day per week). The cost of a 0.2FTE Practitioner K is £7,941 per annum. This would make the total financial implication for additional in-house staffing £15,882. There would be additional printing and postage costs due to a more voluminous agenda (Executive Audit Reports being on average 12 pages in length). Budget would need to be identified as there is no budget available within Legal and Governance to support this Option.

- 4.4 If Option 1 (b) is implemented: this would require an extra resource for legal monitoring of 0.2 FTE Solicitor (1 day per week). The cost of a 0.2FTE Practitioner K is £7,941 per annum. The risks detailed in paragraph 4.3 above apply.
- 4.5 If Option 2 (a) is implemented: this would require an extra resource for legal monitoring of 0.2 FTE Solicitor (1 day per week). The cost of a 0.2FTE Practitioner K is £7,941 per annum. There would be additional resource required for Committee support to check and prepare larger agendas equating to 0.1FTE Committee Officer (0.5 day per week). The cost of a 0.1FTE Practitioner K is £3,970 per annum. This would make the total financial implication for additional in-house staffing £11,911. There would be an increase to the costs of printing and posting agendas. The risks detailed at paragraph 4.3 above apply.
- 4.6 If Option 2 (b) is implemented: this would require an extra resource for legal monitoring of 0.2 FTE Solicitor (1 day per week). The cost of a 0.2FTE Practitioner K is £7,941 per annum. The risks as detailed at paragraph 4.3 above apply.
- 4.7 The following Risks have been identified as relevant to this matter on a Corporate Level:
- Reputation management – this is controlled through general policy & procedures and assured by external scrutiny bodies through the annual shared risk assessment and by Internal Audit

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**Director - Business Services**

Report prepared by Geraldine Fraser, Legal Service Manager (Governance)  
13 August 2019

Appendix 1 - Action Plan 2018/19 with Management Response

Issue identified	Management response	Responsible officer and target Date
<b>Audit findings</b>		
<p><b>1</b> <b>User access arrangements</b> Instances were noted where General Ledger system access changes were not supported by the required authorisation form. In addition, evidence of checks in respect of payroll superusers was not always retained.</p> <p><b>Risk:</b> <i>Access rights are wrongly allocated leading to inappropriate manipulation of the system.</i></p> <p><b>Recommendation:</b> <i>Arrangements should be reviewed to ensure that appropriate controls are in place and reminders issued to ensure checks are carried out and evidenced as intended</i></p>	<p><b>Agreed</b></p>	<p><b>Head of Finance</b> <b>Due: December 2019</b></p>
<p><b>2</b> <b>Weekly control sheets</b> We found that weekly control sheets had not been fully completed.</p> <p><b>Risk:</b> <i>An interface is not carried out and therefore the ledger is not accurate.</i></p> <p><b>Recommendation:</b> <i>Weekly Control Sheets should be fully completed and signed off to clearly evidence that all required tasks were done.</i></p>	<p><b>Agreed</b></p>	<p><b>Head of Finance</b> <b>Due: December 2019</b></p>
<p><b>3</b> <b>Quality of Care First data</b> Due to the complexity of the case</p>	<p><b>Agreed.</b></p>	<p><b>Head of Finance and Chief Officer IJB</b> <b>Due: June 2020</b></p>

	<p>load, the system has not been kept up to date e.g. care packages which were not required are not routinely cancelled.</p> <p><b>Risk:</b> <i>System generated information is not reliable without manual adjustment which could result in intentional or unintentional falsified reporting.</i></p> <p><b>Recommendation:</b> <i>Prompt steps should be taken to improve the quality of data in the Care First system. It needs to be up to date to properly support performance and financial monitoring processes.</i></p>	<p>Cross Service working group (which includes IJB practitioners) to understand the operation of the system, the reasons for the non cancellation of packages and to establish a solution to ensure the reliability of information.</p>	
<p>4</p>	<p><b>Payment of care providers</b> Due to differences in care prices charged on invoices and amounts agreed in care agreements, there can be lengthy delays upwards of 6 months before the council makes payments to care providers for their invoices.</p> <p><b>Risk:</b> <i>Late payment adversely impacts on the cash flow position of providers, they go out of business and the council has a smaller pool of care partners to work with.</i></p> <p><b>Recommendation:</b> <i>Arrangements should be put in place for the service to regularly review invoices received not yet processed, to prioritise cases for resolution and to ensure that care providers receive prompt payment.</i></p>	<p><b>Agreed.</b> Cross Service working group (which includes IJB practitioners) to understand the operation of the system, the reasons for the payment delays and establish a solution to ensure the reliability of information.</p>	<p><b>Head of Finance and Chief Officer IJB</b> <b>Due: June 2020</b></p>

<p><b>5</b></p>	<p><b>Counter fraud activities</b> The council could increase its resilience against fraud by raising awareness of its counter fraud activities and bringing them under the umbrella of the Corporate Integrity Group.</p> <p><b>Risk:</b> <i>the council is susceptible to fraud in the absence of a clear message on its approach to minimising the potential for fraud.</i></p> <p><b>Recommendation:</b> <i>The corporate integrity group should be responsible for an annual counter fraud report to the audit committee covering outcomes achieved, lessons learnt, and other improvement required. It could report on both the performance and effectiveness of the counter fraud strategy (once implemented) based on the year's activities.</i></p>	<p><b>Agreed.</b> The Council's Corporate Integrity Group will be responsible for completing the Fighting Fraud and Corruption Checklist, monitoring the implementation of the Fraud Risk Response Plan and compiling an Annual Report. The first annual report will be provided one year after the Counter Fraud Strategy has been agreed. The Counter Fraud Strategy is due to be considered for approval by the Business Services Committee in January 2020 following extensive consultation with the Audit Committee and Area Committees.</p>	<p><b>Director of Business Services</b> <b>Due: March 2021 then annually</b></p>
<p><b>6</b></p>	<p><b>Audit Committee's consideration of internal audit reports</b> The discussion at Audit Committee meetings can centre on detailed internal audit reports which do not form part of the agenda papers. Only summary reports on each audit assignment are included in the committee's papers.</p> <p><b>Risk:</b> <i>Public scrutiny is reduced because such reports have not been made publicly available.</i></p> <p><b>Recommendation:</b> <i>A decision be taken at the agenda meeting on the internal audit reports likely to attract</i></p>	<p><b>To be confirmed following Committee's consideration of options in this report.</b></p>	<p><b>Director of Business Services</b> <b>Due: April 2020</b></p>

	<p><i>further scrutiny at committee and to agree to include the associated full internal audit report in the agenda papers. This will enable public access to all the information subject to scrutiny by the committee.</i></p>		
7	<p><b>Outstanding internal audit recommendations</b>          Outstanding Internal Audit Recommendations at March 2019 identified 11 recommendations which were outstanding for more than a year and 2 recommendations where the due date had been revised 5 times.</p> <p><b>Risk:</b> <i>The impact of review and monitoring processes is weakened.</i></p> <p><b>Recommendation:</b> <i>Management should have greater oversight of outstanding recommendations and seek alternative solutions to addressing them without minimising impact and importance. At least annually, the audit committee should consider a review of the outstanding recommendations, the associated risks and whether they can be managed differently with a view to strengthening governance overall, and addressing the number of recommendations left in abeyance for a long time</i></p>	<p><b>To be confirmed following Committee’s consideration of options in this report.</b></p>	<p><b>Director of Business Services</b>  <b>Due: May 2020</b></p>