

## **Briefing Note for Audit and Standards Committee**

### **1. Background**

- 1.1 This Briefing Note sets out details of the improvement journey that Audit, Risk and Assurance (ARA) are embarking on. The purpose of these improvements is to enhance the service that we offer to the Council.
- 1.2 The Audit and Standards Committee are asked to note this briefing.
- 1.3 The improvements are internal to ARA and how we work, as well as external in how we report on our work to management and the Audit and Standards Committee. Even before Covid 19, councils have had to deal with:
  - i. Austerity;
  - ii. Structural Change;
  - iii. Having less staff and resources;
  - iv. Being a smaller Council;
  - v. Increase in risks to service delivery;
  - vi. More commercial outlook;
  - vii. Greater reliance on IT;
  - viii. Risks of getting it wrong.
- 1.4 The challenge for Internal Audit is to up our game, to make ourselves more relevant to the needs of the Council and to improve the service that we offer.
- 1.5 There are many positive attributes regarding ARA and what we do. We are a well-established and stable team. We have a good mix of experience and new people. We also have a good reputation confirmed by an exceptional External Quality Assessment (EQA). So, there is a solid foundation to build upon.
- 1.6 However, improvement is a journey and not a destination. Following the excellent EQA, we are not resting on our laurels and have reviewed how ARA operates to identify areas where we can do things better. As part of this I am grateful to members of the Strategic Leadership Team (SLT) and the Chair of the Audit and Standards Committee for your input, which has helped to shape our improvements.
- 1.7 We have introduced a number of changes to our internal work processes. The aim is to be as efficient as possible so that we can help the Council to better meet its objectives, and to get it right first time.

### **2. Risk Based Internal Audit Planning**

- 2.1 For the 2022-23 Internal Audit Plan, we have enhanced our methodology to better analyse and document risks. This will enable us to better align our work to the Council's risks.
- 2.2 In previous years, the Internal Audit Plan was based largely on discussions with management about the areas to audit. However, distinguishing between different risks,

particularly from different services and departments, was based more on objective opinions rather than qualified judgement.

- 2.3 Assessing how best to use our resources was challenging as it was not easy to measure the relative importance of risks and issues identified by management. Our new process will be more analytically driven and improve our ability to more accurately measure and compare risks, and enable our work to be better aligned to the risks of the Council.
- 2.4 A review of risk management currently being undertaken will also help here by helping the Council to improve its risk management processes. This should include:
- i. Staff training;
  - ii. Identification, analysis, measurement and recording of risks; and
  - iii. The reporting of risks to SLT and the Audit and Standards Committee.

### **3. Annual Internal Audit Plan**

- 3.1 The Internal Audit Plan will also have a different look to it:
- i. The plan document will be shorter and more concise;
  - ii. It will be split into quarters to indicate when specific pieces of work are due to take place. This will assist us with our resourcing requirements;
  - iii. There will also be a risk rating against each planned audit to indicate its relative importance.

### **4. Undertaking Audits**

- 4.1 From January 2022 we have introduced a new automated methodology for undertaking audit work. This methodology will replace Galileo, the current audit management system.
- 4.2 The new methodology is designed to improve our efficiency and turnaround time for completing audit work. It will also add greater consistency to how we undertake audits and allow for better performance monitoring across the team.
- 4.3 One feature of the new methodology has been to refresh the look of documentation. This includes a new Terms of Reference, the use of which has started as of January 2022.

### **5. Internal Audit Reports**

- 5.1 The format of our reports will also change from January 2022. They will be more focussed, concise and dynamic, clearly highlighting the areas that need to be addressed by management.
- 5.2 The risks identified in our reports will be rated using a High, Medium, and Low categorisation.
- 5.3 ARA suggest that for High risk items, the relevant management should commence actions to implement the recommendations to address these issues within two weeks of the issue of the final report. It should be clear that this is to commence the actions – the recommendation may not have been actually implemented by that time.

- 5.4 For Medium risk findings the actions to implement the recommendations should be commenced within one month of the date of report.
- 5.5 Low category items will consist of suggestions for improvement and not strictly be recommendations. There will not be a strict time limit to implement these.
- 5.6 Internal Audit reports will no longer contain split assurance opinion levels. Instead, there will be a single assurance opinion given, which will be determined by the level to which controls mitigate risks to stated objectives.
- 5.7 Another improvement is that draft reports will be emailed to management, and a face to face (in person or virtually) meeting will be arranged to be held in a two-week period after this. It is the intention that at this meeting, management responses to the draft report will be obtained. The current process, whereby managers are asked to respond to Internal Audit via email, is too long and drawn out. This increases the time taken to issue final reports, sometimes significantly, which reduces their impact and delays risks from addressed.
- 5.8 Face to face discussions of draft reports will enable the Auditor to better explain audit findings and their relevance and capture management responses promptly.

## **6. Reporting to the Audit and Standards Committee**

- 6.1 Reporting to the Audit and Standards Committee will also change. In particular, the Internal Audit Progress report will be split into two.
- 6.2 Firstly, the summaries of Internal Audit reports will be more concise than the ones currently presented to the Audit and Standards Committee. The intention is to make them shorter and to highlight the salient points.
- 6.3 The second part will be a summary of Internal Audit activity that will be red, amber, or green (RAG) rated to show the progress of individual audits:
  - i. Red will indicate an audit that is unlikely to be completed in-year;
  - ii. Amber will indicate a delay to the start of an audit; and
  - iii. Green will indicate that an audit is due to commence in the quarter stated in the Internal Audit Plan.
- 6.4 Currently, only reports which have received a “Limited” level of assurance are formally followed up and reported to SLT or the Audit Committee by Internal Audit. However, for other reports, there is no assurance to SLT or the Audit and Standards Committee from any source that recommendations have been implemented.
- 6.5 From April 2022, we will therefore introduce Recommendation Progress Monitoring reports. These will be issued by Internal Audit ahead of the Audit and Standards Committee, to the management responsible for implementing the recommendations. Management can then specify the progress made in implementing the recommendations, for example implemented, in progress or that more time is required.

6.6 The Progress reports will help SLT to monitor progress on recommendation implementation across the Council, and will also help the Committee to see that Internal Audit reports are being actioned.

6.7 The Annual Governance Statement (AGS) and the Head of ARA's Annual Report will be reviewed and updated to make them more focussed and concise.

## **7. New Areas of Work**

7.1 ARA will look to increase the amount of consultative work undertaken at the Council. This will involve closer liaison by the Principal Auditor with management teams to identify areas where we can assist the Council.

7.2 We will also look to undertake new areas of work, for example around:

- i. Non-technical IT audits;
- ii. Climate Change;
- iii. Efficiency;
- iv. Financial Analysis;
- v. Governance;
- vi. Culture/Ethics; and
- vii. Project Management.

## **8. Conclusion**

8.1 We believe that these changes will enhance the services that we offer, better enable the Council to manage its risks and to achieve its objectives.

8.2 SLT have agreed to support ARA in advocating these changes with Members and officers.