
PROGRESS WITH IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

13 November 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of the report is to provide an update to Members of the Audit Committee on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports.**
- 1.2 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 1.3 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 1.4 The Remit of the Audit Committee includes the function to consider “all matters relating to the implementation of recommendations contained within internal audit reports”, as part of its high level oversight of the framework of internal control, risk management and governance within the Council.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit Committee:**
- a) Acknowledges the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, and mitigate risks;**
 - b) Considers whether it is satisfied with the progress or whether any further action is required; and**
 - c) Notes that Internal Audit will continue to monitor the completion of outstanding recommendations and will provide update reports to this Committee.**

3 BACKGROUND

- 3.1 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 3.2 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 3.3 Management has the responsibility for ensuring that agreed audit actions are implemented to address the identified weaknesses and mitigate risks. At Internal Audit Final Report stage the Audit Recommendations are input to Ideagen Risk (previously Pentana), the Council's corporate performance management system. This is designed to assist with Management tracking of implementation, link with relevant risks, and evidence improvement.
- 3.4 The Remit of the Audit Committee includes the function to consider "all matters relating to the implementation of recommendations contained within internal audit reports", as part of its high level oversight of the framework of internal control, risk management and governance within the Council. An update report on Progress with Implementation of Internal Audit Recommendations 2022/23 was presented to the Audit Committee on 12 December 2022. Furthermore, a Follow-Up Review of Completed Internal Audit Recommendations 2022/23 was presented to the Audit Committee on 13 March 2023.
- 3.5 Internal Audit continues to perform its standard quarterly follow-up activity to check that recommendations have been implemented and to ensure that the new controls had the desired effect on improving internal control and governance, and reducing risk. Internal Audit works with Management to address any actions that become overdue, and bring any matters to the attention of the Audit Committee.
- 3.6 The Audit Committee 25 November 2019 decision "Requested that the Corporate Management Team determine an escalation process to address those Internal Audit recommendations not completed within the agreed timescale". In response, quarterly update reports on progress with implementation of Internal Audit recommendations have been presented to the Council Management Team (CMT) to enhance the senior Management monitoring and oversight of progress. The Q1 2023/24 Progress Update report was presented to CMT on 2 August 2023 and this Q2 2023/24 Progress Update report was presented to CMT on 1 November 2023.

4 PROGRESS UPDATE

- 4.1 Internal Audit has utilised a more supportive approach to perform formal follow-up in liaison with Assigned Action Owners / Managers to ensure the position at Q2 2023/24 reflects a more accurate representation of the actual improvement activity undertaken by Management. The following table highlights the status as at 26 October 2023 of Internal Audit recommendations from current and previous years:

Year	Total	Implemented	Not Yet Due	Overdue
2021/22	32	21	11	0
2022/23	26	14	12	0
2023/24 to Oct	10	1	9	0

- 4.2 The enhanced Internal Audit follow-up approach has revealed continuous improvements being demonstrated, most notably a good level of completions and increased % progress within the past three months covering the majority of the Internal Audit recommendations made in previous years. This is a good position against a backdrop of the ongoing challenging operating environment for the Council during this period.
- 4.3 There are occasions when it is necessary to grant extra time to complete recommendations. Some Managers have proposed extensions to due dates which have been approved by Internal Audit based on the further work required to implement these recommendations in full, as highlighted in the Appendix. The Pentana Risk system has been updated accordingly.
- 4.4 Internal Audit recommendations that have been agreed with Management during the current year 2023/24 to date have been added to the Pentana system. This Progress update report reflects the ongoing nature of Internal Audit work and the associated improvements in governance, risk management and internal controls implemented by Management.
- 4.5 Further details on those Internal Audit recommendations that are not yet fully implemented are shown in Appendix 1.
- 4.6 Internal Audit will complete an annual audit in the fourth quarter of each year on a sample of Internal Audit actions that have been completed within the preceding calendar year. The purpose of this Follow-up activity will be to check the evidence that improvement action has been undertaken and to ensure that the new controls or governance had the desired effect on improving internal control and governance. The findings will be presented to the Council Management Team and then to the Audit Committee. This practice is to provide additional assurance on the evidence of improvement in internal controls, risk management and governance as part of its continuous improvement processes.
- 4.7 A further update on Management's progress with the implementation of Internal Audit recommendations will be included within the Internal Audit Annual Assurance Report 2023/24 for Scottish Borders Council, which is scheduled for presentation to the Audit Committee in April 2023. The annual Internal Audit annual opinion will take account of the improvements in governance, risk management and internal controls that have been implemented by Management during the full year 2023/24.

5 IMPLICATIONS

5.1 Financial

It is anticipated that efficiencies will arise either as a direct or indirect result of Management implementing the recommendations made by Internal Audit through improved internal controls and governance arrangements.

5.2 Risk and Mitigations

- a) Internal Audit provides assurance to Management and the Audit Committee on the adequacy and effectiveness of internal controls and governance within the Council, including risk management, highlights good practice and makes recommendations.
- b) It is anticipated that improved risk management or mitigation will arise as a direct result of Management implementing the Internal Audit recommendations which will evidence improvements in internal controls and governance arrangements. If the Internal Audit recommendations are not implemented then risks may be more likely to occur or have a greater impact if they do.
- c) Internal Audit recommendations also highlight potential risks and are taken into account when risk registers are reviewed and new risks are identified. Internal Audit is the third line in the governance of risk.

5.3 Integrated Impact Assessment

- (a) There is no relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014 and the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017).
- (b) The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those in the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its objective assurance about risk management, internal controls and governance.
- (c) The Internal Audit Strategy for 2023/24 has been amended to include integrated impact assessment compliance into all assurance audits as a cross-cutting risk to provide assurance that the underlying controls and processes in all Services are operating as intended to demonstrate the Council is fulfilling its Equality Duty and Fairer Scotland Duty.

5.4 Sustainable Development Goals

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist during the preparation of the Internal Audit Charter, and the Internal Audit Strategy and Plan 2023/24. Good governance is important to enable Scottish Borders Council to achieve its objectives, including those supporting sustainable development.

During the year 2023/24 the Internal Audit function has adopted a continuous audit approach, including observation of the Sustainability Board, to assess the Council's governance arrangements and progress with action plans to meet its climate change obligations and sustainable environmental programmes. Recommendations may arise from this work.

5.5 **Climate Change**

This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration.

The Internal Audit Strategy for 2023/24 has been amended to include integrating climate change into all assurance audits as a cross-cutting risk to provide assurance that the underlying controls and processes in all Services that support climate change commitments, plans and programmes are operating as intended. Recommendations may arise from this work.

5.6 **Rural Proofing**

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

5.7 **Data Protection Impact Statement**

There are no personal data implications arising from the content of this report.

5.8 **Changes to Scheme of Administration or Scheme of Delegation**

No changes are required to either the Scheme of Administration or the Scheme of Delegation as a result of the content in this report.

6 CONSULTATION

6.1 The Council Management Team has been consulted on this report on 1 November 2023 to ensure their awareness and oversight of the Progress made by relevant Management in implementing Internal Audit recommendations.

6.2 The Director - Finance and Procurement, Director – Corporate Governance (and Monitoring Officer), Director - People Performance and Change, Clerk to the Council, and Communications team have been consulted on this report in line with required practice.

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit and Risk Tel 01835 825036

Background Papers: Appropriate Internal Audit files and Pentana system

Previous Minute Reference: Audit Committee 12 December 2022 and 13 March 2023

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit intaudit@scotborders.gov.uk