GOVERNANCE AND AUDIT COMMITTEE – 11TH OCTOBER 2022

SUBJECT: **UPDATE ON INTERNAL AUDIT REPORT RECOMMENDATIONS**

REPORT BY: **ACTING INTERNAL AUDIT MANAGER**

1. PURPOSE OF REPORT

1.1 To provide members of the Governance and Audit Committee with an update on Internal Audit report findings, the numbers and risk ratings and progress on the related recommendations.

2. SUMMARY

2.1 The Governance and Audit Committee has requested that regular reports are provided to provide information on Internal Audit findings and associated recommendations.

2.2 This report provides an update on the number of Internal Audit findings created, their risk ratings, their completion/ agreement status, the number of recommendations arising from those findings and the status of the recommended actions required to mitigate those risk findings

3. RECOMMENDATIONS

3.1 Members note the information contained in this report

4. REASONS FOR THE RECOMMENDATIONS

4.1 To ensure that the Governance and Audit Committee is aware of the number of Internal Audit findings and associated risk ratings.

4.2 To ensure that the Governance and Audit Committee is aware of progress made in implementing recommendations by service areas / locations in receipt of Internal Audit reports, to ensure that reported risks are being addressed appropriately and within adequate timeframes.

5. THE REPORT

5.1. The Institute of Internal Auditors (IIA) has published guidance that states that the follow up and tracking of agreed recommendations by management is important as it ensures that management have implemented the agreed actions, and this has addressed the risks identified.

5.2 Management are responsible for addressing the risks highlighted in Internal Audit reports and implementing control processes to reduce or eliminate the risks identified. Recommendations that are not addressed may expose the authority to unnecessary risks. Therefore, it is key to ensure that high risk findings are adequately dealt with and mitigated or eliminated by appropriate management actions.

5.3 The Pentana MK system in use has the facility to risk rate all findings and to track these so that once a recommendation has been agreed and a planned implementation date set, the risk owner or service manager can be reminded to provide updates on progress that is being made to implement the agreed actions.

5.4 This information would then be able to provide information to the Directors and Heads of Service and ultimately Governance and Audit Committee who would then be able assess if adequate progress is being made to manage risks and implement agreed actions or make further enquiries as necessary.

5.5 The system also allows findings to be attributed to “themes” such as GDPR, governance or internal control where appropriate and this can then also enable review of findings across different service areas and operations. Large numbers of high risk findings in relation to a common risk aspect across different audits would alert Internal Audit to potential areas of concern.

5.6 Work has been continuing and as of 29th September 2022 there were 968 findings that had been raised within the MK system since the date of implementation. The system enables the individual auditor to risk rate findings, in line with internal guidance procedures. As the auditor creates each finding they also detail the actions that are recommended that would mitigate or remove the risk identified.

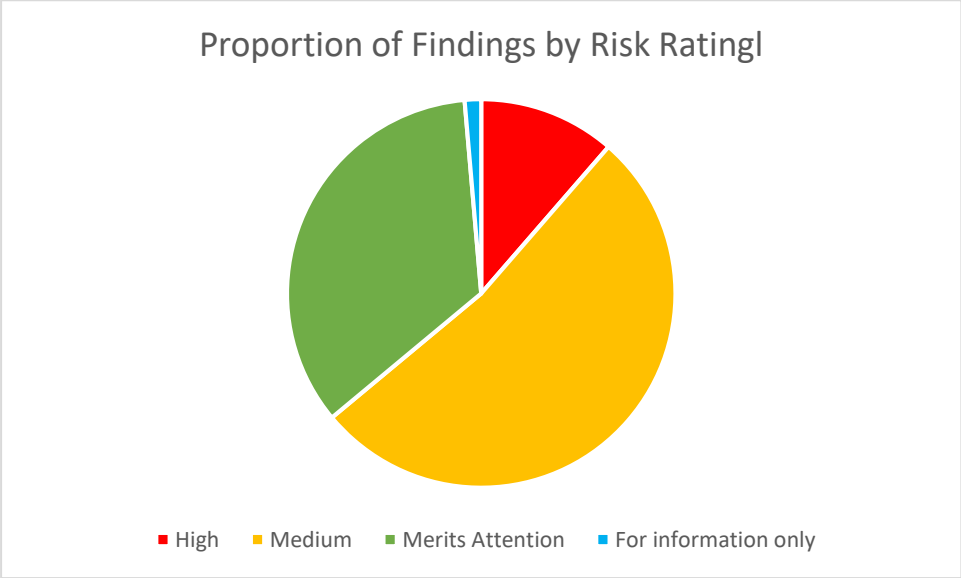
5.7 All Internal Auditors work is subject to review by more senior staff for quality control and consistency before agreeing risk ratings and issuing findings to managers. At the time of extracting the data there were 19 findings that had been created in relation to audit work in progress and for this report these were in draft as they had not yet been reviewed. No risk rating status had been attributed to these at this point.

5.8 The attached table shows the current number of findings by risk rating:-

Table showing Internal Audit findings by risk rating

Risk Rating	Total
High	108
Medium	499
Merits Attention	329
For information only	13
Total	**949**

Chart showing relative proportions of Internal Audit findings by risk rating



It can be seen that the significant majority of all findings are considered to be medium risk, and high risk findings make up 11% of the total reported.

5.9 Each audit goes through a process where the testing is undertaken, a draft report is issued and then the final report, all findings and recommendations are agreed.

5.10 The stage of completion of these and risk ratings can also be reported in the following table:-

Progress status and risk rating of Internal Audit findings

Status	High	Medium	Merits attention	For information	Total
Accepted by Management	93	348	255	11	**707**
Draft report issued	8	24	16	1	**49**
Draft report not issued	7	127	54	0	**188**
Not accepted	0	0	4	1	**5**
Total	**108**	**499**	**329**	**13**	**949**

5.11 As of 26th September 2022 there were 1056 recommendations that had been raised within the MK system since the date of implementation. 22 have not been risk rated as the audit is still ongoing, thus leaving a net number of 988 active recommendations. There is a different total to that of findings as in some cases there is no recommendation e.g., where items are noted for information only or where a finding may result in more than one recommendation. Also in some cases recommendations are not created until the audit findings have been subject to an initial review as part of the Internal Audit quality review processes.

Internal Audit recommendations by risk rating

The table below shows the number of recommendations by risk ratings:-

Risk Rating	Total
High	110
Medium	550
Merits Attention	326
For information only	2
Total	**988**

5.12 Recommendations are created, and once they are agreed with service managers, they are allocated to a responsible officer and a due date for completion of the agreed actions is agreed with the service manager and recorded in the system. The system records the status of each recommendation from the initial creation through to completion by the service manager or responsible officer.

5.13 It should be borne in mind that the due date is a future date although there is an expectation that the higher the risk identified the more urgent the mitigating actions are required to be implemented, so a shorter due date would be expected and therefore high risk findings should be seen to show good progress towards completion.

Audit recommendation status and risk ratings

The table below shows the status of the recommendations created and their risk ratings:-

Status	High	Medium	Merits attention	For information	Total
Recommendation Completed	48	246	74	1	**369**
Recommendation in progress	43	104	142	0	**289**
Recommendations issued – not yet agreed	13	72	55	1	**141**
Draft report not issued	6	128	55	0	**189**
Total	**110**	**550**	**326**	**2**	**988**

5.14 It can be seen that progress is being made towards completion particularly with high risk recommendations where 43% are complete and 39% are in progress.

5.15 Progress in completing agreed recommendations is monitored by the Auditor and overdue recommendations are regularly monitored and manual reminders issued.

5.16 The MK system does have the capacity to issue automatic reminders and this facility will be implemented once the system is successfully migrated to cloud hosting.

5.17 **Conclusion**

5.18 The report informs the Governance and Audit Committee on the number of Internal Audit findings, their risk ratings, recommendations issued and progress towards completion.

6. ASSUMPTIONS

6.1 There are no assumptions in this report.

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

7.1 The Council will be unable to deliver its Well-being objectives in the absence of effective corporate governance arrangements.

7.2 Strong corporate governance arrangements are a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met, in that prosperous Wales and a resilient Wales requires an effective Internal Audit service to protect public funds.

7.3 There are no other equalities implications arising from this report in relation to other equalities issues.

8. FINANCIAL IMPLICATIONS

8.1 There are no direct financial implications arising from this report.

9. PERSONNEL IMPLICATIONS

9.1 There are no personnel implications arising from this report

10. CONSULTATIONS

10.1 Any comments received from consultees have been included within the report.

11. STATUTORY POWER

11.1 Local Government and Elections Act 2021

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