



Glasgow City Council

Finance and Audit Scrutiny Committee

Report by the Head of Audit and Inspection

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Item 4

8th May 2019

REVIEW OF THE PRIORITY OF INTERNAL AUDIT RECOMMENDATIONS

Purpose of Report:

To outline an amendment to the priority of audit recommendations to include an additional category for service improvement.

Recommendation:

Members are asked to note the content of the report.

Ward No(s):

Citywide: ✓

Local member(s) advised: Yes No consulted: Yes No

1. Purpose of Report

- 1.1 The purpose of this report is to outline proposed amendments to the priority of audit recommendations to include a category of 'service improvements' within the reporting framework and outline proposals for collaborative working between officers with service improvement responsibilities and Internal Audit.

2. Background

- 2.1 For planned audit assurance work, the main aim of the audit is to make an assessment of the adequacy and effectiveness of the internal control environment within the area being reviewed. Internal Audit is well placed to not only establish where further controls are required in business processes, but also to establish opportunities for improvement, for example, where processes are overly complicated or have significant duplication. This proposed additional priority of recommendation would formalise the current approach for highlighting opportunities for improvement.
- 2.2 Work has been ongoing to establish strong links between the Council's Internal Audit activity and the Council's Lean programme. Lean is a proven methodology that relies on a collaborative team effort to improve performance by identifying and removing 'waste' and errors from business processes and activity. In simple terms, it is based on the idea that if all non-value adding activity can be removed, then any given process will become as efficient as possible and it will also provide the best outcome for customers.
- 2.3 The Lean approach has been adopted across the Council Family since 2016, forming a key part of the Transformation Programme across the Council. By embedding Lean into the daily way of working, the aim is to develop a culture which ensures staff at all levels have the ability to influence change in their areas of responsibility. The approach is that staff are supported to identify 'waste', which results in more efficient processes, better customer outcomes and savings.
- 2.4 Training for Lean has been ongoing, and is provided through a belt based training system similar to that of judo. The belts are designated as white belts, yellow belts, green belts, black belts and master black belts. To date, the Council has trained around 3,000 white belts, over 300 yellow belts and around 40 green belts.
- 2.5 The aim of the proposed amendment to audit recommendation priority ratings is:
- To formalise the role of Internal Audit in identifying business improvement;

- Work collaboratively with officers with service improvement and Lean roles and responsibilities to ensure that Services are supported in the implementation of business improvement recommendations; and
- To better distinguish between audit recommendations which are being made to address key control weaknesses, and those which would enhance service delivery but do not pose a risk to the adequacy and effectiveness of the internal control environment.

3. Current Audit Recommendation Priority Ratings

3.1 For each planned assurance audit that is undertaken, an assessment of the adequacy and effectiveness of the internal control environment is made. In order to arrive at the assurance opinion for the areas under review, the nature of the findings and the priorities assigned to audit recommendations are considered.

3.2 Currently, the priority of recommendations arising from Internal Audit reviews fall into one of three categories:

Priority	Definition
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.
Medium	Less critically important controls absent, not being operated as designed or could be improved.
Low	Lower level controls absent, not being operated as designed or could be improved.

3.3 Internal Audit recommendations are generally made in order to address weaknesses that have been identified in the control environment, however as part of audit fieldwork, opportunities to improve the efficiency and effectiveness of business operations and service delivery may also be identified.

3.4 Findings in relation to required business process or service delivery improvements may not have an impact on the level of assurance that can be placed on the control environment. Without a distinct 'service improvement' classification, it may be more difficult to identify recommendations which can be progressed with the assistance of officers with a business improvement role.

3.5 Through recent audits, Internal Audit has highlighted areas where business operations or service delivery would benefit from a Lean process review or equivalent process in order to identify efficiencies. Recently, as part of a Financial Services – Parking Appeals Process audit (reported to the Finance and Audit Scrutiny Committee (FASC) in November 2018), Internal Audit made a recommendation that: *“CBS management should review the current process for compiling parking appeal statistics and, through the application of Lean methodology, should implement a more streamlined approach”*. This was categorised as a low priority audit recommendation. Based on the definition of

the low priority recommendation this rating suggested that “lower level controls were absent, were not being operated as designed or could be improved”. The finding did not highlight a key control weakness and had the service improvement category been in place, it would be a more appropriate assessment of the priority of the recommendation. In addition, whilst all reports which are presented to FASC are publically available, currently, there is no formal process in place for ensuring that those charged with business improvement are notified about audit findings and recommendations of this nature.

4. Proposal

4.1 Within the private sector, and across some other local authorities, recommendations which are classified as ‘service improvements’ are made as standalone recommendations. These are not made to address key control weaknesses and generally would not be considered when forming the assurance opinion. They present an opportunity to improve the efficiency or housekeeping of the area under review. Internal Audit is well placed to identify opportunities for improvement due to the requirement to understand and assess business processes across the whole Council Family as part of audit fieldwork.

4.2 It is proposed that a new priority of audit recommendation is created and added to the standard Internal Audit report template. The table containing the recommendation priorities and definitions would be amended to note:

Priority	Definition
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.
Medium	Less critically important controls absent, not being operated as designed or could be improved.
Low	Lower level controls absent, not being operated as designed or could be improved.
Service Improvement	Opportunities for business improvement and/or efficiencies have been identified.

4.3 Any service improvements which are reported will be recorded within the audit system and will be followed up by Internal Audit. These will be detailed in the original audit report, but it is not envisaged that service improvement recommendations will routinely be included in the standard follow up report to FASC. These will be reported by exception only. It is also proposed that an annual report is presented to FASC summarising the progress made towards implementing service improvement recommendations in general.

5. Information Sharing with the Lean Team

- 5.1 Currently, there are processes in place for key audit contacts to be provided with copies of Internal Audit reports which are relevant to their service area. In order to formalise the arrangements for monitoring the implementation of service improvement recommendations, Services will be asked to identify a responsible officer for business improvement who will be granted restricted access to the audit system in order to assist with the implementation of these actions. These officers will have a monitoring and oversight role in the implementation of service improvement recommendations.

6. Conclusions

- 6.1 Updating the categorisation of audit recommendation priorities and formalising the arrangements for sharing relevant information with officers with Lean or business improvement responsibilities will:
- Allow for the appropriate categorisation and treatment of audit recommendations;
 - Ensure that the relevant officers within the Council Family have oversight of areas which would benefit from a review in order to enhance service performance and efficiency; and
 - Ensure that service areas are supported by the Lean resource which is in place across the Council in order to review and implement business process efficiencies.

7. Policy and Resource Implications

Resource Implications:	Not applicable.
<i>Financial:</i>	Not applicable.
<i>Legal:</i>	Not applicable.
<i>Personnel:</i>	Not applicable.
<i>Procurement:</i>	Not applicable.
Council Strategic Plan:	To provide assurance on various aspects of the strategic plan.
Equality and Socio-Economic Impacts:	Not applicable.
<i>Does the proposal support the</i>	Not applicable.

*Council's Equality
Outcomes 2017-22*

*What are the
potential equality
impacts as a result
of this report?*

Not applicable.

*Please highlight if
the policy/proposal
will help address
socio economic
disadvantage.*

Not applicable.

Sustainability Impacts: Not applicable.

Environmental:

Not applicable.

*Social, including
Article 19
opportunities:*

Not applicable.

Economic:

Not applicable.

**Privacy and Data
Protection impacts:**

Not applicable.

8. Recommendation

8.1 Members are asked to note the content of the report.