

**HUNTINGDONSHIRE DISTRICT COUNCIL**

<b>Title/Subject Matter:</b>	Non-Implementation of Internal Audit Actions: a new framework Going Forward
<b>Meeting/Date:</b>	Corporate Governance Committee – 24 May 2017
<b>Executive Portfolio:</b>	Strategic Resources: Councillor J A Gray (Deputy Executive Leader)
<b>Report by:</b>	Head of Resources
<b>Wards affected:</b>	All Wards

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**Executive Summary:**

There is a management reporting performance indicator that states 100% of audit actions should be implemented by the agreed deadline; which is itself agreed by the service and the Internal Audit and Risk Manager. Unfortunately, there are operational circumstance that mean that these 'deadlines' are missed but the current reporting process means that all such audit actions are reported to Senior Management and Corporate Governance Committee (CGC). Consequently, a new decision-making framework is required to determine the requirement of reporting audit actions that have not been implemented that reflects both the risk posed to the internal control framework and the operational circumstances.

It is proposed that all audit actions relating to "red" risks are reported to Senior Management and CGC. For audit actions relating to "amber" risks, it is proposed that there is intervention by the Head of Resources (as the Responsible Financial Officer) to determine if reporting is required or if a deadline should be allowed.

It should be noted that this approach to determining the need to report 'non-implemented' audit actions is considered pragmatic and reflective of the operational environment in which services operate.

**Recommendation**

It is recommended that the Committee consider the report and comment as they consider necessary.

## **1. PURPOSE OF THE REPORT**

- 1.1 To provide an alternative approach to the decision making process that supports the reporting of 'non-implemented' audit actions.

## **2. WHY IS THIS REPORT NECESSARY?**

- 2.1 At the July 2016 meeting of the Corporate Governance Committee (CGC), the committee expressed concerns at the declining percentage of agreed internal audit actions that had been implemented on time. This report provides a record of those audit actions not implemented by the agreed deadline, along with an explanation by the relevant Head of Service and a revised deadline.

## **3. BACKGROUND**

- 3.1 Following each audit review; audit conclusions, associated actions and implementation dates are agreed between the audit client and the Internal Audit and Risk Manager (IARM).
- 3.2 In 2013, Corporate Management agreed an increase in the target for the implementation of 'agreed internal audit actions to be introduced on time' from 60% to 100%, best practice would also suggest that all recommendations are implemented by the agreed deadline.

## **4. NON-IMPLEMENTATION OF AUDIT ACTIONS**

- 4.1 There are occasions, due to operational circumstances that agreed implementation dates have to be extended; all such extensions are agreed between the audit client and the IARM. Such audit actions are then not considered as "not implemented" and are excluded from any exemption reporting.
- 4.2 However, there are circumstances that sometimes prevail that mean even extended deadlines are missed and the current practice is that non-implementation at this stage is reported to management and CGC; this is considered a too strict a test.
- 4.3 As at the end of April 2017 there were 27 audit actions not implemented; these are detailed in **Appendix 1**, along with the reasons for non-implementation.

## **5. GOING FORWARD: REPORTING OF NON-IMPLEMENTED AUDIT ACTIONS**

- 5.1 Going forward a new approach in the assessment of non-implemented audit actions is to be followed:
  - i. For "red" risks.

There will be no change to the current reporting approach; in that where the original audit report (3.1) implementation deadline has not been achieved, this will be reported to both management and CGC.
  - ii. For "amber" risks.

Where the IARM has chosen not to extend an implementation or an extended deadline extension (4.2) has been missed, in consultation with the relevant Head of Service and the IARM, all such cases will be considered by the Head of Resources (as the Councils Responsible Finance Officer). He will determine the impact on the Councils internal control and financial framework. Where in his opinion non-implementation:

- a. poses a significant risk to the aforementioned framework, the Head of Resources will ensure that non-implementation is reported to CGC, along with a 'drop-dead' implementation date.
- b. does not pose a significant risk, then
  - the audit action will not be reported to CGC, but
  - a new 'drop-dead' implementation date will be agreed, and the audit risk system will be duly updated. If this revised implementation date is not met, then this will be reported to management and CGC.

A flowchart for the "amber" risk audit action process is shown at **Appendix 2**.

- 5.2 With regard to the 'drop-dead' implementation dates noted in 5.1 (ii), no further deadline extensions will be permitted.
- 5.3 Of the audit actions noted in **Appendix 1**, post this meeting they will now follow the process noted in 5.1 above.

## **6. KEY IMPACTS**

- 6.1 It is important that the Council maintains a sound internal control environment. Actions that the Internal Audit Service propose to address risk and control weaknesses are discussed with Heads of Service and if appropriate Directors and agreement reached as to any corrective action that needs to be taken. Internal audit actions are not imposed on management.

## **7. LINK TO THE CORPORATE PLAN**

- 7.1 The Internal Audit Service provides independent, objective assurance to the Council by evaluating the effectiveness of risk management, control, and governance processes. It identifies areas for improvement across these three areas such that Managers are able to deliver the Corporate Plan objectives as efficiently, effectively and economically as possible.

## **8. RESOURCE IMPLICATIONS**

- 8.1 There are no direct resource implications arising from this report.

## **9. REASONS FOR THE RECOMMENDED DECISIONS**

- 9.1 The report has been requested by the Committee and as such they need to decide what further action they wish to take in respect.

## **10. LIST OF APPENDICES INCLUDED**

Appendix 1 - Outstanding Internal Audit Actions as at 30 April 2017  
Appendix 2 – Flowchart for Decision-Making/Reporting process for Non-Implemented Audit Actions.

## **BACKGROUND PAPERS**

Audit actions contained within the 4action system

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