

Agenda Item	7
Report No	AS/22/18

HIGHLAND COUNCIL

Committee: Audit and Scrutiny Committee

Date: 29th November 2018

Report Title: **Lean review of the Internal Audit process**

Report By: Depute Chief Executive/ Director of Corporate Resources

1. Purpose/Executive Summary

- 1.1 A lean review of the internal audit process has been completed. This has been conducted within the Audit & Performance Team, Corporate Resources Service, and has resulted in a number of improvements. These will help to improve the efficiency and effectiveness of the internal audit function which will benefit the whole Council.

2. Recommendations

2.1 Members are asked to:

- i. Note the successful completion of the Lean review of the internal audit process which has been conducted by staff in the Audit & Performance Team, Corporate Resources Service. This has resulted in improved processes which will offer efficiencies in the way the Internal Audit Plan is delivered. This will benefit staff in the team and across the Council.

3. Introduction

- 3.1 Two officers from the Audit & Performance team (Corporate Performance Manager and Senior Auditor) attended the Council's Lean training in August 2017. They were awarded "Green Belt" status and following this, it was determined that these new skills could be well used by conducting a Lean review of the internal audit process.
- 3.2 The Lean review was commissioned by the project sponsors: the Corporate Audit and Performance Manager; and the Corporate Audit Manager. Following an initial meeting, the sponsor expectations of the Lean review were clarified as:
- The removal of non-value adding steps/ process waste
 - Improved productivity (Against the annual audit plan)
 - Examination of the whole process – from end to end
 - Review the Key Performance Indicators.
- 3.3 The Lean review team consisted of the two officers referred to at paragraph 3.1 and two Assistant Auditors. The team was supported part way through the review by Colin Barr Associates, the Council's external training provider for the Lean methodology.
- 3.4 The Lean review was started at the end of January 2018, with an initial target of completing the review in Summer 2018. This timeframe was extended following advice by the external consultant that additional time would be required to fully explore the matters under review. The final report was presented back to the project sponsors in September, with the review taking approximately seven months to complete.

4. Lean Review of Internal Audit

- 4.1 The Lean review followed the five stages of the "DMAIC" methodology:
- **Define** – What is the problem that needs to be solved?
 - **Measure** – What is the current capability of the process?
 - **Analyse** – When and where in the process does waste occur?
 - **Improve** – How can the process be made more efficient?
 - **Control** – What controls can be put in place to sustain the gain?
- 4.2 The Lean review team worked through these five stages systematically, and this involved a range of exercises to better understand the internal audit process, to identify issues, and to determine solutions. An interim report to the project sponsors was produced in April 2018. This ensured that the Lean review had progressed in line with their expectations.
- 4.3 Throughout the process, the Lean review team engaged with stakeholders of the internal audit process, primarily through meetings. A survey was also conducted of all senior managers who had been involved in at least one internal audit process in the past 18 months. There was a good response rate to the survey and the results were generally very positive. Key results drawn from the survey include:
- 96% stated that it is at least "somewhat important" that their areas of work are audited regularly;
 - 92% were aware of the internal audit plan;
 - When asked what they would like audits to focus on: 46% stated "assurance"; 21% "added value"; 21% "Systems/ processes"; and 12% "other"
 - When involved in an audit, only 9% stated they had "very little" or no understanding of what the audit was going to focus on at the start of the process;
 - 83% felt that the timescales of the audit process were clear; and
 - 75% of respondents agreed that audits should cover all potentially significant

issues that arise during the audit process.

5. Outcomes

5.1 Through the process of applying the Lean methodology, seven main process improvements were recommended:

- Audit planning: A more flexible audit planning approach with greater involvement of the internal audit team and senior managers with audits scheduled 6 months in advance. This should lead to better information in the audit plan and a greater awareness of scheduled audits.
- Increased information gathering before an audit: Reminder and information checklist issued to Service, pre-audit meeting scheduled.
- Streamlined audit process: The current audit process has 80 process steps. Following review, 20 steps were removed, and 5 steps were added. This represents a net reduction of 15 steps (19%).
- Flexible and increased workload: Audits allocated on a quarterly basis, and a greater number allocated to increase flexibility in an auditors workload.
- Audit scope: Reviewing the scope of an audit part way through the process, so that issues arising can be considered for inclusion within the audit, passed back to the Service, or form the basis of a further audit. This also provides an opportunity to assess if all planned testing should be completed in cases where initial testing provides sufficient evidence to form a conclusion on the effectiveness of the process.
- Report format: Restructured to a covering page plus 2 further pages to allow for improved presentation at committee and for the officers receiving the reports.
- Galileo software: Greater use of the software to automate action tracking.
- Improved efficiency and productivity: It is anticipated that the number of days required for individual audits will reduce; while the scope of planned work will acknowledge the capacity process improvements have released. This will be monitored over the coming months through new performance indicators outlined at 5.3 below. The improvements achieved will also be considered as part of the planning of the 2019/20 Internal Audit Plan which Members will consider in March 2019.

5.2 Whilst these seven solutions may seem quite simple individually, they are the result of a robust and methodical approach to identify improvements. Combined they will help to make the internal audit process increasingly efficient and effective, tackling the issues that arose as part of the Lean review. An improvement plan has been agreed with the project sponsors, and is being implemented. A copy of this plan is provided at **Appendix 1**.

5.3 The current set of key performance indicators (KPIs) for internal audit was reviewed as part of the Lean review. It is good practice to regularly review KPIs to ensure they are aligned with the objectives of the service. The revised indicators are intended to give higher focus to the productivity of the team, as well as the outcomes of the internal audit process. Three existing KPIs have been retained (denoted by an asterisk):

Cost

- *Cost of audit per million (£) of net expenditure (CIPFA), annual

Productivity

- *Productive days against the audit plan (CIPFA), annual
- *Action tracking (% actions implemented by target date), six monthly reporting
- Update on the impacts and outcomes of internal audit – From the Corporate

Audit Manager, at least annually.

Satisfaction

- Annual survey of senior managers who have been involved in at least one audit in the last 12 months. A couple of short questions covering:
 - Importance that areas of work are audited regularly
 - Importance of the audit outcomes to the ways in which the audited areas now function

- 5.4 An additional four KPIs are under development, two on cost and two on quality. These may provide better local information on the performance of the internal audit function. These will be reviewed once more data is available at the end of the financial year. The indicator set will be used to report performance quarterly at the Chief Executive's quarterly Service performance reviews.
- 5.5 A key part of the Lean methodology is to have a series of controls which will help to sustain the improvements identified. These are outlined in the agreed improvement plan, Appendix 1. As part of this, a six and twelve month review will occur to ensure the improvements have been adopted and are working well.

6. Implications

- 6.1 Resource – The successful adoption of improvements determined by the Lean review will lead to the internal audit process being increasingly efficient and effective. This will lead to an increased output of the internal audit team which will result in increased assurance and added value across the organisation.
- 6.2 Risk – A more efficient and effective internal audit function will help the Council to manage risk across the organisation. This will support the Chief Audit Executive (the Corporate Audit Manager) to provide an annual internal audit opinion that concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 6.3 Legal, Community (Equality, Poverty and Rural), Climate Change / Carbon Clever, Gaelic implications –none arising.

Designation: Depute Chief Executive/ Director of Corporate Resources

Date: 30/10/2018

Author:

Stephen Carr, Corporate Performance Manager;
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Lindsay Lyon, Assistant Auditor.

Appendix 1: Agreed Improvement Plan

Finding	Recommendation	Management Response	Implementation	
			Lead Officer	Target Date
<u>Audit plan</u> : Lack of detail in the audit plan for some audits can cause increased workload to determine the audit scope. This is particularly the case for audits scheduled later in the plan, which may begin almost a year after the plan was produced.	More flexible approach to the 12 month plan with greater involvement of the audit team and Heads of Service. Audits scheduled at least 6 months in advance. This should result in better information and awareness of scheduled audits, and a more flexible process.	Approach will be implemented for the 2019/20 Internal Audit Plan.	Corporate Audit Manager/ Senior Auditors	March 2019
<u>Pre audit</u> : Uncertainty over contacts within the Service and system or document access requirements can delay the start of the audit process.	Reminder, checklist, and pre-audit meetings where required scheduled each quarter	New process and documentation has been agreed for immediate implementation.	Internal Audit Team	Complete
<u>Streamline audit process</u> : The audit process is a lengthy linear process with built in delays (e.g. wait times for Services to respond to key stages in the audit). Planned audit testing tends to be completed even if an overall trend has been identified part way through the testing.	Remove non value adding steps, and evaluate testing part way through. Revisions have been made to the process map for the audit planning process and the internal audit process.	Revisions to audit process map have been agreed and implemented.	Internal Audit Team	Complete
<u>Flexible and increased workload</u> : Due to the linear nature of the audit process, and the in-built delays, unproductive time can be charged against an audit if auditors don't have enough audits allocated to them.	Audits allocated to auditors on a quarterly basis. A greater number allocated to increase flexibility given delays in auditing process.	Team restructured and delegation of plan delivery to Senior Auditors to allocate work and minimise delays.	Corporate Audit Manager/ Senior Auditors	Complete
<u>Audit scope "creep"</u> : Issues can be identified during audits that are out with the original scope. Information can also be received late in the process from the Service, or the Service may request additional testing to confirm initial findings.	The value of audit "creep" should be recognised and a decision taken as to whether to include it within an ongoing audit, or refer it back to the Service. Additional objectives/ contingency time to be added.	Corporate Audit Manager and Senior Auditors will monitor issues additional to scope and agree if they add value.	Corporate Audit Manager/ Senior Auditors	Complete
<u>Report format</u> : Significant time is spent by auditors condensing audit findings to fit	Restructure the report format to a covering page plus 2 page report. The purpose of	Restructure to maximise use of available space agreed	Corporate Audit Manager/	March 2019

Finding	Recommendation	Management Response	Implementation	
			Lead Officer	Target Date
within the 2 page report format. Services can feel that context or explanations provided at the Matters for Discussion (MFD) is not reflected in the report.	report format should be explained at MFD meeting.	and will be implemented.	Senior Auditors	
<u>Automate action tracking:</u> The action tracking process to monitor implementation of audit recommendations by individual auditors using a shared spreadsheet is administratively cumbersome.	Greater automation of action tracking through Galileo to improve efficiency.	A planned Galileo system upgrade will improve functionality and efficiency. Staff will be trained on system use.	Corporate Audit Manager/ Senior Auditors	December 2018
<u>Controls:</u> Controls will be required to ensure that the improvements identified are successfully implemented and maintained.	<ul style="list-style-type: none"> ● A 6 and 12 month review (April 2019, October 2019) by the corporate audit manager, senior auditors and the Lean team to ensure solutions have been adopted and are working well. ● Meeting with the full internal audit team to brief them on the improved process ● Senior auditors are well briefed and supported to ensure that solutions are being implemented and oversee this through management controls. This can be built into their ERDs. 	Review meetings and staff meetings will be put in place.	Corporate Audit Manager	April/ Oct 2019
<u>Key Performance Indicators (KPIs):</u> Following an evaluation of the current set of KPIs, it was found that these could be improved to better monitor and manage the performance of the internal audit process.	A new set of KPIs have been developed by the internal audit team as an output of the Lean review.	<p>New KPIs will be tested and changes implemented as necessary from Quarter 3 Service Quarterly Performance Review (QPR)</p> <p>New KPIs will be reported to Audit & Scrutiny Committee</p>	<p>Corporate Audit & Performance Manager</p> <p>Corporate Audit Manager</p>	<p>February 2019</p> <p>Relevant committee meetings and annually</p>