



devon **audit** partnership

Internal Audit Report

Follow Up Report on
Areas Requiring
Improvement

Torbay Council

August 2015

OFFICIAL



Auditing for achievement

Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.

The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at robert.hutchins@devonaudit.gov.uk.

Confidentiality and Disclosure Clause

This report is protectively marked in accordance with the National Protective Marking Scheme. Its contents are confidential and, whilst it is accepted that issues raised may well need to be discussed with other officers within the organisation, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.

This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

Introduction

At the July Audit committee members were provided with the Annual Internal Audit report for the Council. Appendix 4 of that report provided a summary of the audits undertaken during 2014/15, along with our assurance opinion. Where a “high” or “good” standard of audit opinion was provided we confirmed that, overall, sound controls were in place to mitigate exposure to risks identified; where an opinion of “improvement required” was provided then issues were identified during the audit process that required attention. We provided a summary of some of the key issues reported that were being addressed by management and pointed out that we were content that management were appropriately addressing these issues.

Members discussed and accepted the report; however, members at the other partner organisations of the Devon Audit Partnership have found it beneficial to receive a report on progress on the “improvement required” areas highlighted in Appendix 4 to the report.

As part of adding value and to ensure a consistent service across all partners, Devon Audit Partnership has completed follow up reviews to provide updated assurance to members. The results from this process are contained in this report at Appendix A.

Assurance Statement

Our assurance opinion remains as reported in our Annual Audit Report 2014/15. However, it should be recognised that there is potential for this assurance opinion to be adversely affected should the lack of progress made against certain individual audit management action plans continue.

Progress Impact Assessment

The progress made in the majority of areas means the previously identified risks are being minimised or mitigated where appropriate. However the limited progress made in certain action plans means a number of the risks previously identified and highlighted to management continue to remain.

In particular there remain two areas where progress has been limited:

- ICT Continuity – and the linkages between this and Corporate BCP, Risk Management and Emergency Planning (refer to Appendix A, page 9);
- Children’s Services - External Contracts

These are key to strategic and operational change in the coming months and in principle may impact the success of mitigation of wider strategic risks.

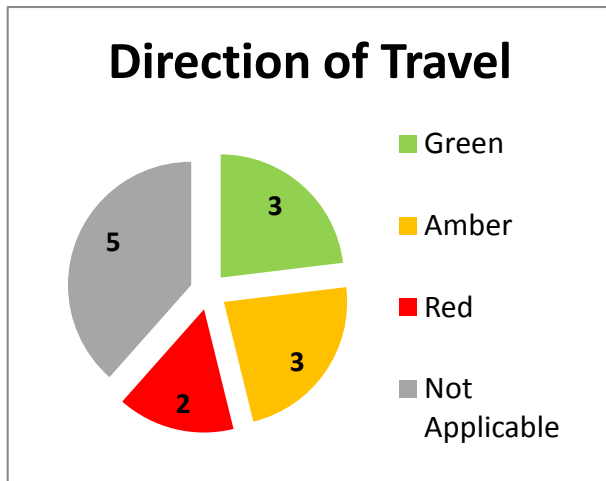
In addition, where the agreed actions are set for future dates and have therefore not formed part of this follow up exercise, the identified risks will remain until such time as the actions are complete.

This follow up activity was an opportunity to facilitate review and expedite progress for individual audits, to inform Management of the current position and to integrate the outcomes into the organisation’s strategic management.

Progress

Some progress has been made against the agreed action plans as shown in the 'Direction of Travel' chart. The subsequent charts record the resulting change in audit assurance opinion based upon the follow up work undertaken.

It should be noted that a number of the audits were not followed up due to the timing being inappropriate linked to the timing of the agreement to the action plan for the original reports, hence in these instances the original assurance opinion remains.



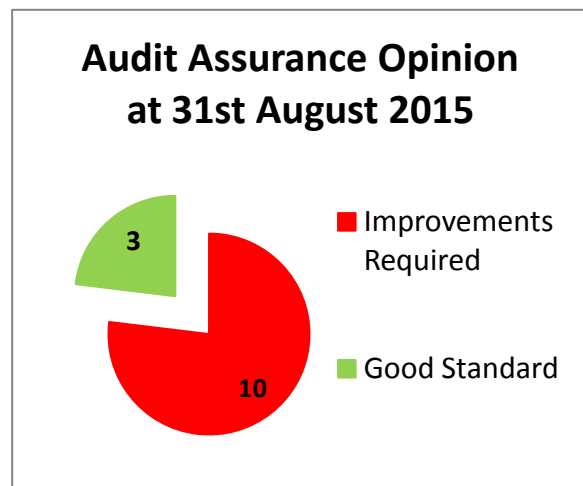
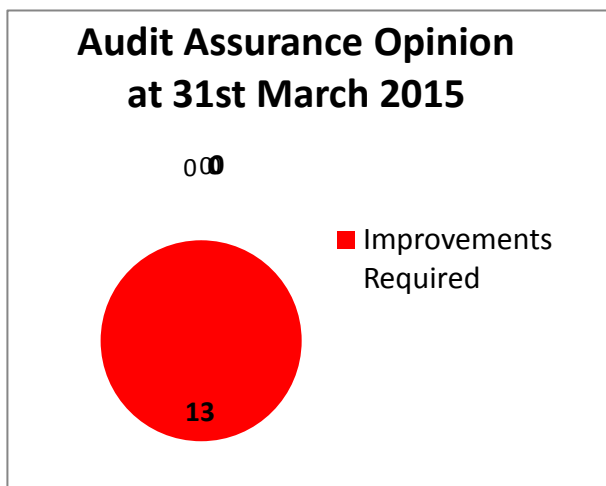
Direction of Travel Key

Green – action plan implemented or being implemented within agreed timescales;

Amber – implementation of action plan not complete in all areas or overdue for key risks;

Red – implementation of action plan not complete and we are aware progress on key risks is not being made.

N/A – follow up not appropriate at this time / opportunity for progress has been limited



Internal Audit Coverage and Results

Overall we can report that for the majority of audits progress is being made against the agreed recommendations following our initial audit and this is shown in the direction of travel chart above and in Appendix A of this report. A significant number of opinions remain unchanged at this time although this does not in all cases reflect lack of action.

It should be noted that in a number of instances action is being taken to address the issues identified, but this is ongoing and therefore we have been unable to form a new overall assurance opinion. It is acknowledged that the need to make changes to some processes can take time to achieve, and as a consequence not all recommendations

have been completed, but this is as expected.

Some agreed actions have not been implemented for a variety of reasons including strategic and operational changes in the service area and the need to prioritise resource in other directions. We shall work with management in determining revised implementation dates to ensure that actions are taken as promptly as is possible to address the risks identified.

During our initial audit work we have made reference to areas where risk exists; however in some cases it is either not economically appropriate to address this risk, or technical solutions are not yet available. In such cases management agree to accept this risk, and use other monitoring arrangements to ensure that the risk is kept to a minimum. In such cases we are unable to provide an improved audit opinion, although we fully recognise that the risk is identified, managed and management will resolve the issue as and when opportunities arise.

Appendix A of this report sets out the audits at the end of 2014/15 which were identified as 'improvements required' or 'fundamental weaknesses'. The appendix shows the current (updated) assurance opinion following our follow up work, and a 'direction of travel'. We have also provided some more detailed commentary on progress being made. Appendix B provides a definition of the assurance opinion categories.

Annual Governance Statement

The conclusions of this report provide further internal audit assurance on the internal control framework necessary for the Committee to consider when reviewing the Annual Governance Statement.

These should be considered along with the conclusions from the Annual Audit Report 2014/15 presented to the Committee in July 2015.

Process

For each service area where an overall audit opinion of "improvements required" was provided at the end of 2014/15 we completed a follow up review. The follow up review was undertaken to provide assurance to management and those charged with governance, that the agreed actions identified at our initial audit visit had been implemented, or suitable progress is being made to address the areas of concern.

Our approach was to initially write to the appropriate service manager to obtain an update on progress being made against agreed audit recommendations. The level of assurance we requested was dependent upon the priority of the agreed recommendation.

For recommendations of "low" priority we required written confirmation that the action had been enacted upon, or an update on the progress being made.

For "medium" priority recommendations we required written confirmation that the action has been enacted upon, or an update on the progress being made, plus some evidence to support this. For example, if the recommendation was for a monthly imprest reconciliation to be produced and signed as correct, then a copy of the most recent reconciliation was required.

For "high" priority recommendations we required written confirmation that the action had been enacted upon, or an update on the progress being made, plus some evidence to support this (as above) plus, and depending upon the nature of the recommendation, we considered a physical visit to confirm that the recommendation was operating as expected and that the identified risk had been reduced to an acceptable level.

Following the completion of our review we considered the progress made against of the agreed recommendations. This then enabled us to reconsider our assurance opinion against each of the risk areas identified, and has enabled us to reconsider our overall assurance opinion enabling an updated opinion to be provided where appropriate.

It should be noted that this updated opinion is based upon the assumption that systems and controls as previously identified at the original audit remain in operation and are being complied with in practice. The purpose of our follow up exercise has not been to retest the operation of those previously assessed controls, but to consider how management have responded to the agreed action plans following our previous work

Appendix A

Summary of Audit Follow and Findings 2014-15


Risk Assessment Key

LARR – Local Authority Risk Register score Impact x Likelihood = Total & Level
 ANA - Audit Needs Assessment risk level as agreed with Client Senior Management
 Client Request – additional audit at request of Client Senior Management; no risk assessment information available


Direction of Travel - Key



Green – action plan implemented or being implemented within agreed timescales;
 Amber – implementation of action plan not complete in all areas or overdue for key risks;
 Red – implementation of action plan not complete and we are aware progress on key risks is not being made.


* report recently issued, opportunity for progress has been limited

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2015	Updated Audit Assurance Opinion as at 31 August 2015	Commentary and residual risk	
Material Systems					
Council Tax & NDR (2013-14)	ANA – Medium	Improvements Required	Improvements Required	The Council Tax & NDR Audit is an annual material systems audit and as such any recommendations made and associated agreed actions will be followed up as part of the annual audit exercise. Completion of the 2014-15 annual audit was delayed but is now nearing completion, which includes the follow up of the 2013-14 recommendations and which will be reported in our six monthly performance outturn report	N/A
Payroll – System Procurement and Implementation	ANA – Critical	Improvements Required	Good Standard	Management responded positively to the report and associated recommendations made in relation to the project and are actively using them to inform the current Self Service project activity. This is evident through ongoing audit involvement in the current project.	
Crisis Support Follow-up	ANA – Low	Improvements Required	Improvements Required	The report was in draft at the time of the 2014-15 annual report. It has recently been issued in final and a management action plan agreed.	N/A *



Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2015	Updated Audit Assurance Opinion as at 31 August 2015	Commentary and residual risk	
Creditors	ANA – High	Improvements Required	Improvements Required	<p>The report was in draft at the time of the 2014-15 annual report. It has now been issued in final and a management action plan agreed.</p> <p>Creditors is subject to an annual audit and therefore the status of individual recommendations against the agreed actions will be followed up then. The results of this audit will be reported in our six monthly performance outturn report.</p>	N/A *
Corporate Debt	ANA – High	Improvements Required	Improvements Required	<p>This report was issued in June 2015 and the agreed actions are not due for completion until January 2016. Corporate Debt is subject to an annual audit and therefore the status of individual recommendations against the agreed actions will be followed up then. The results of this audit will be reported in our six monthly performance outturn report.</p>	N/A *


Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2015	Updated Audit Assurance Opinion as at 31 August 2015	Commentary and residual risk	
IT audit					
ICT Continuity	ANA - High	Improvements Required	Improvements Required	<p>The ICT Continuity / DR function is in itself specific to IT, however the audit identified a number of linked but wider Corporate Business Continuity issues resulting in recommendations for corporate consideration rather than IT Services specific, including a proposal to integrate ICT Continuity and DR, with Corporate Business Continuity, Emergency Planning and Risk Management and Legal which was accepted by SLT. Due to organisational structure changes and the need to integrate with the revised Risk Management methodology and the exercise to review business continuity plans, progress against agreed recommendations has not been undertaken as originally expected. The integration is being progressed through an initial review with the Executive Head – Customer Services; Assistant Director – Corporate & Business Services; and Assistant Director – Community & Customer Services; supported by Internal Audit.</p> <p>As a number of the agreed actions have not yet taken place, the level of risk has not been reduced. As outlined above, Management have provided assurance that the recommendations will be progressed.</p>	
Harbour Mooring system Replacement	ANA – Medium	Improvements Required	Improvements Required	<p>The existing system is now in need of replacement to enable more effective control on an expanding area of business and to provide an effective interface with the main accounting system for debt recovery. Interim arrangements have been made to the client's satisfaction as a one-off operation.</p> <p>The project for development of an in-house package by ICT was temporarily suspended as it did not meet client needs. However a subsequent specification has been drawn up and is currently under consideration. Development processes will be further reviewed within the 2015/16 audit plan.</p>	N/A

Place					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2015	Updated Audit Assurance Opinion as at 31 August 2015	Commentary and residual risk	
Parking Services	ANA – High	Improvements Required	Improvements Required	<p>Some progress against the agreed recommendations has taken place, with a number of recommendations having been implemented. However there remain a high number of recommendations that have either been implemented in part or have yet to be implemented. It is understood that a number of these will be considered as part of the Parking Review process. A large number of recommendations still require further action to ensure the control framework would be sufficiently robust to minimise or mitigate the identified risks. As a consequence, until such time as the actions are fully addressed, the level of risk has not been reduced.</p> <p>Internal Audit has been advised that resourcing issues within Parking Services has had an impact on the services ability to fully address the recommendations made.</p>	
TOR2 Contract Monitoring	ANA - High	Improvements Required	Improvements Required	<p>Satisfactory progress against some of the agreed recommendations has taken place.</p> <p>Progress against other recommendations has slipped; however, this is due largely to management staff leaving the Authority, and organisational structure changes, which have been taking place since December last year.</p> <p>Additionally, as a result of the suspension of the Future State Project, the risks resulting from this have been removed.</p> <p>The new management has provided assurance that the residual issues will be addressed in the near future, and an action plan to address these is in place, with the majority of issues expected to be mitigated by November/December this year.</p>	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2015	Updated Audit Assurance Opinion as at 31 August 2015	Commentary and residual risk	
Torbay Harbour Authority – Asset Management	ANA – Medium	Improvements Required	Good Standard	We can confirm that significant progress has been made by management in addressing the risks identified in the original audit. The majority of agreed actions have taken place, considerably reducing the level of risk. A few recommendations remain to be completed, but we are confident that these will soon be addressed. The remaining issues are in relation to recharging in order to maximise income. It is understood that this is a complex area, however it is being progressed but has yet to be fully resolved.	

Community Safety

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2015	Updated Audit Assurance Opinion as at 31 August 2015	Commentary and residual risk	
Bereavement	ANA – Low	Improvements Required	Improvements Required	Satisfactory progress against the agreed recommendations has taken place. We note that a number of recommendations remain to be completed. Management have provided assurance that these issues will be addressed in the near future.	
Community Safety – Safer Communities (Domestic Violence)	ANA – High	Improvements Required	Good Standard	The majority of agreed recommendations have been actioned or are ongoing. Following changes in service delivery arrangements a number of previously identified operational issues are now managed by the new contractor.	

Children's Services					
Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2015	Updated Audit Assurance Opinion as at 31 August 2015	Commentary and residual risk	
Children's Services External Contracts	ANA - High Risk	Improvements Required	Improvements Required	Progress against the agreed recommendations has not been undertaken within the timescale originally expected. The intention was to set up a Joint Commissioning Team (July 2014) however this as yet has not taken place. Approval has now been given by the Mayor (July 2015) for a new proposed structure. A number of the agreed actions have not yet taken place or have not been able to be tested and as a consequence the level of risk has not been reduced.	

Definitions of Audit Assurance Opinion Levels

Assurance	Definition
High Standard.	The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.
Good Standard.	The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.
Improvements required.	In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.
Fundamental Weaknesses Identified.	The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

Definition of Recommendation Priority

Priority	Definitions
High	A significant finding. A key control is absent or is being compromised; if not acted upon this could result in high exposure to risk. Failure to address could result in internal or external responsibilities and obligations not being met.
Medium	Control arrangements not operating as required resulting in a moderate exposure to risk. This could result in minor disruption of service, undetected errors or inefficiencies in service provision. Important recommendations made to improve internal control arrangements and manage identified risks.
Low	Low risk issues, minor system compliance concerns or process inefficiencies where benefit would be gained from improving arrangements. Management should review, make changes if considered necessary or formally agree to accept the risks. These issues may be dealt with outside of the formal report during the course of the audit.

Confidentiality under the National Protective Marking Scheme

Marking	Definitions
Not Protectively Marked or Unclassified	Documents, information, data or artefacts that have been prepared for the general public or are for the public web pages or can be given to any member of the public without any exemptions or exceptions to release applying, have the classification NOT PROTECTIVELY MARKED. Some organisations will also use the word UNCLASSIFIED for publicly available information.
Official	The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.
Secret	Very sensitive information that justifies heightened protective measures to defend against determined and highly capable threat actors. For example, where compromise could seriously damage military capabilities, international relations or the investigation of serious organised crime.
Top Secret	The most sensitive information requiring the highest levels of protection from the most serious threats. For example, where compromise could cause widespread loss of life or else threaten the security or economic wellbeing of the country or friendly nations.