devon audit partnership

Internal Audit Report

Follow Up Report on Areas Requiring Improvement

Torbay Council

November 2016

OFFICIAL

CUSTOMER SERVICE EXCELLENCE CSE ®

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 2015/16, 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 “improvements 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 have previously 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, 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 2015/16. 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 some areas means the previously identified risks are being minimised or mitigated where appropriate. However the lack of 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 three areas where progress has been limited:

- Corporate Debt;
- ICT Change Control;
- ICT Hosted Systems

The effective recovery of income is important in the climate of continued budget reductions and the need to deliver ‘more for less’.

We understand that the limited resources in IT are affecting ability to deliver some of the recommendations in the audit reports, which indirectly could affect the delivery of IT elements of the Council’s Transformation Programme. However, it is understood that the IT elements of the Transformation Programme are yet to be defined.

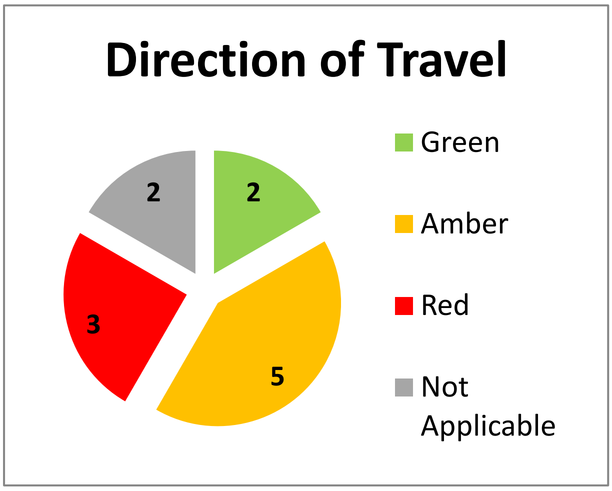
In addition, where agreed actions are set for future dates, and have therefore not formed part of this follow up exercise, the identified risks will remain until such time as the actions are complete.

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 arrangements.

Progress

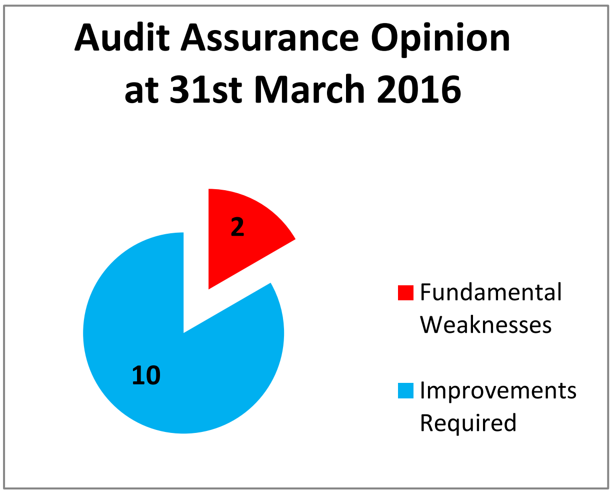
Some progress has been made against the agreed action plans as shown in the 'Direction of Travel' chart. The subsequent charts record the resulting change in audit assurance opinion based upon the follow up work undertaken.

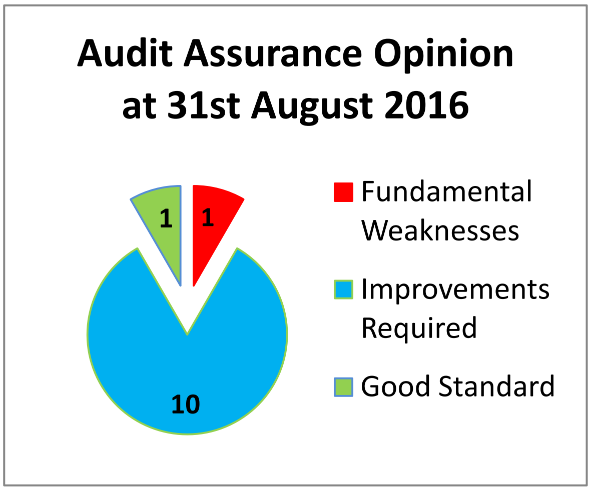
It should be noted that a small number of the audits were not followed up due to the timing being inappropriate, linked to the timing of the agreement to the action plan for the original reports, hence in these instances the original assurance opinion remains.



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





Although the audits previously followed up in 2015/16 are not subject to further formal audit follow up, for continuity and the avoidance of doubt we have analysed the previous year's output to provide an indication of areas that may require further Management input.

Total audits still at Improvements Required from 2015/16 annual follow up report			
Areas subject to follow up activity within 16/17 planned audit work			Audit areas potentially requiring Management review of progress against previous audit recommendations
Material Systems *(annual audits)*	Project activity	16/17 audits	
3	1	3	• Parking Services • Children's Services External Contracts • Bereavement Services

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 2015/16 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 2015/16 presented to the Committee in July 2016.

Process

For each service area where an overall audit opinion of “improvements required” or “fundamental weaknesses” was provided at the end of 2015/16 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 2015-16

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			
		Audit Assurance Opinion as at 31 March 2016	Updated Audit Assurance Opinion as at 31 August 2016	Commentary and residual risk	Direction of Travel RAG Score
Corporate and Business Services					
Material Systems (includes all material systems for reporting completeness purposes, however direct responsibility for certain areas is within Community and Customer Services) Material systems audits and as such any recommendations made and associated agreed actions are followed up as part of the annual audit process. The 2015-16 annual audit work is complete, which includes the follow up of the 2014-15 recommendations and which will be reported in our six monthly performance outturn report.					
CTAX & NDR (2014-15)	ANA - Medium	Improvements Required	Improvements Required	The audit found that there had been limited progress made against previous recommendations and as such our original assurance opinion remains.	A
Creditors (2014-15)	ANA - High	Improvements Required	Improvements Required	The audit found that although a small number of recommendations are not yet due, there had been progress made against a majority.	G
Corporate Debt (2014-15)	ANA - Medium	Improvements Required	Improvements Required	The audit found that there has been a lack of progress in implementing a number of recommendations made last year, hence the significant number of issues that have been re-reported.	R

Risk Area / Audit Entity	**Risk Assessment / Audit Needs Assessment**	**Audit Report**			
		Audit Assurance Opinion as at 31 March 2016	Updated Audit Assurance Opinion as at 31 August 2016	**Commentary and residual risk**	**Direction of Travel RAG Score**
Other					
Human Resources	ANA - High	Improvements Required	Good Standard	We can confirm that good progress has been made by management in addressing the risks identified in the original audit. The majority of agreed actions have taken place, with revised practices now in operation, albeit in their infancy. Continued operation of these practices will considerably reduce the level of risk. A few recommendations remain to be completed; however we are confident that these will soon be addressed. Originally the key area of concern related to the risk of unsafe or illegal hiring. However, there have been significant improvements to the control framework resulting in improved practices and an associated reduction in risk.	G
Section 106	ANA - Medium	Fundamental Weaknesses	Improvements Required	Progress against a number of the original recommendations and agreed actions has been made. Previously, Section 106 payments were not consistently reviewed or evidenced within Planning resulting in risks of allegations against planning officers and legal challenge; however a process has now been implemented to address this. Development reports are produced and presented to the Development Management Committee and are centrally retained. There are now full specifications of Section 106 payments and calculations with a supporting protocol established. An overarching S106 monitoring process has been established in theory; however this is not as yet operational. We have been advised that implementation of the process would require financial investment and this is at present being reviewed. The need for an over-arching monitoring process remains, as do the associated risks.	A

		Audit Report			
Risk Area / Audit Entity	**Risk Assessment / Audit Needs Assessment**	Audit Assurance Opinion as at 31 March 2016	Updated Audit Assurance Opinion as at 31 August 2016	**Commentary and residual risk**	**Direction of Travel RAG Score**
Community and Customer Services					
Corporate Security and CCTV	ANA - Medium	Improvements Required	Improvements Required	There has been significant progress in relation to the actions related to the organisations building security. A new policy has been established and it is intended that this will form part of the Council's existing information security framework; a new building security system has been procured and implemented. Supporting processes are being established through an ongoing Building Security project team. The Security service remains under review. An informal review of the service has been undertaken, however this needs to be formalised and include all necessary elements, such as ongoing delivery methods; clear definition of provision; and consideration of areas such as ongoing service continuity. We understand that future provision of the CCTV Service is subject to review within the organisation's Transformation Programme, and as such the agreed actions have not been progressed. Therefore the associated risks remain as originally reported.	A
Museum Services	ANA - Low	Improvements Required	N/A	The report was in draft at the time of the 2015-16 annual report. It has now been issued in final and a management action plan agreed.	N/A*
IT Audit					
Change Control (follow up)	ANA - High	Improvements Required	Improvements Required	We have undertaken a full audit of the Change Control process as part of the agreed 2016/17 audit plan. This incorporated a follow up of the previous audit, which identified that little progress had been made and as such our assurance opinion remains as originally reported.	R

Risk Area / Audit Entity	**Risk Assessment / Audit Needs Assessment**	**Audit Report**			
		Audit Assurance Opinion as at 31 March 2016	Updated Audit Assurance Opinion as at 31 August 2016	**Commentary and residual risk**	**Direction of Travel RAG Score**
Hosted Services – Checklist for Cloud Services	ANA - High	Improvements Required	Improvements Required	Progress against the agreed recommendations has not been undertaken as originally expected. The agreed actions have not yet taken place and as a consequence the level of risk has not been reduced. There is an established Procurement framework in place within the Council; however, the procurement of hosted IT solutions is not yet fully integrated within this. The lack of the integrated framework currently puts the Council at greater risk of systems being procured that do not comply with expected practice and associated legislation.	➡ R
Database Administration	ANA -High	Improvements Required	Improvements Required	Some progress against the agreed recommendations has taken place with a small proportion either completed or in progress. A large majority of recommendations remain outstanding as the agreed actions are not yet due for completion. Timescales for these recommendations remain as originally agreed; however as these are not yet due, the level of risk remains as originally reported.	↗ A
Service Operation - Corporate Access Management	ANA - High	Improvements Required	Improvements Required	A number of the weaknesses are Corporate issues and therefore not the direct responsibility of IT Services (refer to Corporate Security and CCTV Audit on page 9). Some 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. There has been some progress in relation to the management of user accounts, particularly non-standard accounts, however in some cases although the new process has been established, it’s in its infancy and we are therefore unable to establish the effectiveness. Similarly, we understand that there is a new Corporate leaver process in place, again, this is in its infancy.	↗ A

Children's Services

Risk Area / Audit Entity	**Risk Assessment / Audit Needs Assessment**	**Audit Report**			
		Audit Assurance Opinion as at 31 March 2016	Updated Audit Assurance Opinion as at 31 August 2016	**Commentary and residual risk**	**Direction of Travel RAG Score**
Transition Children's to Adults - SEND	ANA - Medium	Fundamental Weaknesses	N/A	The report was in draft at the time of the 2015-16 annual report. It has now been issued in final and a management action plan agreed.	N/A*

Appendix B

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.