



devon **audit** partnership

Internal Audit Report

Follow Up Report on
Areas Requiring
Improvement

Devon County Council

September 2017



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 government security classifications . It is accepted that issues raised may well need to be discussed with other officers within the Council, 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 June 2017 Audit Committee, Members were provided with the Annual Internal Audit report for the Council for the previous financial year (2016/17). Appendix 4 of that report provided a summary of the audits undertaken during 2016/17, along with our assurance opinion. Where a “high” or “good” standard of audit opinion was been 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.

This report updates the Audit Committee on the “improvements required” areas highlighted in the Annual Report. Devon Audit Partnership has completed follow up reviews, where practical, and 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 2016/17 as ‘significant assurance’.

Progress Impact Assessment

In our opinion the progress made means that previously identified risks are being reduced or mitigated where appropriate.

Improvements in the areas affecting operational and strategic risks are progressing. There remains several areas where progress is ongoing and as yet risks have not been fully mitigated or we are not in a position to provide assurance that they have. Some of these areas (eg Accounting for VAT in Partnerships, Residential / Nursing Commissioning Arrangements) will be subject to further examination later in the year as part of our planned work or the issues raised have been taken into account in developments within the service area.

Changes in operational arrangements may result in previously agreed action plans becoming redundant or incorporated into new arrangements in a different method. An example of this is with regard the risk of inappropriate or inaccurate submissions (HR - Absence Management & Recording) remaining until tendering for the new HRMS system is completed and the new HRMS system installed along with the introduction of self service.

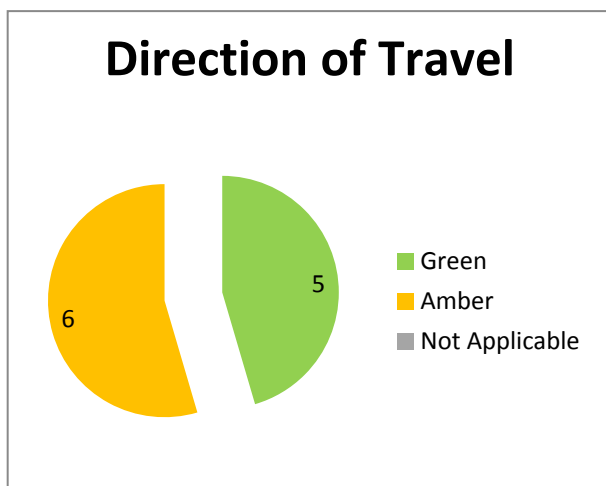
In addition, where the agreed actions are set for future dates and have therefore not formed part of this follow up exercise, the identified risks will remain until such time as the actions are complete.

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

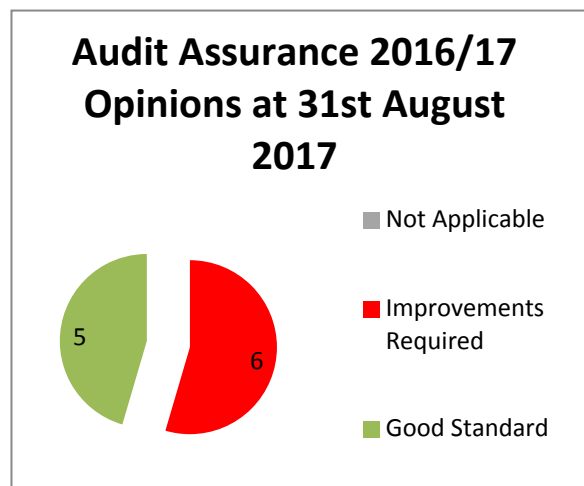
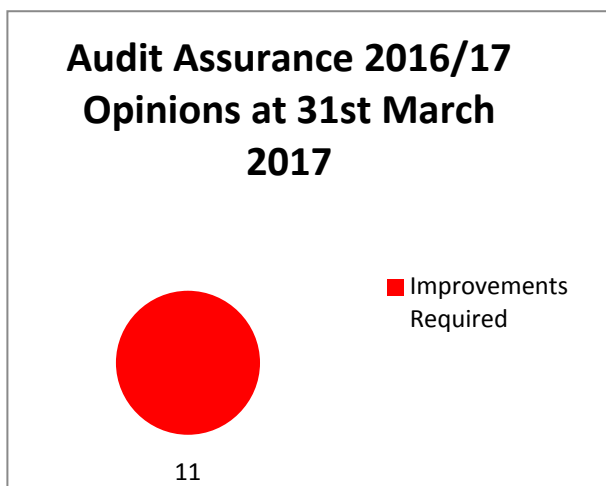
Some progress has been made against the agreed action plans as shown in the 'Direction of Travel' chart. The subsequent charts record the resulting change in audit assurance opinion based upon the follow up work undertaken.

For a number of audits work is ongoing to meet the original timescales agreed for completion of management actions or audit follow up work is planned for later in the financial year, in these instance the original assurance opinion remains. For these audits, a follow up review will be completed at an appropriate time, and results fed back to senior management and the Audit Committee.



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 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 necessarily 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 any revision to implementation dates to ensure that where necessary 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 (absence management & recording). 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 appreciate that the risk is identified, recognised and management are working resolve the issues

Appendix A of this report details those audits at the end of 2016/17 identified as 'improvements required'. 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 2016/17 presented to Audit Committee in June 2017.

Robert Hutchins
Head of Audit Partnership

Process

For each service area where an overall audit opinion of “improvements required” was provided at the end of 2016/17 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 ‘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.

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

Following the completion of our review we considered the progress made against 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.

Summary of Audit Follow Up and Findings 2016/17




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;
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 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 2017	Updated Audit Assurance Opinion as at 31 August 2017	Commentary and residual risk	
Corporate Services - Finance					
Accounting for VAT in Partnerships	ANA - Medium	Improvements Required	Improvements Required	Work is ongoing to meet the original timescales agreed for completion of management actions of September 2017. To be reviewed and reported upon at November Committee Meeting.	
Corporate Services - Human Resources (HR)					
HR - Absence Management & Recording	ANA - Medium	Improvements Required	Improvements Required	Improvements have been actioned against the majority of recommendations. However, the risk of inappropriate or inaccurate submissions remains until tendering for the new HRMS system is complete and self service is introduced.	
HR - Consultants Follow Up	ANA - Client Request	Improvements Required	Improvements Required	A new & comprehensive Hiring Temps, Agency Workers, Interims & Consultants Policy has been devised which incorporates the recommendations from the previous audit and also the requirements of the new “off payroll working” legislation (IR35). This was issued in April 2017. A further follow-up audit is planned	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2017	Updated Audit Assurance Opinion as at 31 August 2017	Commentary and residual risk	
				for later in the year to ensure that these new processes are being complied with by Services. Thus the assurance opinion remains as "improvements required" until the audit has been completed.	
HR - Ex employee records (data protection compliance)	ANA - Client Request	Improvements Required	Good Standard	The majority of recommendations have been implemented satisfactorily. Further improvements to controls are planned as part of a new HRMS system currently under review and a few are in progress in line with further legislation changes which come into force in 2018.	
Corporate Services - IT Audit					
Data Security - NPS Follow Up	ANA - Client Request	Improvements Required	Improvements Required	The main area of concern remains the lack of regular penetration testing conducted in respect of the data centre within which the Norfolk Property Services C2 solution is hosted. This, and a limited number of less significant risks are to be discussed during September 2017 in order that appropriate mitigating actions are identified or, that it is agreed that the level of risk is acceptable in respect of operational requirements.	
CareFirst 16/17	ANA - High	Improvements Required	Improvements Required	The identification of formal governance structures to administer, maintain and develop social care business solutions, and key interdependencies, is required to better safeguard both information and financial assets. Internal Audit continue to engage with the Eclipse project team in order to attempt to foster improvements within the new system. The Corporate Information Governance Team should also play a key role in improving asset ownership within the social care area, with particular emphasis on achieving compliance with the pending Data Protection Bill.	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2017	Updated Audit Assurance Opinion as at 31 August 2017	Commentary and residual risk	
People					
Residential Care Banding	ANA - High	Improvements Required	Good Standard	Recommendations made have been implemented.	
Residential / Nursing Commissioning Arrangements	ANA - Client Request	Improvements Required	Improvements Required	A meeting to discuss the action plan is scheduled to take place in September. Further update will be provided at the next Audit Committee meeting in November.	 *
Devon School Phase Associations	ANA - High	Improvements Required	Good Standard	Good progress has been made by management in addressing the matters identified in the original audit. The majority of agreed actions have taken place considerably reducing the level of risk. The County Council along with other local authorities is awaiting information from the DoE on the National Funding Formula. The information contained in this may impact on future financing of the Associations in their current form.	
High Cost Child Placements	ANA - Client Request	Improvements Required	Good Standard	Changes in the approval process have been made and the Scheme of Delegation amended to reflect the new arrangements. Other recommendations made have either been actioned or are in the process of being actioned.	
Place					
Risk Management	ANA - Medium	Improvements Required	Good Standard	Actions have taken and are ongoing against the recommendations made within the audit report. A report was presented to Leadership Group in June 2017 setting out some key actions. In particular:- Leadership, Management and Governance Arrangements The County Treasurer has now become Lead Officer for Risk	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2017	Updated Audit Assurance Opinion as at 31 August 2017	Commentary and residual risk	
				<p>Management. The risk management process will become more formal with a report taken to each Scrutiny Committee setting out the risks for that service area; a composite report will then go to Audit Committee highlighting the top 10 risks faced by the Council and the mitigating actions.</p> <p>Risk Management Processes All risks will be captured (including Public Health risk). Standardisation of the description and assessment of risks will take place. All risks will be reviewed at least annually.</p> <p>Roles and Responsibilities The Service Level Agreement with Devon Audit Partnership will be extended to include the governance of Risk Management.</p>	

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 Government Security Classifications

Marking	Definitions
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.