

AUDIT PROGRESS REPORT
Report of the County Treasurer

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

Recommendation: that the Committee notes the progress being made by management to address weaknesses identified through the internal audit process

1. At the June Audit committee members were provided with the Annual Internal Audit report for the Council. Appendix A of this report provided a summary of the audits undertaken during 2015/16, along with the audit assurance opinion.
2. Members discussed the report and requested a report to a future meeting updating the Committee on the "improvement required" issues identified in Appendix A to the annual report.
3. The attached report sets out the progress made by management in implementing agreed actions to address the areas of weakness identified

Mary Davis

Electoral Divisions: All
Local Government Act 1972

List of Background Papers

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<u>Background Paper</u>	<u>Date</u>	<u>File Ref</u>
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Nil

There are no equality issues associated with this report



devon **audit** partnership

Internal Audit Report

Follow Up Report on
Areas Requiring
Improvement

Devon County Council

September 2016



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 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 been 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 also requested a detailed report to a future meeting updating the Committee on the “improvements required” areas highlighted in Appendix 4 to the report.

To provide the assurance that Members required, 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 2015/16 as “significant assurance” for the Authority.

Progress Impact Assessment

The progress made means the previously identified risks are being reduced or mitigated where appropriate but not in all cases.

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 (care financial assessments, consultant appointment and payroll authorisation) 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. For example in relation to payroll authorisation - on-line pilot, coroners merger - recharging and accounting for infrastructure assets.

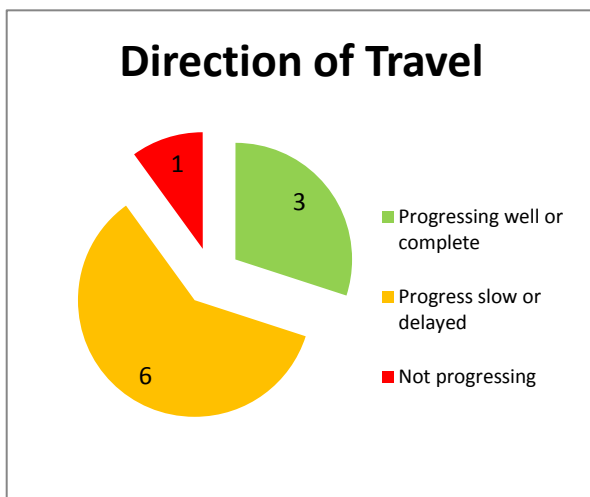
In addition, where the agreed actions are set for future dates and have therefore not formed part of this follow up exercise, the identified risks will remain until such time as the actions are complete.

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

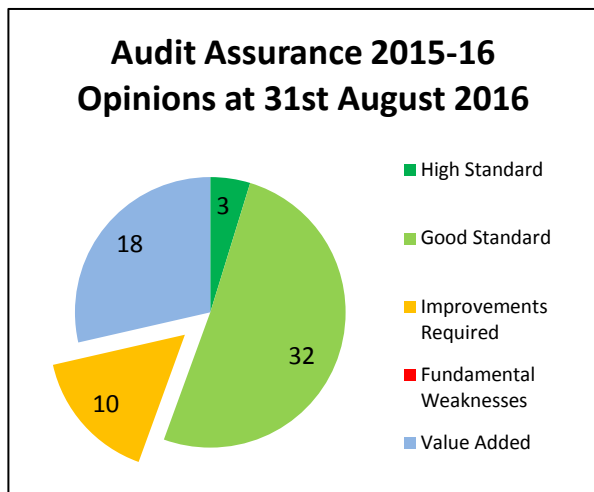
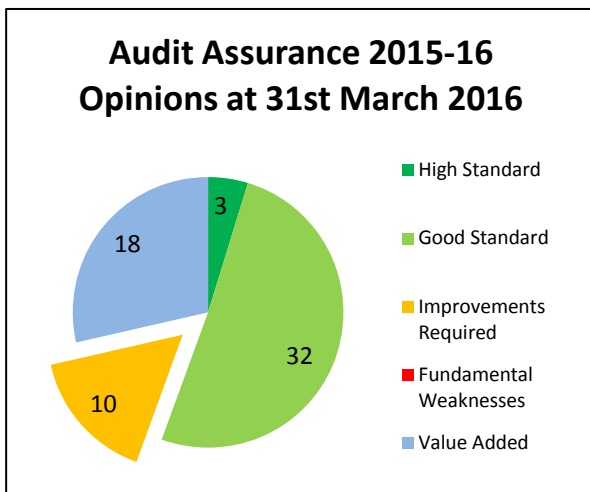
Some progress has been made against the agreed action plans as shown in the 'Direction of Travel' chart. The subsequent charts record the resulting change in audit assurance opinion based upon the follow up work undertaken (we have not further reviewed areas where no significant improvements required).

In addition, two 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 this 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 e.g. client care assessments, 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 (payroll amendment authorisation). 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 sets out the audits at the end of 2015/16 which were 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 2015/16 presented to the Committee in June 2016.

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 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 "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 recommendations of "low" priority 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 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

Summary of Audit Follow Up 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		Commentary and residual risk	Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2016	Updated Audit Assurance Opinion as at 31 August 2016		
Corporate Services – Finance					
VAT Return	ANA - Low	Improvements Required	Improvements Required	<p>Some controls have been implemented to address the risk of errors in terms of incorrect data entry to the spreadsheet used to compile the monthly DCC VAT return. This includes a light-touch review of the VAT return spreadsheet by the VAT team, on a monthly basis, and the introduction of conditional formatting within the spreadsheet, to alert users to incorrect data transposition within the 16-7 Finest data tab.</p> <p>Actions remain to be completed, and are planned, by the Finest team in relation to updating internal procedure notes and potentially implementing further improvements to the VAT return spreadsheet. Where resources allow, the VAT team will undertake a more detailed review of all datasheets within the VAT return spreadsheet, on a six monthly basis.</p>	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2016	Updated Audit Assurance Opinion as at 31 August 2016	Commentary and residual risk	
Accounting for Infrastructure Assets	ANA - Medium	Improvements Required	Improvements Required	<p>We understand that a detailed project plan has been prepared and is about to be set in progress. Close monitoring will be needed to ensure that CIPFA requirements are met by the deadline</p> <p>Our review of the 2014-15 dry run has been noted by the AMTM, and we have been informed that issues identified by an internal, but independent review of the 2015-16 exercise are currently being addressed.</p> <p>We recommend that the Project Group monitor completion of the audit recommendations and the associated involvement of the Asset Management Team now that some of these are in progress.</p>	
Corporate Services - Human Resources					
HR – Consultants & Employment Status - follow up	Client request	Improvements Required	Improvements Required	This audit report is currently subject to a separate specific audit follow up exercise at the request of the client; recommendations have been acted upon but the current status does not show significant progress. The outcomes of the follow-up will be reported in our six monthly outturn report.	
Payroll – Travel & Expenses Claims System	ANA - Medium	Improvements Required	Improvements Required	<p>Work is planned in relation to agreed recommendations, including in relation to review of use of manual claim forms.</p> <p>A HR One policy update is planned for Summer 2016 concerning VAT receipt retention requirements and an accompanying communication to staff is planned by Payroll.</p> <p>The residual risk relating to non-compliance with expectations, in particular in respect of retention of VAT receipts to support travel and expense claims will remain until this planned work has been completed.</p>	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2016	Updated Audit Assurance Opinion as at 31 August 2016	Commentary and residual risk	
Payroll	ANA - High	Improvements Required	Improvements Required	<p>As per the Exec Summary in the original report, the 'improvements required' opinion was given as a direct result of one significant control weakness, this being the lack of requirement to check the authorised signatory on payroll record amendment requests. This followup, therefore, only covers this area, as other issues identified were deemed not to be as significant. They will be followed up as part of the 16-17 audit which will be reported in our annual monitoring report.</p> <p>The new quarterly checking process proposed by management has been approved by Grant Thornton. The first tranche of testing is near completion and has found no issues. The second tranche of testing is imminent; once we have confirmed the current work is complete, and tested the process, we anticipate that the assurance level will increase.</p> <p>The proposed pilot for the online amendment form, which includes electronic authorisation is planned for July to August 2016, and we will review progress as part of the 2016-17 audit.</p>	
Corporate Services – Legal Services					
Coroners – Recharging of Costs	Client Request	Improvements Required	Improvements Required	The Service Level Agreement (SLA) in relation to the merger of Torbay & South Devon and Plymouth Coroners remains outstanding and thus Devon has been unable to resolve recommendations aimed at standardising supporting paperwork across the Authorities; delays in recharging and recharging of VAT.	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2016	Updated Audit Assurance Opinion as at 31 August 2016	Commentary and residual risk	
				<p>The Authority is in the process of sending a Legal communication to resolve charging issues and VAT with Torbay and will then be in a position to pursue invoices. We also understand that the merger will be resolved this year which will further address the identified issues.</p> <p>SLA's with mortuaries follow a format applied by each Area, however, there are sufficient elements of similarity to allow comparison of charges.</p>	
Coroners – Expense Claims	Client Request	Improvements Required	Improvements Required	<p>The opportunity to raise awareness within the Coroners Service in relation to general expectations in terms of claiming, checking and supporting expenditure claims remains outstanding and will now be pursued along with achieving access to DCC policies and guidance notes for staff as a reference.</p> <p>It is noted that the audit previously found that claims for expenses were in line with the duties of the service.</p>	
Corporate Services - IT Audit					
NPS Data Security	Client Request	Improvements Required	Improvements Required	<p>Being located in Norfolk, the follow-up work has been conducted remotely, with a higher level of reliance upon evidence provided by the service provider. Some remedial actions have been taken in respect of recommendations made, although further evidence is required for some areas. Internal Audit will work with NPS in order to form a valid assurance opinion. The main area of concern relates to the lack of regular penetration testing conducted in respect of the of the data centre within which the NPS C2 solution is hosted.</p>	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2016	Updated Audit Assurance Opinion as at 31 August 2016	Commentary and residual risk	
CareFirst (Business Application)	ANA - Critical	Improvements Required	Improvements Required	The original ICT audit of the CareFirst Business solution identified weaknesses that were not technical in nature and that could not be remedied by the ICT alone. Internal Audit are continuing to work during the current year to bring about appropriate remediations to the issues identified. To date, this has involved engaging with staff from Adult Social Care and the Information Governance Team to address clarity of ownership of the CareFirst business solution and associated information asset governance weaknesses. Further work is being conducted to heighten information security awareness and improve the business solutions password quality. A limited amount of work has also been conducted with ICT Commissioning around the new OLM hosting arrangement.	
Corporate Services / People					
Charging for Care Team (Corporate Services) / Care Management (People) - Client Contributions - Non Residential Services	ANA - High	Improvements Required	Improvements Required	Follow-up work has not been undertaken as this was not felt to be an opportune time for the Charging for Care Team. We are aware that systems changes have been made and that significant work has been undertaken by the Charging for Care Team to complete financial assessments where there is a referral for a care need. Also, with the implementation of the Care Act, to meet the requirement for annual reviews for all clients. We plan to complete a follow-up which will be reported in our six monthly outturn report.	

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.