

PLYMOUTH CITY COUNCIL

Subject:	Internal Audit – Follow-Up Work
Committee:	Audit Committee
Date:	25 September 2014
Cabinet Member:	Councillor Lowry
CMT Member:	Malcolm Coe (Assistant Director FETA)
Author:	Robert Hutchins, Head of Devon Audit Partnership
Contact details:	Tel: 01752 306710
Ref:	
Key Decision:	No
Part:	I

Purpose of the report:

This report is to provide assurance to Members of the Audit Committee that where an audit has been undertaken and that an opinion of “Improvements Required” or less has been provided, Devon Audit Partnership have undertaken follow up audit reviews, wherever possible, or discussed progress with relevant officers and the results from this process are contained in this report. It should be noted that we did not give an opinion of “Fundamental Weaknesses Identified” for any of the audits we undertook in 2013/14 to date and reported on.

The Brilliant Co-operative Council Corporate Plan 2013/14 -2016/17:

The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting high standards of service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council’s statutory obligations.

The delivery of the Internal Audit Plan assists all directorates in delivering outcomes from the Corporate Plan:-

- Pioneering Plymouth – by ensuring that resources are used wisely and that services delivered meet or exceed customer expectations;
- Confident Plymouth - the Government and other agencies have confidence in the Council and partners.

Implications for Medium Term Financial Plan and Resource Implications:

Including finance, human, IT and land:

None

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

The work of the internal audit service is an intrinsic element of the Council’s overall corporate governance, risk management and internal control framework.

Equality and Diversity:

Has an Equality Impact Assessment been undertaken? No

Recommendations and Reasons for recommended action:

It is recommended that:-

- I. The report be noted.
-

Alternative options considered and rejected:

None, as failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations 2003, 2006 and 2011.

Published work / information:

Internal Audit Annual Report 2013/14 – June 2014

Background papers:

None

Sign off:

Fin		Leg		Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member													
Has the Cabinet Member(s) agreed the content of the report? Yes													



devon **audit** partnership

Internal Audit Report

Follow Up Report on
Areas Requiring
Improvement

Plymouth City Council

August 2014

OFFICIAL

Robert Hutchins
Head of Audit Partnership



Auditing for achievement

Devon Audit Partnership

The Devon Audit Partnership has been formed under a joint committee arrangement comprising 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 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 2013/14, 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.

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 2013/14. 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. The limited progress made in some action plans means a number of the risks previously identified and highlighted to management remain.

Progress on the following reviews remains incomplete or outstanding. Several of these areas although classed as “business as usual” support key elements within transformational change in the coming months and in principle may impact on the success of the wider strategic risks in these areas. For example new commissioning models require strong contract and performance management frameworks. These frameworks would benefit from the “lessons learnt” as part of our review contracts from highways and ICT. Key areas are as follows:

- Contract performance management - highways maintenance and ICT service delivery;
- Information management – service compliance;
- Public services network –cross service compliance;
- Carefirst – social care payments.

The principles, in terms of lessons learnt, need taking forwards in transformation change programmes for future design alongside current remedial action plans. These issues may impact many strands of transformation particularly those of commissioning, information management and the public service network which cut across many services.

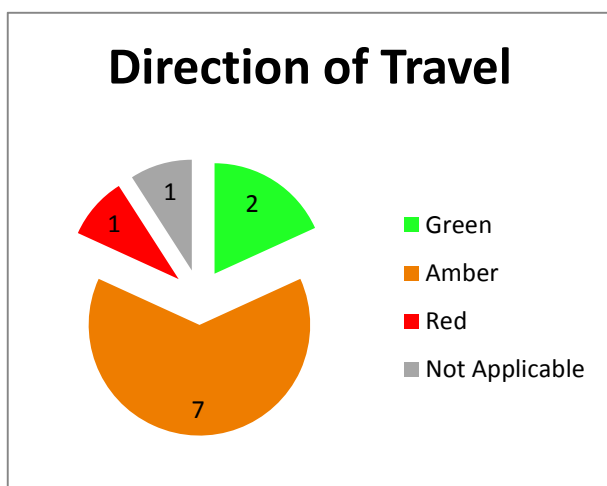
In addition, where the implementation of agreed actions is not yet due for completion

those actions have not formed part of this follow up exercise and 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.

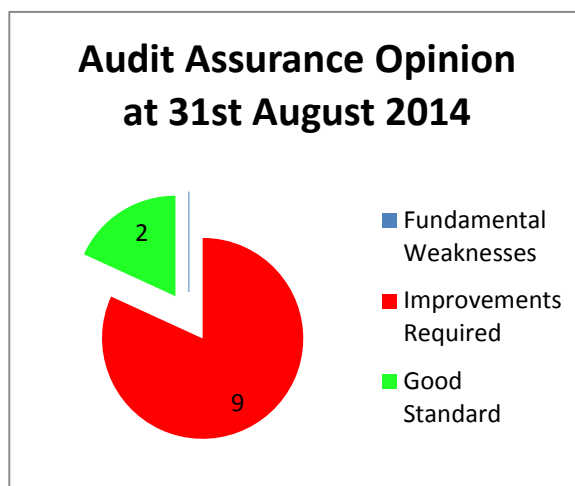
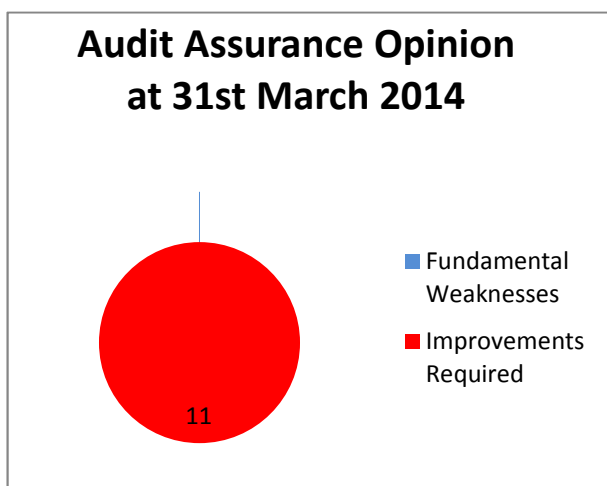
Progress

The progress made against the agreed action plans is 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 proportion of the audits were not followed up due to the timing being inappropriate either where actions have only been recently agreed or where their implementation is due to take place at some point in the future. 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 work and this is shown in the

direction of travel chart above and in Appendix A of this report. Whilst a number of opinions remain unchanged at this time, this does not reflect lack of action in all cases.

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 actioned in full, 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 and managed and that management will resolve the issue as and when opportunities arise.

Appendix A of this report sets out the audits which, at the end of 2013/14, were identified as 'improvements required' or 'fundamental weaknesses'. The appendix shows the current (updated) assurance opinion as a result of our follow up work, together with an indication of 'direction of travel'. We have also provided some more detailed commentary on progress being made and the remaining risks. 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 2013-14 presented to the Committee in June 2014.

Process

For each service area where an overall audit opinion of "improvements required" was provided at the end of 2013/14 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

Recommendations

It is recommended that the report be noted.

Robert Hutchins
Head of Audit Partnership

Summary of Audit Follow-Ups and Findings 2013-14


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 2014	Updated Audit Assurance Opinion as at 31 August 2014	Commentary and residual risk	
Cross Cutting					
Contract Management Inc ICT Service Design – Supplier/ Contract Management	Client Request ANA High risk	Improvements Required	Improvements Required	The Council has taken significant strides in tackling the issues around the management of contracts throughout the business. The setting up of a Contract Management Working Group by Commercial Services has brought together officers from all directorates with responsibility for overseeing the majority of the Council's major contracts. Together they have considered the issues that are being faced and under the leadership of the Interim Commercial Manager, developed a draft Contract Management Strategy and Practice Statement and Procedures which is currently being reviewed by Programme Boards as part of Transformation. The Group will then examine how best to implement the strategy and how to make it sustainable through guidance and training. The strategy is an iterative document, taking into account the Council's co-operative values, and Social Value Act, that will continue to develop and the organisation continues through its transformation programme. However, until the Strategy and Procedures are implemented, the Council continues to face the risk of contract failure, legal penalties, financial losses and fraud.	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2014	Updated Audit Assurance Opinion as at 31 August 2014	Commentary and residual risk	
Corporate Information Management - PSN	SRR - Amber	Improvements Required	Improvements Required	<p>In April 2014, PCC received notification that it has failed to meet the compliance standards and a twenty four item action plan was produced along with a monitoring spreadsheet to administer the required remediation. A project scope for the required remedial actions was produced and signed off by the SIRO. The scope also identifies key issues that may adversely impact next year's accreditation. The maintenance of constant dialogue and engagement with the Cabinet Office assisted in delaying the PSN escalation process that would ultimately end in the severance of PCC's PSN connection. As at 4th August 2014, 20 of 24 actions were completed.</p> <p>Looking towards next year's submission it is likely that a new Information Governance Manager role will have responsibility for providing core assurance regarding the maintenance of the PSN accreditation to the Authority as a whole. It is yet undecided where this position will report to.</p> <p>In summary, the remediation of the weaknesses identified by the Cabinet Office has been administered to a good standard. However, there remains a degree of uncertainty around future governance, knowledge and staffing arrangements.</p>	
Corporate Information Management - Information Management & Security	SRR - Amber	Improvements Required	Improvements Required	<p>Following the delivery of our report, officers prepared a monitoring spreadsheet that detailed, for each of our recommendations, a RAG progress indicator, the initial management response and subsequent updates, and a deadline for completion. Following the delivery of the Information Commissioner Office's (ICO) audit report, a similar document was created to track progress of the recommendations included in that document. On our</p>	

Risk Area / Audit Entity	Risk Assessment / Audit Needs Assessment	Audit Report			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2014	Updated Audit Assurance Opinion as at 31 August 2014	Commentary and residual risk	
				<p>recommendation, the two tracking documents are now cross-referenced in order to reduce the management burden and to co-ordinate efforts. The ICO's auditors will be carrying out their follow-up exercise in January/February 2015.</p> <p>Our review of the Council's progress towards our recommendations shows that of the original forty-five recommendations, twenty are completed (green), thirteen are partially completed (amber) and twelve have made limited or no progress to date (red). Priorities are being given to the ICO recommendations given the significance of their compliance review.</p> <p>Analysis of those where limited or no progress has been made shows that seven of the twelve are linked to the Transformation Programme. These will include the remit of the former Information Governance Manager and Information Asset Owners when appointed. Priorities are complex and actions interdependent.</p>	
People					
Pre-Paid Cards - review process from end to end	ANA - High	Improvements Required	Improvements Required	Responses to the draft report have been finalised and a final audit report issued at the end of June. The report identified issues with the terms and conditions within the contract with the card supplier, the supplier's liability for fraudulent transactions, the lack formal performance targets and monitoring of these, particularly given the sums involved and new nature of pre-paid cards and the vulnerability of many of the cardholders. Significant changes are currently taking place within the service area and it has been agreed with management that further work will be programmed in	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 2014	Updated Audit Assurance Opinion as at 31 August 2014	Commentary and residual risk	
				during the 2015/16 audit plan year.	
CareFirst Creditors System		Improvements Required	Improvements Required	The imminent decommissioning of NSIBS Social Care billing system and changes to the input of service provision for payment have resulted in the originally agreed actions not being fully implemented and for new processes to be put in place from October 2014. In view of this a full audit review of Adult Social Care payments will take place at a later date. In the meantime, Internal Audit are available to offer assistance and advice with regard to audit compliance and best practice during this period of change.	
EasyLet/HouseLet Schemes	ANA - Low	Improvements Required	Good Standard / Improvements Required	The final audit report was issued in May 2014 and the recommendations made in relation to the EasyLet scheme have been implemented. However, the HouseLet scheme recommendations have yet to be implemented and the scheme is subject to a departmental review. In view of this, these recommendations will be followed up in October 2014 and an updated audit opinion given.	 &  *

Place					
Control of Fuel, Fuel Cards and Fuel Containers	ANA Medium risk	Improvements Required	Improvements Required	There has been a considerable amount of activity which has resulted in the majority of recommendations being implemented in full. However, the service is still unable to identify all its vehicles efficiently although moves are being taken to introduce a new system in October which will address this weakness. This will be followed up once the new system has been implemented and an updated audit opinion will be given.	
Street Cleaners On-Call System	ANA Medium risk	Improvements Required	Good Standard	All recommendations have been implemented except for one of a low priority. In respect of the outstanding recommendation, regarding the analysis of call-outs, given the improvements made to the system and the low priority rating, it has been agreed with management that implementation will only be necessary if there is a material increase in the current demand and type of on-call activity.	
Parking Income Collection		Improvement Required	Improvements Required	The final audit was issued in May 2014 and the majority of the recommendations have been fully implemented. Of those that remain outstanding, two are considered as low material risk to the organisation and the other is part of an ongoing discussion between the City Council and its insurers. In view of this, these recommendations will be followed up in October 2014 and an updated opinion given.	
Contract Management - Amey - Contract overview	Client Request	Improvement Required	Improvements Required	The report remains in draft. Audit are awaiting the Network Management Team to agree a management action plan which will contain dates for action to be completed. A follow up audit will be programmed in during the 2015/16 audit plan year. The Council remain at risk of possible loss that cannot be quantified, linked to the different interpretation of the contract by the Council and the contractor.	

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.