

PLYMOUTH CITY COUNCIL

Subject:	Internal Audit – Follow-Up Work
Committee:	Audit Committee
Date:	15 September 2016
Cabinet Member:	Councillor Darcy
CMT Member:	Lesla Annear (Strategic Director for Transformation and Change)
Author:	Robert Hutchins, Head of Devon Audit Partnership
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Ref:	AUD/RH
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 2015/16 to date and reported on.

The 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.
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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.
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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, 2011 and 2015.

Published work / information:

Internal Audit Annual Report 2015/16 – June 2016

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													

Internal Audit Report

Follow Up Report on
Areas Requiring
Improvement

Plymouth City Council

September 2016

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 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.

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; ‘Significant Assurance’.

Progress Impact Assessment

The progress made means the previously identified risks are being minimised or mitigated where appropriate.

Improvements in the areas affecting operational and strategic risks have progressed. There remains areas where progress is ongoing and some of these areas 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 some previously agreed action plans becoming unnecessary. For example, the House Let Scheme which is currently under review as part of Transformation.

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.

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 one opinion remains unchanged at this time, this does not 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 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 management may consider it is either not economically appropriate to address this risk, or technical solutions are not yet available. In such cases management will need to 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 and recognised 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 2015/16, 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 2015-16 presented to the Committee in June 2016.

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

Recommendations

It is recommended that the report be noted.

Robert Hutchins
Head of Audit Partnership

Summary of Audit Follow-Ups 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			Direction of Travel RAG Score
		Audit Assurance Opinion as at 31 March 2016	Updated Audit Assurance Opinion as at 19 August 2016	Commentary and residual risk	
Cross Cutting					
Management of DELT Contract	ANA – High	Improvements Required	Improvements Required	A follow-up is currently being undertaken by Audit South West who carried out the original review. We await the findings of the follow up at which time we will re-consider the Audit Assurance Opinion.	N/A
Academy - Housing Benefits	ANA - High	Improvements Required	Improvements Required	<p>The 2015/16 audit of Housing Benefits identified three key areas where it was considered that the controls and procedures in place did not adequately mitigate the risks. The control weaknesses related to the lack of:</p> <ul style="list-style-type: none"> quality assurance checking being undertaken in respect of the processing of claims, risk based verification (RBV) procedures, proactive administration and monitoring of Housing Benefit overpayments. <p>Whilst following the completion of our follow up work our audit</p>	

				opinion remains as Improvements Required, the direction of travel is positive. All of the agreed recommendations have been acted upon or are in progress and it is anticipated that these will be fully embedded by the time of the full audit review planned for later this year.	
Adult Social Care Clients Direct Payments Pre-Paid Cards (Follow Up)	ANA - High	Improvements Required	Improvements Required	<p>The first follow-up into the use of pre-paid cards resulted in an action plan to be managed within PCC ASC. The transfer of adult social care to Livewell Southwest in April 2015 removed the direct oversight for the implementation of a number of the original recommendations. Following this there was a focus on the update of operational processes within PCC and clarification of retained roles and responsibilities.</p> <p>This has led to a project group being set up to look at the end to end processes. Work will include updating written procedures and guidance for Social Workers and Business Support and will include documents sent to clients or 3rd party representatives. Audit will be meeting with the project lead in the Autumn for an update on progress.</p>	
Print & Document Services (PADS)	ANA - High	Improvements Required	Good Standard	<p>Works have been undertaken to physically secure the service area in accordance with audit recommendations and changes to procedures relating to incoming post mean that NHS and PCC teams no longer need to access the service area.</p> <p>A successful bid to the Risk Management Fund enabled the fire doors to be replaced with ones which could be locked and added to the main door security system for the building.</p>	
Corporate Landlord Follow Up	ANA - High	Improvements Required	Improvements required	Recommendations were previously made regarding the potential development of the Dynamics system as current limitations were hindering the maintenance of reliable information regarding service delivery and performance. At the time of the previous follow up a solution was being progressed with DELT.	

				<p>Currently work remains ongoing regarding the implementation of the outstanding recommendations due to the Council's shift to the Firmstep digital platform which is in the process of being tested regarding it's application to Corporate Landlord services.</p> <p>Whilst this represents a positive direction of travel, it is not possible to upgrade the audit opinion to good standard until the new arrangements / procedures in relation to Firmstep are implemented and have had sufficient time to become embedded.</p>	
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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.