

Dorset County Council

Annual Report and Opinion 2015/16

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Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Purpose

The Head of Internal Audit should provide a written annual report to those charged with governance to support the authority's Annual Governance Statement (AGS). This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment
- disclose any qualifications to that opinion, together with the reasons for the qualification
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
- compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content.



Background

The Internal Audit service for Dorset County Council is provided by the South West Audit Partnership (SWAP). SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). The work of the partnership is guided by the Internal Audit Charter which is reviewed annually. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of SWAP for the 2015/16 year.

Internal Audit Annual Opinion 2015/16

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion

Over the year SWAP have found Senior Management of Dorset County Council to be supportive of SWAP findings and responsive to the recommendations made. In addition there is a good relationship with Management whereby they feel they can approach SWAP openly in areas where they perceive potential problems as well as welcome the opportunity to take on board recommendations for improvement. The follow up work confirms the responsive nature of management at Dorset County Council in implementing agreed recommendations to mitigate exposure to areas of significant risk.

In 2015/16 there have been fewer reviews that have presented significant concerns than the previous year. Where priority findings have been identified, on the whole these have been appropriately addressed, confirming the responsive nature of management. Any outstanding weaknesses in the governance, risk and control framework will continue to be followed up by Internal Audit.

I have considered the balance of 2015/16 audit work and outcomes against this environment, and am able to offer **reasonable assurance** in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally risks are well managed but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives. Whilst I have certain concerns regarding some aspects of the control environment, I do not consider there to be any areas of significant corporate concern.

Summary of Audit Work 2015/16

Our audit activity is split between:

- Operational Audits;
- Key Control Audits;
- Governance, Fraud & Corruption Audits;
- IT Audits;
- Grant Certifications
- Special Reviews; and
- Follow-ups

As part of our 2015/16 work, we also introduced the concept of an Authority-wide 'Healthy Organisation' review.



Internal Audit Work Programme

The schedule provided at Appendix B contains a list of all audits agreed for inclusion in the Annual Audit Plan 2015/16 and the final outturn for the financial year. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed. 2015/16 was a transitional year in terms of traditional audit delivery; with a move towards building up an overall assurance picture of the Authority through the 'Healthy Organisation' work. As a result of this work, this has had an impact on routine audit work and, as such, contingency has been built in to address this in 2016/17.

As highlighted above, a significant element of our 2015/16 work programme related to the 'Healthy Organisation' review. This sought to provide a picture of the relative 'health' of the organisation by reviewing the following eight key themes: Corporate Governance; Financial Management; Risk Management; Performance Management; Commissioning and Procurement; Information Management; Programme & Project Management; and People and Asset Management.

Having reviewed each of these themes a Red, Amber and Green (RAG) rating has been applied. The overall assurance for the eight key themes reviews indicated a 'Medium' Assurance opinion. Areas where we have identified actions and/ or areas for further review have fed into our 2016/17 audit planning process. We aim to carry out a number of audit reviews within 2016/17 to support the continuous improvement of the council's activities. This will enable further areas to move towards a 'High' (Green) level of assurance.

Summary of Audit Work 2015/16

Significant Corporate Risks

Identified Significant Corporate Risks should be brought to the attention of the Audit Committee.



Significant Corporate Risks

We provide a definition of the four Risk Levels applied within audit reports. For those audits which have reached report stage through the year, we have assessed the following risks as 'High' or 'Very High'.

Review/Risks	Auditors Assessment
Archives (2015/16) - The current governance model is inefficient and inappropriate, leading to a disproportionate cost	High

In relation to the above Review/ Risk, we received the following response from the Joint Archive Service:

Dorset County Council - This is a Joint Archives Advisory Board decision for recommendation to the Governing bodies. The information provided in the audit report indicates the disproportionate cost of governance. The County Council would support transition to less time consuming and expensive governance.

Borough of Poole - Agreed – the current arrangements are too cumbersome. The case for moving from partnership to commissioned service requires further consideration.

Responsibility for implementation of the solution to address this risk was allocated to the Joint Archives Advisory Board and Senior Officers from the three Councils.

An audit follow up of the Archives review is currently underway to assess the progress of the above action.

Summary of Audit Work 2015/16

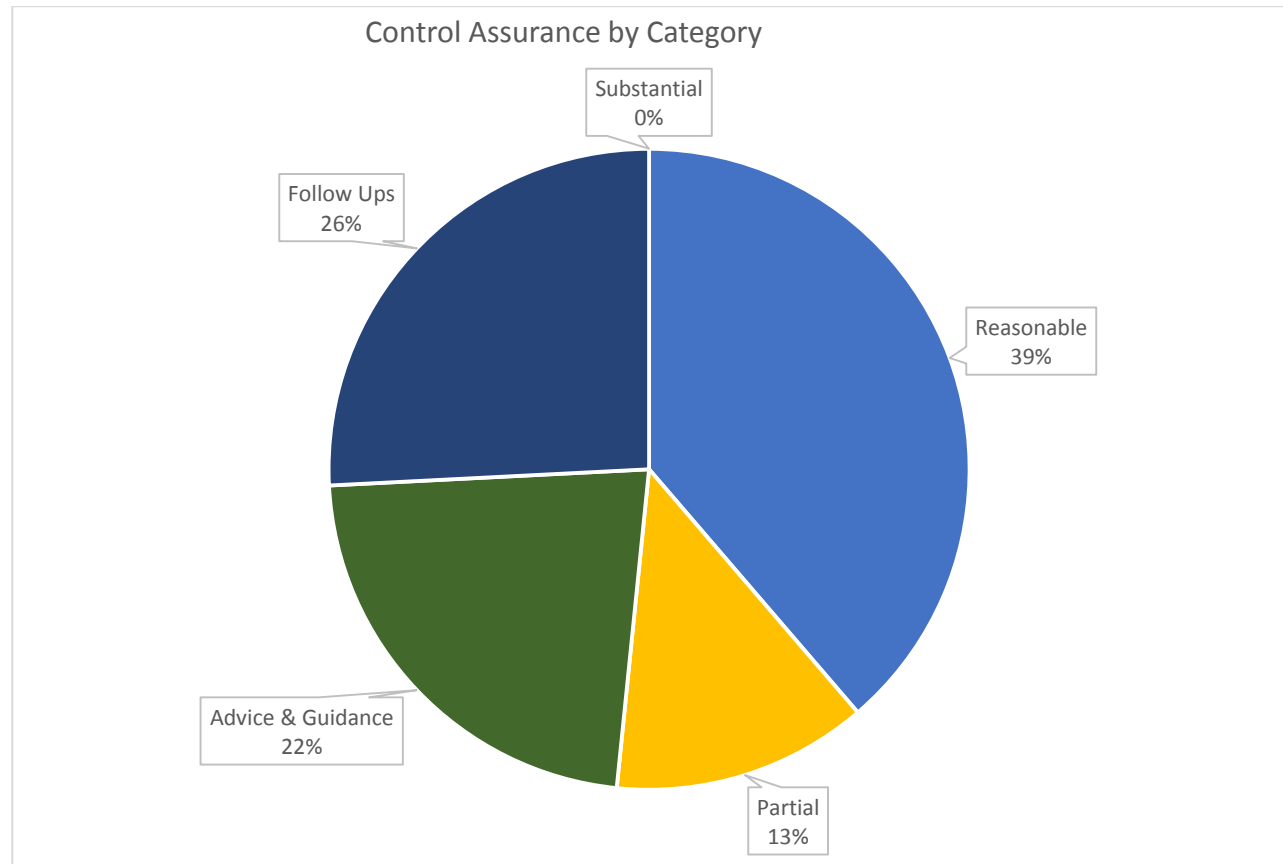
SWAP Performance - Summary of Audit Opinions

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- Substantial
- Reasonable
- Partial
- None



Summary of Audit Opinion



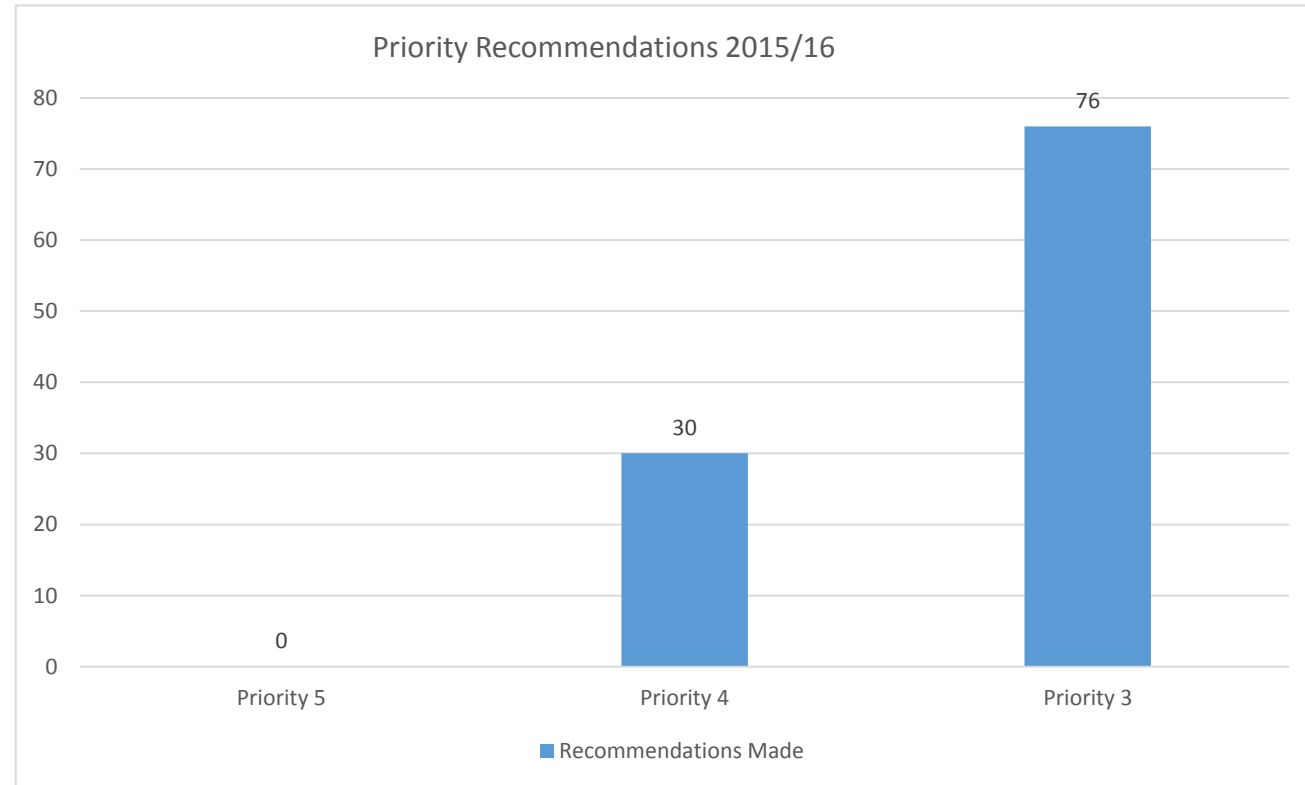
Summary of Audit Work 2015/16

SWAP Performance - Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action



Priority Actions



Value Added

'Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.'



Value Added

Throughout the year, SWAP has strived to add value wherever possible i.e. going beyond the standard expectations and providing something 'more' while adding little or nothing to the cost.

This has included the communication and circulation of industry bulletins and fraud prevention alerts wherever possible. We will also share the outcomes of any benchmarking undertaken across our SWAP Partner base. SWAP also aim to share the results of emerging areas of risk, or the findings from relevant audit reviews undertaken at our Partners, to enable the sharing of best practice and comparison of common findings. For example, we have recently shared:

The results of a Local Enterprise Partnership review at another SWAP Partner – this included findings relating to:

- Declarations of Interest
- Code of Conduct
- Service Level Agreements; and
- Dispute Resolution

Common audit findings from Partner school's audits to all Dorset Schools – this included advice on:

- Recruitment Checks
- Skills Matrix for Governors; and
- Asset Management

Guidance and best practice on Information Asset Registers – this included advice on:

- A step by step guide to constructing an Information Asset Register
- An example Information Asset Register

Advice and Guidance has also been provided in relation to Forward Together and other DCC projects.

Plan Performance 2015/16

The Executive Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



SWAP Performance

SWAP now provides the Internal Audit service for 14 Councils and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for Dorset County Council for the 2015/16 year (as at May 2016) are as follows;

Performance Target	Average Performance
<p><u>Audit Plan – Percentage Progress</u></p> <p>Final, Draft and Discussion</p> <p>Fieldwork Completed awaiting report</p> <p>In progress</p> <p>Yet to complete</p>	<p>98%</p> <p>0%</p> <p>2%</p> <p>0%</p>
<p><u>Draft Reports</u></p> <p>Issued within 5 working days</p> <p>Issued within 10 working days</p>	<p>69%</p> <p>75%</p> <p>(Average Days of 6)</p>
<p><u>Final Reports</u></p> <p>Issued within 10 working days of discussion of draft report</p>	<p>63%</p> <p>(Average Days of 13)</p>
<p><u>Quality of Audit Work</u></p> <p>Customer Satisfaction Questionnaire</p>	<p>78%</p>

The Executive Director of SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



SWAP Performance

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).

SWAP has been independently assessed and found to be in Conformance with the Standards. An extract from the recent review confirming this has been included at Appendix C for information.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- None



Audit Framework Definitions

Control Assurance Definitions

Substantial	▲ ★ ★ ★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★ ★ ★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★ ★ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.



Audit Framework Definitions

- Priority 5: Findings that are fundamental to the integrity of the unit’s business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major				
						Recommendation				
						1	2	3	4	5
Operational	County Parks	Q1	Final	Partial	22			18	4	
Follow Up	Durlston Castle	Q1	Final	Follow Up	0					
Operational	Project Plan Review	Q1	Final	Advice & Guidance	6			6		
Governance	Tricuro Governance Review	Q2	Final	Advice & Guidance	4				4	
Follow Up	Oh Crumbs	Q1	Final	Follow Up	6			5	1	
Operational	Childcare Assessments	Q3	Deferred (Now in Progress)	-	-					
Governance	Troubled Families	Q1	Final	Advice & Guidance	0					
Follow Up	Dorset Local Enterprise Partnership	Q1	Final	Follow Up	2			1	1	
Follow Up	Manor Park School	Q2	Final	Follow Up	0					
Follow Up	Budmouth College	Q2	Final	Follow Up	0					
Operational	Budget Management	Q2	Final	Advice & Guidance	0					
Key Control	Key Financial Controls: Capital Asset Management; Debtors; General Ledger and Main Accounting; Non Pay Expenditure & Creditors; Payroll and Pensions; Pension Fund; Schools Information Management System; and Treasury Management	Q3	Final	Reasonable	10			10		

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major				
						Recommendation				
						1	2	3	4	5
Follow Up	Council Tax	Q2	Final	Follow Up	0					
Operational	Healthy Organisation: Corporate Governance; Financial Management; Risk Management; Performance Management; Commissioning and Procurement; Information Management; Programme & Project Management; and People and Asset Management	Q1-4	Final	Medium (Reasonable)	N/A					
IT	Back Up & Recovery	Q4	Final	Partial	6			2	4	
Operational	Adults and Children's Social Care Case Management System	Q3	Final	Advice & Guidance	0					
IT	ICT Key Controls	Q3	Final	Partial	10			5	5	
IT	Change Management	Q4	Final	Reasonable	3			2	1	
IT	Wireless and VPN Connections	Q1	Final	Advice & Guidance	0					
Operational	Archives	Q1	Final	Partial	7			6	1	
Follow Up	Mapping Transport in Use across DCC	Q4	Final	Follow Up	11			10	1	
Follow Up	Waste Disposal (DWP)	Q1	Final	Follow Up	3				3	
Operational	DWP Project Management	Q3	Final	Reasonable	4			4		
Follow Up	Ethical Governance	Q4	Final	Follow Up	12			7	5	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major				
						Recommendation				
						1	2	3	4	5
Client Support	National Fraud Initiative	Q1-4	Final	N/A	0					
Client Support	DCC Corporate Advice	Q1-4	Final	N/A	0					
Client Support	DWP Client Advice	Q1-4	Final	N/A	0					
Client Support	Grant Certifications	Q1-4	Final	N/A	0					
Client Support	External Audit Liaison	Q1-4	Final							
Client Support	Committee Reporting & Attendance	Q1-4	Final							
Client Support	Assurance Mapping	Q1-4	Final							
IT	Incident & Problem Management	16/17	Deferred							
IT	Mobile & Remote Working	16/17	Deferred							

The below is the key summary from the recent External Quality Assessment of SWAP Internal Audit Activity, carried out by the Devon Audit Partnership:

As requested by Gerry Cox, Chief Executive of SWAP, Devon Audit Partnership conducted an external quality assessment of the internal audit activity of the South West Audit Partnership (SWAP). The principal objectives of the quality assessment were to assess the internal audit activity's conformance to The Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing (Standards), evaluate the internal audit activity's effectiveness in carrying out its mission (as set forth in its charter to its partners), and identify opportunities to enhance its management and work processes.

It is our overall opinion that the internal audit activity generally conforms with the Standards and Code of Ethics. For a detailed list of conformance with individual Standards, please see Attachment A. We have identified some opportunities for further improvement, details of which are provided in this report, but none of these issues represent a failure to meet with the Standards.

The IIA's Quality Assessment Manual suggests a scale of three ratings, "Generally Conforms," "Partially Conforms," and "Does Not Conform." "Generally Conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

SWAP is a well established provider of professional internal audit services to a number of public sector organisations. The internal audit activity meets the Standards and SWAP management regularly look to ways to improve the service they provide (e.g. by developing the "healthy organisation" approach) and add value to all of their partners and clients. A well developed Quality Assurance Improvement Plan is in place that captures areas for development and provides a good record of progress against targets. Consequently, our comments and recommendations are intended to build on an already efficient and effective internal audit provider.