

APPENDIX A



Dorset County Council

Internal Audit Plan 2016/17

Content

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Our audit activity is split between:

- Corporate Risk Areas
- Operational Reviews (following Healthy Organisation Assessment)
- Key Control Audits
- Governance, Fraud & Advisory Work
- ICT Audits
- Reviews aligned with the objectives of the three 'Forward Together' Boards, and Directorate Forward Together Programmes

Role of Internal Audit and Audit Work

The Internal Audit service for Dorset County Council is provided by South West Audit Partnership (SWAP). SWAP is a Local Authority controlled company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). The Partnership is also guided by the Internal Audit Charter.

Internal Audit provides an independent and objective opinion on the Authority's governance, risk and control environment by evaluating its effectiveness. In order to achieve this, the audit activity is split across the review categories listed to the left.

Background

It is recommended by the Public Sector Internal Audit Standards that organisations nominate a 'Board' to oversee (monitor and scrutinise) the work of Internal Audit. As such, in addition to senior management oversight, this Council has determined that, the Audit Committee will undertake this function. The plan is presented on pages 6-12 of this report and represents the internal audit activity for the 2016/17 financial year.

It should be noted that plan days are only indicative for planning our resources. At the start of each audit an initial meeting is held to agree the terms of reference for the audit which includes the objective and scope for the review. Any changes to individual plan items, in terms of days, are managed within the annual payment made by the Council. The plan is pulled together with a view to providing assurance to both officers and Members that current and imminent risks faced by the Authority are adequately controlled and managed. As with previous years the plan will have to remain flexible as new and emerging risks are identified. Any changes to the agreed plan will only be made through a formal process involving the Head of Internal Audit and Chief Financial Officer (Section 151).

The Annual Plan

History of Annual Audit Planning

In recent years the annual plan has been arrived at by a risk assessment of the audit universe, discussions with management about their service risks and key financial control audits to support the opinion of the External Auditor.

Whilst this approach has worked in the past, the environment for both local authorities and an internal audit service that adds value has changed. Austerity measures have led to an unprecedented transformational change agenda that has picked up pace and as a result services are changing rapidly. This in turn means that organisational risks, as well as being identified, have to be managed within an increasing risk appetite so that decisions on effective service delivery are based on informed risk management.

Approach to Annual Audit Planning 2016/17

Due to the rapid pace of change, the approach to planning requires fundamental change. Discussions with Senior Management have led us to agree that audit planning should take consideration of the three lines of defence model. This concept is introduced in more detail below, but working with this model we intend to identify all streams of assurance whether internal or external that contribute to the Council's overall risk, governance and control framework. Internal Audit resource can then be directed at the areas of highest risk; not only known risks but risks that were previously unknown and subsequently identified.

As part of our 2016/17 planning process, we have sought to align a significant proportion of our plan with the work of the three 'Forward Together' Boards. Meetings have been held with the three Chairs of these Boards to ensure that internal audit activity supports the achievement of key Council priorities and objectives. Internal Audit will also continue to work closely with the Risk Management team to ensure that their work is complimentary and that there is no duplication.

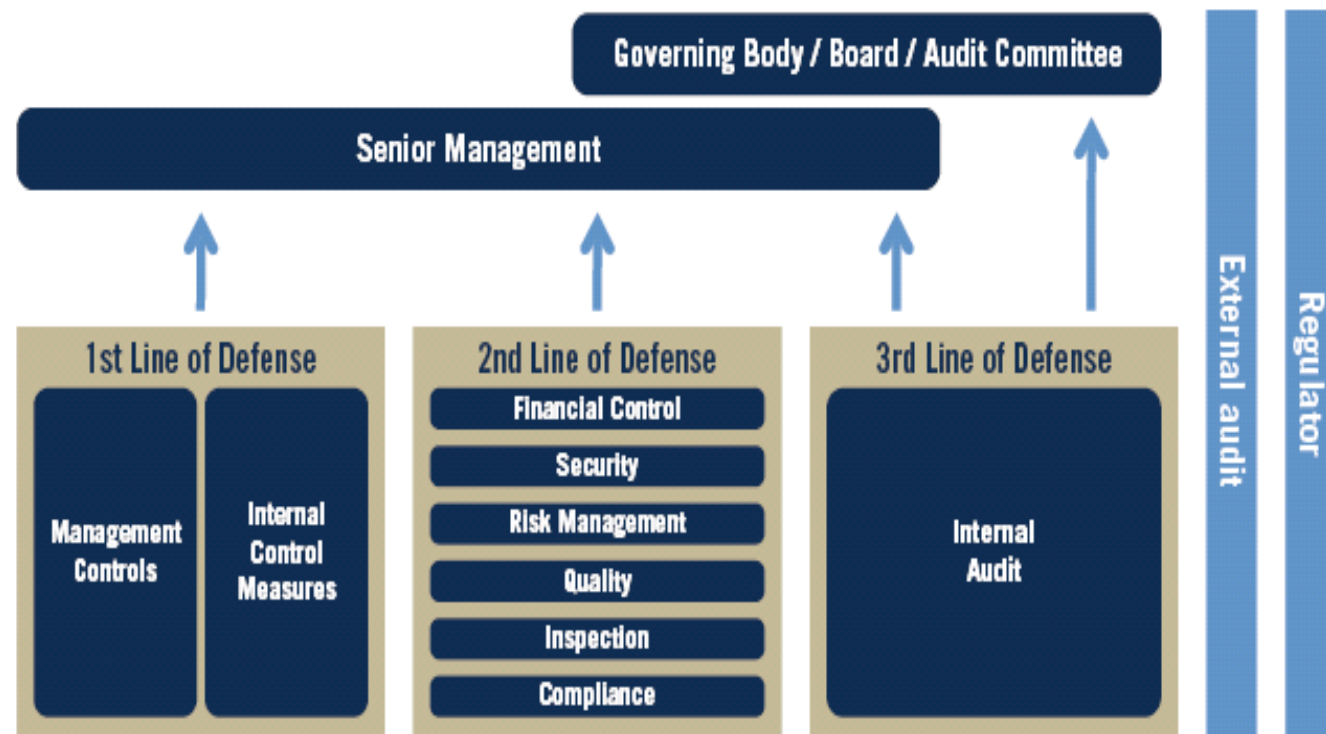
Ultimately the work undertaken by the Internal Audit Service is to enable it to provide an independent opinion on the governance, risk and control framework of the Council.

The Annual Plan

Three Lines of Defence

This model operates within most organisations and shows the 3 lines of defence that should be operating:

1. 1st Line of Defence – Functions that own and manage risks
2. 2nd Line of Defence – Functions that oversee risk
3. 3rd Line of Defence – Functions that provide independent assurance



Healthy Organisation

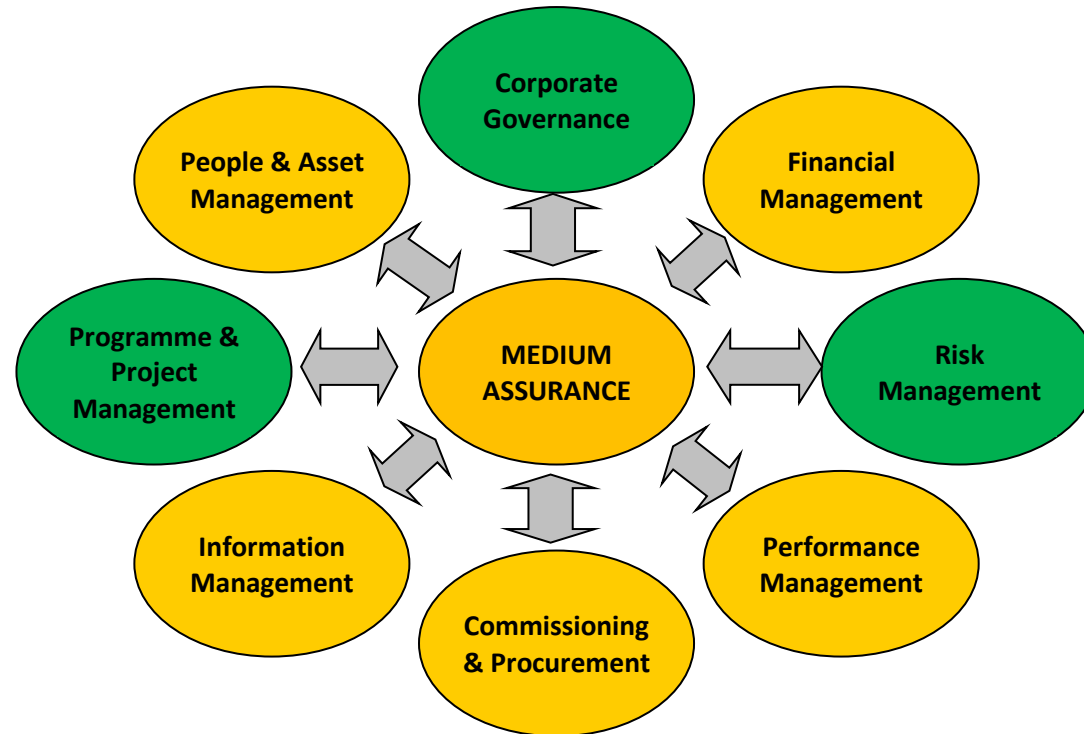
The overall assurance for the eight key themes reviews indicated a 'Medium' Assurance opinion.

The Committee can take assurance from the review that the organisation has received a 'Medium' level of assurance with a number of areas identified as 'High' assurance, or 'Green'.

Areas where we have identified actions and/or areas for further review have fed into our 2016/17 audit plan below.

Healthy Organisation – Outcomes from 2015/16 work

We have recently concluded our Healthy Organisation work for 2015/16. 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. Each of these themes was reviewed and a Red, Amber and Green (RAG) rating has been applied.



R/A/G Rating Key:

- RED** - (Low Assurance / High Risk)
- AMBER** - (Medium Assurance / Medium Risk)
- GREEN** - (High Assurance / Low Risk)

Other Key Areas in Compiling the Plan

Other Key Factors

Internal Audit has a clear desire to support the Council’s focus and achievement of the outcomes included in the 2015-18 Corporate Plan (Healthy, Safe, Independent, Prosperous). Wherever possible, we will align our work with these outcomes. Other key factors within the 2016/17 annual planning process include:

Healthy Organisation (outcomes from 2015/16 work outlined on page above)

Following our 2015/16 work across the eight key themes of assurance contained in the “Healthy Organisation Model”, we have built up an objective assessment of the relative ‘health’ of the organisation. 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.

Risk Assessment of Audit Universe

A complete risk assessment of the audit universe has been undertaken using the Local Government Classification scheme. Emerging risk areas throughout 2016/17 are likely to include Local Government Reform and Reorganisation, Devolution, and ongoing developments towards a Combined Authority.

Key Financial Control Work

Whilst the External Auditors do not direct the work undertaken by Internal Audit, they do place reliance on the work that has been undertaken. Internal Audit undertake a risk assessment of what work is to be carried out and considering any changes to the control environment e.g. changes to systems or key personnel.

Follow up work

Internal Audit are required to follow up “partial” opinion audits to ensure that agreed management actions are implemented. Regular reports are brought to the Audit Committee to update members on progress.

Area of Audit	Areas of Coverage/Outcomes	Total Days 2016/17	Total Days 2015/16
Key Financial Controls	Review of Financial Key Controls to provide assurance for the statement of accounts: <ul style="list-style-type: none"> • Accounts Receivable • Accounts Payable • Banking • Budgetary Control • Capital • General Ledger • Payroll • Pensions • Treasury Management 	90	120
ICT	Review and coverage of high risk ICT areas throughout the year, to include: <ul style="list-style-type: none"> • ICT Key Controls • Adult’s and Children’s Services Case Management System • Information Management • Feeder System Reconciliations • Asset Management Hardware • Physical and Environmental Controls 	100	90
Assurance Mapping	Updating the Assurance Map of the Authority in line with Service Areas and Risk Registers to identify Assurance Gaps and Risk Exposures	20	30

Area of Audit	Areas of Coverage/Outcomes	Total Days 2016/17	Total Days 2015/16
<p>Commercialisation Board Reviews</p> <p><i>Key Aims of Board:</i></p> <ul style="list-style-type: none"> - Maximising existing income sources - Maximising recovery of income - Identifying new income and trading opportunities - Developing commercial approaches to managing income sources 	<p><i>Areas of audit coverage:</i></p> <ul style="list-style-type: none"> • Debt Management – ensuring that the recovery of expenditure is maximised, payment terms of business are clear and consistent, bad debts are effectively and efficiently written off, and fees & charges appropriately levied/ collected • Commercial Contract Management - ensuring that best value for money is secured for both new and existing contracts, through routine review of offer and price • Income generation/ collection benchmarking exercise – review of income generation and collection initiatives/ best practice at other local authorities to feed into current DCC ideas and the innovation hub 	<p>60</p>	<p>Previously 200 days included for transformational change</p>

Area of Audit	Areas of Coverage/Outcomes	Total Days 2016/17	Total Days 2015/16
<p>Commissioning & Procurement Board Reviews</p> <p><i>Key Aims of Board:</i></p> <ul style="list-style-type: none"> - Establishing a commissioning and procurement framework - Ensuring it is consistently applied - Increased knowledge and skills in the workforce to apply commissioning principles - Better outcomes for people and the places where they live, learn and work 	<p><i>Areas of audit coverage:</i></p> <ul style="list-style-type: none"> • Commissioning of Smarter Computing – a review of the Smarter Computing project, including the procurement, contract management and implementation • Purchase to Pay Review – a review to provide risk and control advice in relation to the planned changes to the Authority’s Purchase to Pay framework. To also provide assurance over the benefit realisation of this project post implementation • Creditors/Payments: Compliance with Contract Procedure Rules; Fraud Testing; Review payments back to agreed Contract Schedule of Rates; Review of payment timescales (incl. consideration of issues resulting in blocked and parked invoices). • Best Practice Contract Reviews - Review of Best Practice Contract Reviews to provide independent assurance e.g. review of Platinum Contracts. • Commensura Contract - Specific Review into the Commensura Contract • Supplier Relationship Management - review of contract risk assessment (incl. risk of supplier failure); monitoring the continued financial and delivery viability of large contracts and reporting of contracts in excess of £500,000 • Social Value Policy - Independent Review work to assess the level of adherence to the Social Value Policy 	<p>115</p>	<p>Previously 200 days included for transformational change</p>

Area of Audit	Areas of Coverage/Outcomes	Total Days 2016/17	Total Days 2015/16
<p>The Way we Work Board Reviews</p> <p><i>Key Aims of Board:</i></p> <ul style="list-style-type: none"> - Maximising and modernising the use of our workspaces - Enabling staff to work more flexibly and efficiently - Introducing new technology and adopting different business practices - Reducing the number of buildings we own or rent 	<p><i>Areas of audit coverage:</i></p> <ul style="list-style-type: none"> • Outcomes Based Accountability - a review of the progress in implementing Outcomes Based Accountability across the authority • Accommodation Project - a review of the accommodation project including an assessment of whether the plan and investment is achieving the intended goals and sufficient benefits are being realised 	<p>60</p>	<p>Previously 200 days included for transformational change</p>

Area of Audit	Areas of Coverage/Outcomes	Total Days 2016/17	Total Days 2015/16
<p>Operational Reviews following 2015/16 Healthy Organisation Assessment</p> <p><i>(extract finding from Healthy Organisation report included)</i></p>	<p>Reviews resulting from outcomes of 2015/16 Healthy Organisation work:</p> <ul style="list-style-type: none"> • Benefits Realisation Assessment - <i>Benefits Realisation arrangements should be reviewed to ensure that anticipated efficiencies arising from significant expenditure are closely monitored and corrective action is taken as necessary.</i> • Risk Tolerance/ Appetite - <i>Risk tolerance has been identified by the Council as an area where officer training is required. Given the proposed shift in the authority's risk appetite, further assurance work in this area would be beneficial.</i> • Project Risk Management - <i>Although risks are captured, mitigated and escalated for general and capital projects across the Authority, further work is required to ensure this is carried out consistently.</i> • Cost of Council Services - <i>More work needs to be done to confirm the extent to which the Council can accurately identify the cost of its services.</i> • Budget Management - <i>Whilst there is an established budgeting structure in place, restructures have led to changes in the structure and management of accounts.</i> • Reporting of Spend Over £500 - <i>Dependent on how payments using procurement cards are coded on SAP, there may be a risk that the information on SAP does not fully feed through to the suppliers report over £500.</i> <p><i>Further reviews appearing in the plan as a result of the Healthy Organisation work include:</i></p> <p>Outcomes Based Accountability, Feeder Systems Reconciliations, Supplier Relationship Management, Information Management, Smarter Computing, and Asset Benefit Realisation.</p>	130	100

Area of Audit	Areas of Coverage/Outcomes	Total Days 2016/17	Total Days 2015/16
Corporate Risk Areas	<p>Areas identified as high risk reviews determined following risk assessment of audit universe, or requested audit reviews:</p> <ul style="list-style-type: none"> • Governance/ Due Diligence work of: <ul style="list-style-type: none"> - <i>Devolution Bids, Local Government Reorganisation, Combined Authority</i> • Better Care Fund • Direct Payments – Children’s and Adults • Safer Recruitment • Use of Consultants • Contract Management • Health & Safety • Children in Care • Section 17 Payments • Special Educational Needs (SEN) Decision-Making • SEN/Children who are Disabled - Transition from Children’s to Adult Services • Partnering and Voluntary Organisations (Community Capacity Build) • Equality Impact Assessments • Use and Control of Credit Notes • Troubled Families • Adults Demand Management • Pensions Admin • Energy Procurement Audit • Authority-wide Grant Certifications (as required) • Directorate Forward Together Change Programmes/ Projects (as required) 	292	342

Area of Audit	Areas of Coverage/Outcomes	Total Days 2016/17	Total Days 2015/16
Partnerships Review	Various e.g. Dorset Waste Partnership, Local Enterprise Partnerships, Local Authority Traded Companies	115	95
Schools	Individual and Themed School Reviews, including; <ul style="list-style-type: none"> - <i>Council Oversight of Schools</i> - <i>Good School Governance: Key Checks</i> 	50	40
Fraud audits	Provision for Investigatory Work	20	20
Advice	Audit Advice, Contingency and Committee reporting	90	100
Follow Up Reviews	Follow Up of Partial Assurance Reports	25	30
		1167	1167

Performance:

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

Other Key Factors

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 performance standards for 2016/17 which are to be reported each quarter are as follows;

Performance Target	Performance
<p><u>Audit Plan – Percentage Progress</u> Audit plan completion to draft report stage at year end</p>	95%
<p><u>Draft Reports</u> Issued within 5 working days Issued within 10 working days</p>	95% 100%
<p><u>Final Reports</u> Issued within 10 working days of discussion of draft report.</p>	95%
<p><u>Quality of Audit Work</u> Customer Satisfaction Questionnaire</p>	85%

Internal Audit Charter

Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Dorset County Council, and to outline the scope of internal audit work.

Approval

This Charter was last approved by the Audit & Scrutiny Committee on 12th May 2015.

Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled company. This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the Head of Internal Audit, Chief Financial Officer (as s151 Officer) in consultation with the Chief Executive of SWAP.

Role of Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities of Management and of Internal Audit

Management¹

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Council's Chief Executive and the Audit & Governance Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

Internal Audit

Internal audit is responsible for operating under the policies established by management in line with best practice.

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.

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. Members of SWAP who have transferred in to the department from other areas Dorset County Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

¹ In this instance Management refers to the Corporate Leadership Team.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. The Chief Executive of SWAP and the Assistant Director also report to the Head of Internal Audit, Chief Financial Officer (as s151 Officer), and reports to the Audit Committee as set out below.

Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work is entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of Dorset County Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;

- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether Dorset County Council is in compliance;

- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;

- appraising the economy, efficiency and effectiveness with which resources are employed;

- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.

- reviewing the operations of the council in support of the Council's anti-fraud and corruption policy.

- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditors independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
 - the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
 - management understand that the work being undertaken is not internal audit work.

Planning and Reporting

SWAP will submit to the Audit Committee, for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Corporate Director. SWAP will report at least four times a year to the Audit Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Head of Internal Audit, Chief Financial Officer (as s151 Officer) and to other relevant line management.

The Chief Executive of SWAP will submit an annual report to the Audit Committee providing an overall opinion of the status of risk and internal control within the council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and the Assistant Director have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit Committee, the Council's Chief Executive Officer or the External Audit Manager.

Revised January 2016