

Dorset County Council

Report of Internal Audit Activity

Plan Progress 2016/17 Quarter 1

Contents

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Summary

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



Audit Opinion

Overall, based on the work completed to date this financial year, I can report that some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives. However, in other areas risks are generally well managed and the systems of internal control are working effectively.

DCC management respond positively to internal audit suggestions for improvements and corrective action is often taken quickly, wherever this is possible or practical.

Follow up work completed to date this year highlights that recommendations have generally been implemented to mitigate the risks identified.

Internal Audit Plan Progress 2016/2017

Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



Role of Internal Audit

The Internal Audit service for Dorset County Council is provided by South West Audit Partnership Limited (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), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 8th June 2016.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit Plan Progress 2016/2017

Outturn to Date:

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



Internal Audit Work Programme

The schedule provided at Appendix B contains a list of all audits in progress as agreed in the Annual Audit Plan 2016/17. 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.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed on pages 9 and 10 of this document.

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted in them receiving a ‘Partial Assurance Opinion’ have been summarised in Appendix D.

However, in circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised in Appendix C. These items will remain on this schedule for monitoring by the Committee until the necessary management action is taken and appropriate assurance has been provided that the risks have been mitigated / addressed.

Internal Audit Plan Progress 2016/2017

“Added Value”

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.



Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, Members requested that we provide them with examples of where we have “added value” to a particular service or function under review. In response to this we have changed our approach and internal processes and will now formally capture at the end of each audit where we have “added value”. As we complete our operational audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control.

- As part of our Income Generation audit, SWAP carried out an information gathering exercise of other council’s income generating initiatives and reported this back to the Chair of the Commercial Board. Furthermore, SWAP identified some Commercialisation training that was available free of charge through the Local Government Association that DCC could benefit from.
- A part of our Debt Management audit, SWAP carried out a benchmarking exercise across our Partners to provide a comparison of debt collection methods and techniques. SWAP also provided a best-practice debt collection document based on our research.
- As part of our Health & Safety audit, SWAP sought Health & Safety training material from our Partners in order to feed back to DCC any innovative or different delivery methods.
- We have recently made available to the Chief Accountant and Head of Commercial Services a number of IDEA Procurement Scripts that SWAP have access to. These would enable a detailed analysis of purchasing and supplier data
- Similar to previous years, SWAP will shortly be providing a Member training event, covering; the role of the Audit Committee, Culture and Ethics, Brexit- threats and opportunities, and changes to the Annual Governance Statement. This event will be held in October.

Internal Audit Plan Progress 2016/2017

SWAP Performance - Summary of Audit Opinions

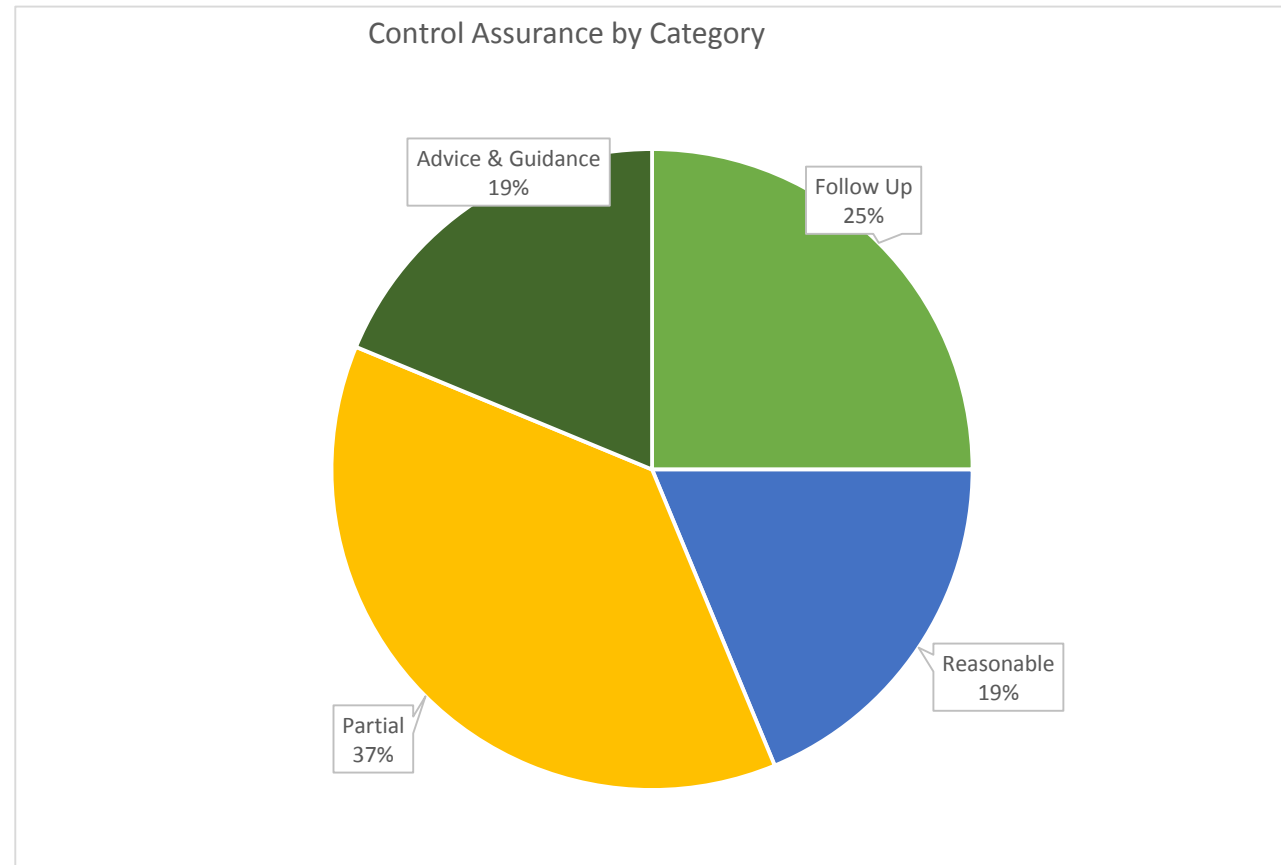
At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- Substantial
- Reasonable
- Partial
- None



Summary of Control Assurance

As well as our standard audit opinions we have also included our Follow up work along with any Advice & Guidance. It should be noted that there were no 'Substantial' or 'None' Audit Opinions in our work to date.



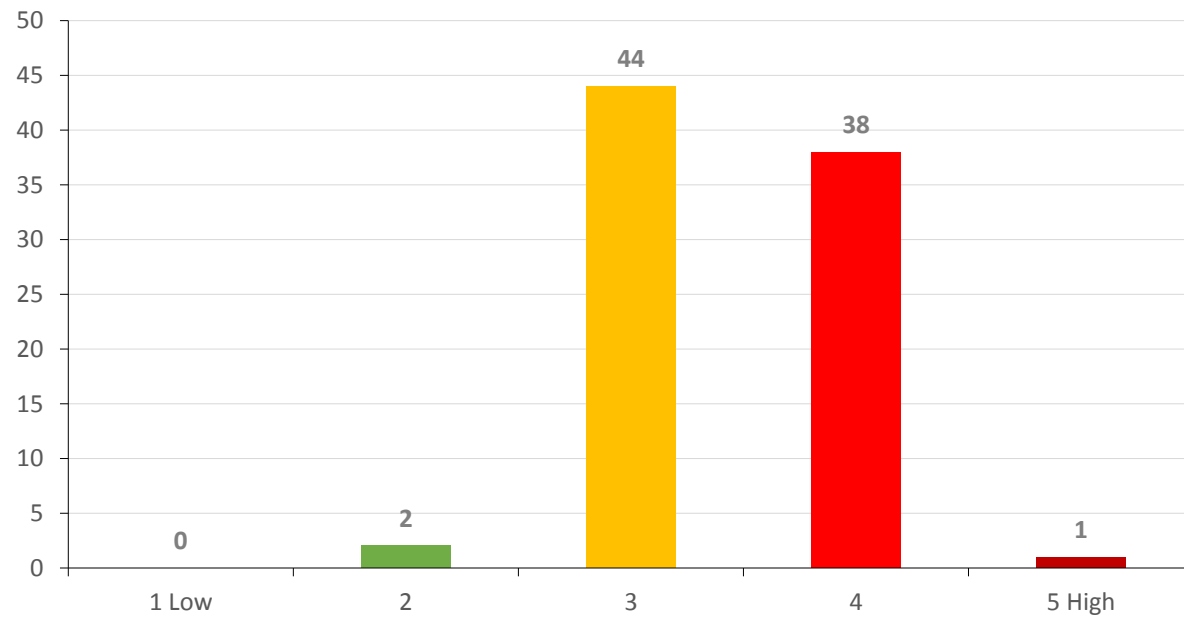
Internal Audit Plan Progress 2016/2017

Summary of Audit Recommendations by Priority



Summary of Recommendations

Audit Recommendations by Priority



Internal Audit Plan Progress 2016/2017

The Assistant Director of 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 2016/17 year (as at 1 August 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>15%</p> <p>4%</p> <p>34%</p> <p>47%</p>
<p><u>Draft Reports</u></p> <p>Issued within 5 working days</p> <p>Issued within 10 working days</p>	<p>100%</p> <p>100%</p> <p>(Average Days of 2)</p>
<p><u>Final Reports</u></p> <p>Issued within 10 working days of discussion of draft report</p>	<p>80%</p> <p>(Average Days of 6)</p>
<p><u>Quality of Audit Work</u></p> <p>Customer Satisfaction Questionnaire</p>	<p>78%</p>

Internal Audit Plan Progress 2016/2017

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



Approved Changes to the Audit Plan

Two ICT reviews have been removed from the 2016/17 audit plan at the request of the Head of ICT & Customer Services and replaced with two higher priority ICT reviews. The reviews removed are Information Management and Physical & Environmental Controls. These have been replaced with a review of Cyber Security and 365 for SharePoint.

A deferral has been requested for our review of Partnering & Voluntary Organisations (Community Capacity Build). This is due to the fact that work in this area is not sufficiently developed and the key contacts do not believe an audit at this stage would add value. It has therefore been proposed that this review is carried out in 2017/18.

Two reviews have been added to the 2016/17 audit work plan. These include a review of Concessionary Fares which has recently been completed, and an audit of Establishment Control which is due to commence shortly. These reviews will be resourced from SWAP contingency as part of the 2016/17 internal audit plan.

Given the significant findings identified at Dorchester Learning Centre, we propose to carry out some audit probity work at other DCC Learning Centres later in the year. This work is yet to be scoped.

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	5 = Major ← → 1 = Minor				
						Recommendation				
						5	4	3	2	1
Operational	Dorchester Learning Centre	1	Final	Partial	26	1	12	13	-	-
Governance	Oversight of Schools	1	Final	Partial	7	-	3	4	-	-
Operational	Purchase to Pay Review	1	Final	Advice & Guidance	N/A	-	-	-	-	-
Operational	Country Parks Follow Up	1	Final	Follow Up	N/A	-	-	-	-	-
Operational	Archives Follow Up	1	Final	Follow Up	N/A	-	-	-	-	-
Operational	Dorset Waste Partnership Follow Up	1	Final	Follow Up	N/A	-	-	-	-	-
Operational	Budmouth Technology College	1	Final	Follow Up	N/A	-	-	-	-	-
Operational	Health & Safety	1	Final	Reasonable	9	-	2	7	-	-
Operational	Debt Management	1	Draft	Partial	18	-	6	12	-	-
Operational	Income Generation	1	Final	Partial	6	-	6	-	-	-
Operational	Use of External Advisors	1	Final	Partial	6	-	4	2	-	-
Operational	Safer Recruitment	1	Draft	Partial	8	-	5	3	-	-
Grant Certification	Troubled Families Grant Certification	2	Final	Advice & Guidance	N/A	-	-	-	-	-
Grant Certification	Growth Hub Grant Certification	2	Final	Advice & Guidance	N/A	-	-	-	-	-
Operational	Reporting of Spend over £500	2	Final	Reasonable	2	-	-	-	2	-
Governance	Concessionary Fares	2	Final	Reasonable	3	-	-	3	-	-

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major ← → 1 = Minor				
						Recommendation				
						5	4	3	2	1
Work in Progress										
Operational	Budget Management	1	Discussion Document	-	-					
Operational	SEN Decision Making	2	In Progress	-	-					
Operational	Better Care Fund	2	In Progress	-	-					
Operational	Direct Payments	2	In Progress	-	-					
Operational	Adult Demand Management	2	In Progress	-	-					
Operational	Best Practice Contract Reviews	2	Scoping	-	-					
Operational	Contract Management	2	Scoping	-	-					
Operational	Creditors/ Payments	2	In Progress	-	-					
IT Audit	Cyber Security	2	In Progress	-	-					
Grant Certification	Community Channel Grant Certification	2	In Progress	-	-					
Operational	Section 17 Payments	2	In Progress	-	-					
Operational	UK Equity Fund	2	In Progress	-	-					
Operational	Equality Impact Assessments	2	Scoping	-	-					
Governance	Risk Appetite	2	Scoping	-	-					
Operational	Establishment Control	3	Scoping	-	-					

Schedule of potential significant risks identified from Internal Audit work in 2016/2017

Ref	Name of Audit	Risk Identified	Weaknesses Found	Recommendation Action	Managers Agreed Action	Agreed Date of Action
DLC 1	Dorchester Learning Centre	The Governance structure does not provide sufficient strategic overview	Currently the governing body are lacking the structure to be able to provide a strategic overview of the operations within the Centre. In addition, there is a need for the Headteacher to provide more information to the governors to enable them to make appropriate decisions.	A range of recommendations have been made to address the governance. These include training for governors, ongoing review of statutory policies, and greater oversight of the school development plan.	Management at the Centre have agreed to all our recommendations. Progress has been made to address the areas highlighted. Due to changes at the Centre, a follow up has been deferred and will be carried out in the Autumn term.	All actions to be completed by the start of the Autumn term.
DLC 2	Dorchester Learning Centre	The Centre does not comply with appropriate financial and other procedures	There is no assurance that the owner of a company that the centre uses has appropriate insurance cover and arrangements for DBS checking of staff and volunteers. In order to demonstrate transparency in the award of contracts, it is important that the governors and staff with spending decisions complete an annual declaration of interests. A number of potential conflicts exist at the Centre and therefore it is imperative that full disclosure and transparency exists.	A range of recommendations have been made to address the Centre's compliance with the appropriate financial and other procedures. These include formal approval of the Centre's budget, seeking assurance re: the safety of external companies used, and greater transparency in relation to declarations of interest. Recommendations have also been raised in relation to	As above.	All actions to be completed by the start of the Autumn term.

Summary of Significant Risks

APPENDIX C

			The Centre does not have all statutory policies in place.	Governors seeking assurance that value for money is being achieved with the activities commissioned by the Centre.		
IG 1	Income Generation	A lack of support and proportionate processes across the organisation prevents staff innovation and the generation of new income	<p>Lack of financial tools to enable effective cost and management accounting.</p> <p>Lack of training and guidance to ensure managers develop commercial awareness.</p> <p>Project management processes are not employed to manage the implementation of the Commercial Board's objectives.</p>	A range of recommendations have been made to support the progress of the Commercial Board objectives. These include the enhancement of management accounting and costing information, communication and training for managers, and adopting project management principles where necessary to ensure areas are taken forward.	Management have agreed to all of our recommendations, with an action plan in place.	All actions to be completed by end of October 2016.
EA 1	Use of External Advisors	Correct processes for the use of external advisors are not followed leading to poor service quality, potential claims against the council and value for money not being achieved.	<p>There is no strategic oversight of the use of external advisors at a corporate level.</p> <p>Inaccurate coding of external advisor spend; resulting in the figures reported to Members containing potential inaccuracies and/ or overstatements.</p> <p>Officers are unaware of key guidance and best practice principles in relation to the use of external advisors.</p> <p>Consideration of using alternatives to external advisors at the outset of work is not being undertaken (or at least evidenced).</p>	A number of recommendations have been made to enhance the monitoring, oversight and control of the use of external advisors. These include improving the reporting of external advisors and raising awareness amongst staff in terms of best-practice when commissioning in this area.	Management have agreed to all of our recommendations, with an action plan in place.	All actions to be completed by end of January 2017.

Summary of key points related to previously reported 'Partial Assurance' reviews

Audit Title	Significant Audit Findings	Key Actions Agreed by Service	Dates of Agreed Implementation	Date of programmed follow up
Ethical Governance (Follow Up)	<p>The audit included a review of the embeddedness of ethical governance for both members and staff. Issues were identified regarding the following for staff</p> <ul style="list-style-type: none"> • Declaration of Interests • Gifts and Hospitality • Training 	<p>The follow up findings and an action plan were presented to the Standards and Governance Committee at their meeting on 30th March 2016.</p> <p>The majority of recommendations were expected to be implemented by 31 Dec 2015, with the rest to follow April 2016.</p> <p>A number of implementation dates were subsequently deferred to 1st April 2016 to coincide with the work already started in relation to the revision to the Council's Code of Conduct.</p>	<p>A further audit follow up was undertaken in August 2016.</p> <p>It was found that the vast majority of agreed actions were still outstanding along with the associated risks.</p>	<p>A further follow up will be scheduled for early 2017 to allow the Authority time to revise the Code of Conduct and implement the agreed actions.</p>
Country Parks (Follow Up)	A follow up audit has confirmed that key actions agreed by the service have now been implemented, with the original risks mitigated.			Follow up completed August 2016
Archives (Follow Up)	A follow up audit has confirmed that key actions agreed by the service have now been implemented, with the original risks mitigated.			Follow up completed June 2016
Budmouth Technology College (Follow Up)	A follow up audit has confirmed that key actions agreed by the service have now been implemented, with the original risks mitigated.			Follow up completed May 2016
Dorset Waste Partnership (Follow Up)	A follow up audit has confirmed that key actions agreed by the service have now been implemented, with the original risks mitigated.			Follow up completed May 2016