

APPENDIX A

Dorset County Council

Annual Report and Opinion 2016-17

Contents

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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 2016/17 year.

Internal Audit Annual Opinion 2016/17

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 welcoming 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 2016/17 there are a small number of reviews that have presented significant concerns. However, 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.

It is recognised that there will be occasions where audit make recommendations to mitigate risk exposure and after consideration of the recommendation, the service decide to accept the risk. In 2016/17 there have been instances where high or medium priority recommendations have not been accepted by services. It is considered important to highlight these instances to the committee in order that further consideration can be given to the recommendation to ensure that the residual risk exposure is in line with the risk appetite of the organisation. Further details on risk accepted recommendations can be found on pages 6-8.

I have considered the balance of 2016/17 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 2016/17

Our audit activity is split between:

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



Internal Audit Work Programme

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

Summary of Audit Work 2016/17

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 three Risk Levels applied within audit reports (see page 15). For those audits which have reached report stage through the year, we have assessed the following risks as 'High'.

Review	Auditors Assessment
<p>Safer Recruitment The scope of this piece of work looked to assess the following potential risk: <i>'The Authority fails to identify individuals unsuitable to work with vulnerable people, potentially leading to the cause of harm or detriment to the wellbeing of service users.'</i></p> <p>The audit for Safer Recruitment was concluded in October 2016. It identified five priority 4 and three priority 3 recommendations. Senior Management agreed all recommendations, with the exception of one priority 4 recommendation, which identified a lack of control around DBS checking and recommended that Senior Management ensure that they were satisfied with the current level of risk. Senior Management decided to accept this risk and more details can be found on page 6 under Risks Accepted.</p> <p>A follow up audit has been undertaken of progress to implement the Safer Recruitment recommendations. Of the seven recommendations management agreed to implement:</p> <p>One priority 3 recommendation has been completed, two are in progress and two priority 4 recommendations are in progress. However, for two priority 4 recommendations work has not yet started to implement these.</p>	High
<p>Use of External Advisors The scope of this piece of work looked to assess the following potential risk: <i>'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.'</i></p>	High

Summary of Audit Work 2016/17

<p>In relation to the above risk/review we received the following response from Head of Corporate Development and Corporate Leadership Team (CLT).</p> <p><i>To improve oversight and monitoring of external advisors at a corporate level reports will be provided to CLT on a regular basis detailing results of monitoring activity undertaken by commissioners as external advisors.</i></p> <p>A follow up audit is currently being undertaken to ascertain progress against recommendations and we are awaiting responses from management.</p>	
<p>Ethical Governance</p> <p>The scope of this piece of work looked to assess the following potential risk: <i>'Ethical values are not embedded within the culture of the organisation, leading to activities and decisions that impact on the finances, quality of service and reputation of the Council.'</i></p> <p>This audit was undertaken in late 2015/16 where a total of 12 priority 4 and 3 recommendations were made. A follow up audit was undertaken in March 2016 where it was found that 11 of the 12 recommendations were either still in progress or work had not started on implementing the recommendations. A further follow up audit, that has recently concluded, has found that of the 12 recommendations, 10 have now been fully completed with 2 recommendations (one of which is a priority 4) still in progress. Audit will continue to monitor to ensure these final recommendations are fully implemented.</p>	High
<p>Children in Care</p> <p>The scope of this piece of work looked to assess the following potential risk: <i>'Insufficient budget is available to meet the cost of placements; The right intervention is available to meet the cost of placement; Children remain in care placements longer than is necessary.'</i></p> <p>A follow up audit has recently been undertaken in this area and has concluded that all actions are either completed or in progress. There are no residual significant concerns.</p>	High

Summary of Audit Work 2016/17

Risks Accepted

Where control weaknesses have been brought to the attention of Senior management and a decision is taken by them to accept the risk and not implement audit's recommendation this should be brought to the attention of the Audit Committee



Risks Accepted

There will be occasions where audit make recommendations to mitigate risk exposure and after consideration of the recommendation, the service decide to accept the risk. In 2016/17 there have been three instances where high or medium priority recommendations have not been accepted by services:

Safer Recruitment

Finding:

Audit testing has shown that the controls in place for DBS checking through the Manager Self-Serve system are not always working effectively and there is a risk that the authority is employing individuals before all the requisite pre-employment checks have been carried out. The authority should consider introducing a process of spot checking new employees working in regulated posts to reduce the risk that some employees may commence work with vulnerable adults and children who may be barred from such regulated activities.

Suggested Audit Outcome (Priority 4):

The Director of Children's Services and the Director of Adults and Community Services, working alongside the Head of Human Resources and Operational Development have agreed to ensure that the risk incurred by the authority with the lack of control surrounding DBS checks within the Manager Self-Serve system does not exceed the authority's risk appetite.

Person Responsible: Service Manager – Advisory Service (DCC)

Management Response:

100% of DBS checks reviewed had been completed for DCC roles. Notwithstanding the management responses elsewhere in the report, the Authority accepts the risks associated with the current approach to DBS checking and as such does not intend to take further steps to increase the level of controls in place. It is accepted that the MSS system is such that further controls can be incorporated (refer to other management responses) however there is acknowledgement that DBS checks are not required in all cases prior to employee commencement whilst other safeguards are in place. A range of tools, advice and training is available for managers to enable them to effectively manage the safer recruitment process.

Status: Risk Accepted

Establishment Control

Finding:

A discussion with a HR Business Partner has also shown that there can be problems on DES with regards to agency staff. It is not always clear on DES that a post has been filled by agency staff, causing confusion for managers who may wrongly believe that a post is vacant and available to be filled by directly employed staff when in fact this is not the case because the post is temporarily filled by an agency worker. This could ultimately result in the risk of budget overspends. The ability to link the 'vacant' post to the agency worker appointed to fill it could reduce the confusion and risk of budget overspends.

Suggested Audit Outcome (Priority 3):

I recommend that the Head of HR and Organisational Development investigates whether it is possible to link posts that are temporarily filled by agency workers to the relevant post within DES.

Person Responsible: HR Operations Service Manager

Management Response:

Risk Accepted. However, guidance will be provided on SharePoint in respect of agency workers to include a reminder to managers about the budgeted establishment and not overfilling posts.

Status: Risk Accepted

Section 17 Payments

Finding:

There is no link between those payments processed in DES and the child that the payment relates to in RAISE. In addition, RAISE does not allow for cases to be categorised by the type of payment made. It is understood that Mosaic, the system that is due to replace RAISE will link the specific child in Mosaic to payments processed in DES. Confirmation should be obtained that this will in fact be possible and also whether Mosaic will allow cases to be categorised so that more detailed analysis can be undertaken by managers. If this does not take place there is a risk that the new system will not provide managers with the more detailed information that is required, thereby not enabling effective analysis to be carried out.

Suggested Audit Outcome (Priority 3):

I recommend that the Service Manager for Help & Protection ensures that a procedure is implemented in the interim before Mosaic is introduced to allow children who have received support under Section 17 to be identified to allow the payments to be tracked, monitored and analysed.

Person Responsible: Assistant Director for Care & Protection

Management Response:

This action links with another management response provided - but I do not accept this proposed outcome. The ability of the organisation to create an interim measure through excel spreadsheets is not cost effective in terms of staff time. There are limited business support arrangements to support such a measure, when the focus has to be upon the delivery of the migration process into ICS and the implementation of the new ICS system. Risk accepted.

Status: Risk Accepted

Summary of Audit Work 2016/17

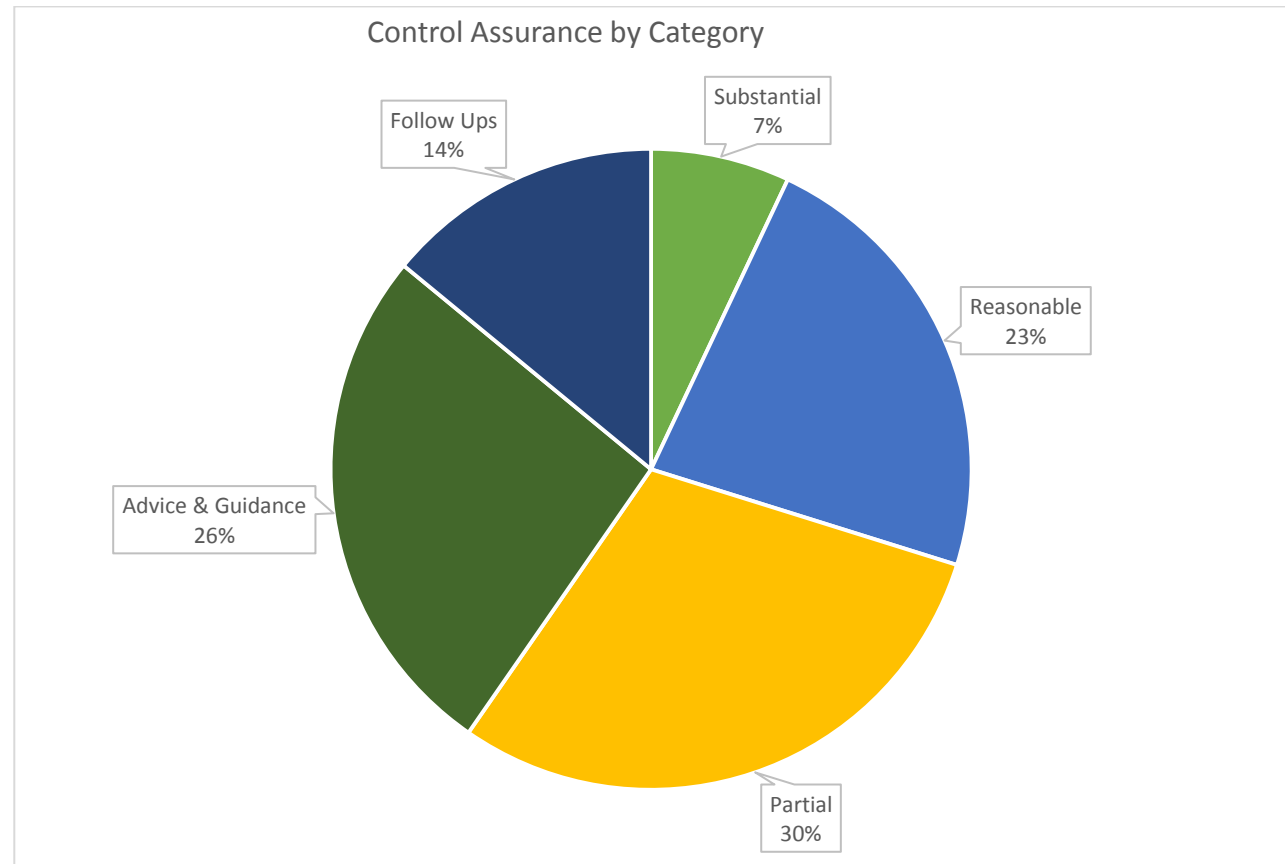
Summary of Audit Opinions

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

- Substantial
- Reasonable
- Partial
- None



Summary of Audit Opinions



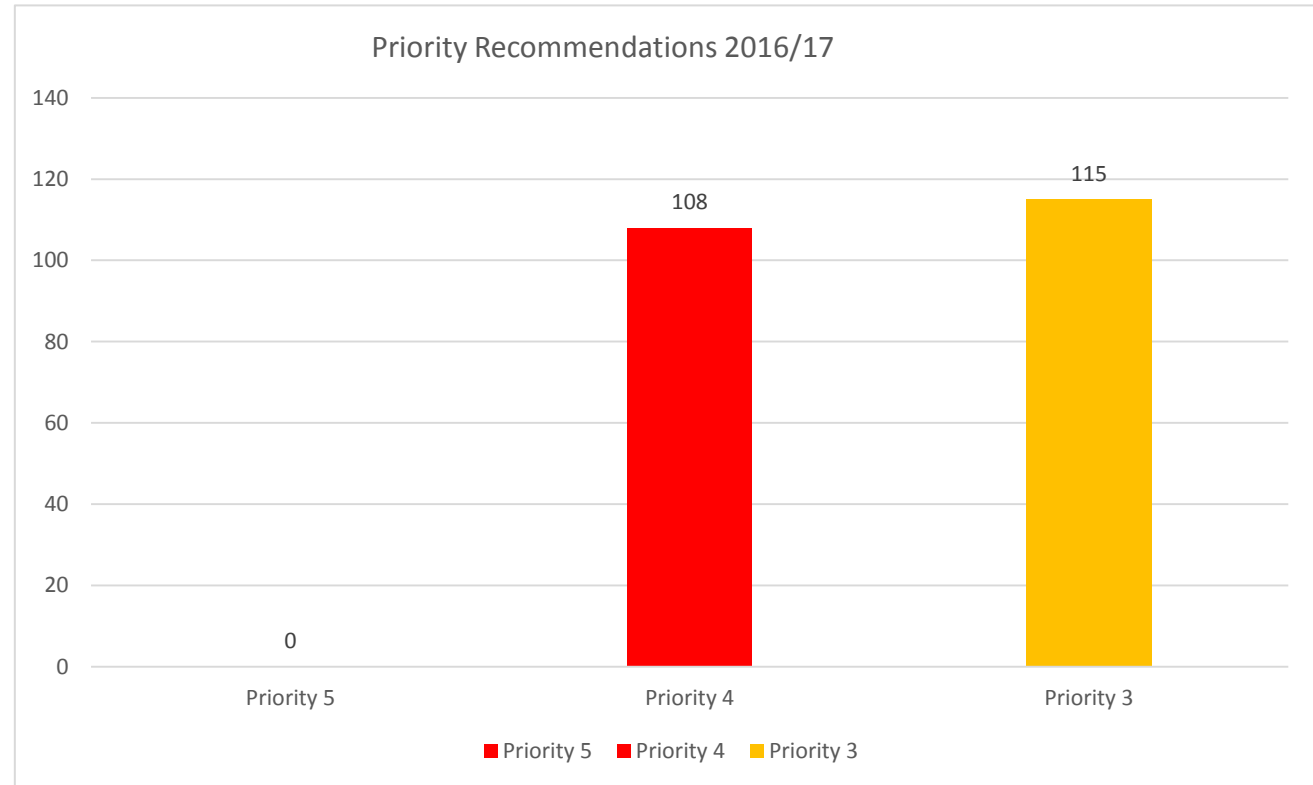
Summary of Audit Work 2016/17

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



It is pleasing to note that internal audit work undertaken by SWAP during the year has not identified any Level 5 recommendations.

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 circulation of industry bulletins and fraud prevention alerts wherever possible. We 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 findings from relevant audit reviews undertaken at our Partners, to enable the sharing of best practice and comparison of common findings. Some examples of added value within 2016/17 has been:

The compilation of best practice guides for:

- Cyber Security Training & Awareness
- Debt Management
- Income Generation
- Benefits Realisation
- IR35 Legislation Changes
- Governor Minutes

Providing benchmarking data from across SWAP partners for:

- Debt Management
- Creditor Payments
- Health and Safety training
- Equality Impact Assessments
- Audit Committee workplans
- Social care payment methods

As well as the above, we have also made available to DCC a number of IDEA Procurement Scripts which would enable a detailed analysis of purchasing and supplier data. SWAP has also provided free Member training on areas such as Transformational Change and Audit Committees, as well as signposting DCC to a free Cyber Security training resource.

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 21 Councils and Police Authorities. 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 June 2017) are as follows (the previous year's performance figures are reported in brackets for comparison):

Performance Target	Average Performance
<p><u>Audit Plan – Percentage Progress</u></p> <p>Final, Draft and Discussion Fieldwork Completed awaiting report In progress Yet to complete</p>	<p>98% (98%) 0% 2% 0%</p>
<p><u>Draft Reports</u></p> <p>Issued within 5 working days Issued within 10 working days</p>	<p>77% (69%) 87% (75%) (Average Days of 5)</p>
<p><u>Final Reports</u></p> <p>Issued within 10 working days of discussion of draft report</p>	<p>78% (63%) (Average Days of 8)</p>
<p><u>Quality of Audit Work</u></p> <p>Customer Satisfaction Questionnaire</p>	<p>84% (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.

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.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major				
						Recommendation				
						1	2	3	4	5
Operational	P2P Review	Q1	Final	Advice and Guidance						
Operational	Debt Management	Q1	Final	Partial	18	0	1	12	6	0
Operational	Income Generation/Collection	Q1	Final	Partial	8	0	0	0	8	0
Operational	Creditors/Payments	Q2	Final	Advice and Guidance	4	0	0	2	2	0
Operational	Agency Staff	Q3	Final	Partial	6	0	0	2	4	0
Operational	Benefits Realisation Management	Q4	Final	Advice and Guidance						
Operational	Risk Tolerance/Appetite	Q2	Final	Reasonable	6	0	0	6	0	0
Operational	Budget Management	Q1	Final	Partial	10	0	0	4	6	0
Operational	Reporting of Spend Over £500	Q2	Final	Reasonable	2	0	2	0	0	0
Operational	Better Care Fund	Q2	Final	Partial	14	0	0	7	7	0
Operational	Direct Payments - Children's Services	Q2	Final	Partial	6	0	0	3	3	0
Operational	Direct Payments – Adult Services	Q2	Final	Reasonable	2	0	0	1	1	0
Operational	Safer Recruitment	Q1	Final	Partial	8	0	0	3	5	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major				
						Recommendation				
						1	2	3	4	5
Operational	Use of Consultants	Q1	Final	Partial	6	0	0	2	4	0
Operational	Contract Management	Q2	Final	Advice and Guidance						
Operational	Health & Safety	Q1	Final	Reasonable	9	0	0	7	2	0
Operational	Section 17 Payments	Q2	Final	Partial	5	0	0	0	5	0
Operational	Special Educational Needs - Decision Making	Q1	Final	Partial	8	0	0	4	4	0
Operational	SEN/Children who are Disabled - Transition from Children's Services to Adult Services	Q4	Final	Partial	3	0	0	0	3	0
Operational	Use & Control of Credit Notes	Q3	Final	Advice and Guidance						
Operational	Adults Demand Management	Q1	Final	Substantial	2	0	1	1	0	0
Operational	Investment Administration	Q1	Final	Reasonable	4	0	0	4	0	0
Operational	Energy Procurement Audit	Q4	Final	Substantial	0					
Operational	Local Authority Traded Company	Q4	Draft							
Operational	Individual & Themed School Reviews	Q1	Final	Advice and Guidance						
Operational	Oversight of Schools	Q1	Final	Partial	10	0	0	4	3	0
Operational	Dorset Waste Partnership - Waste Management Facility	Q1	Final	Reasonable	0					

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major				
						Recommendation				
						1	2	3	4	5
Operational	Dorset Waste Partnership - Budget Management	Q2	Final	Substantial	1	0	0	1	0	0
Operational	Dorset Waste Partnership - Benchmarking	Q4	Final	Advice and Guidance						
Operational	Establishment Control	Q2	Final	Partial	6	0	0	3	3	0
Operational	Risk of Care Provider Failure	Q3	Final	Reasonable	2	0	0	3	0	0
Operational	Mobile Phone Arrangements	Q3	Final	Reasonable	3	0	0	6	0	0
Operational	Intermediaries Legislation / IR35	Q3	Final	Partial	12	0	0	4	8	0
Operational	Cost of Council Services	Q3	Final	Advice and Guidance						
Operational	Partnering and Voluntary Organisations	Q3	Final	Advice and Guidance						
Operational	Accommodation Project	Q3	Final	Reasonable	3	0	0	1	2	0
Key Control	Payroll	Q4	Final	Advice and Guidance						
Key Control	Pensions	Q3	Final	Reasonable	5	0	1	3	1	0
Key Control	Treasury Management	Q4	Final	Reasonable	6	0	0	4	2	0
Key Control	Key Financial Controls - Financial Reconciliations	Q4	Final	Substantial	2	0	0	2	0	0
Governance, Fraud & Corruption	Assurance Mapping Exercise	Q1	Final	Advice and Guidance						

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major				
						Recommendation				
						1	2	3	4	5
Governance, Fraud & Corruption	Best Practice Contract Reviews	Q3	Final	Advice and Guidance						
Governance, Fraud & Corruption	Equality Impact Assessments	Q3	Final	Advice and Guidance	1	0	0	1	0	0
Governance, Fraud & Corruption	Review of Forward Together	Q3	Final	Partial	23	0	0	7	16	0
Follow Up	Budmouth Technology College	Q1	Final	Follow Up	0					
Follow Up	Dorset Waste Partnership - Transport Management	Q1	Final	Follow Up	0					
Follow Up	County Parks	Q1	Final	Follow Up	0					
Follow Up	Archives	Q2	Final	Follow Up	0					
Follow Up	Ethical Governance	Q4	Final	Follow Up	0					
Follow Up	Dorchester Learning Centre Follow Up	Q3	Final	Follow Up	0					
Follow up	Children in Care	Q4	Draft	Follow up						
ICT	ICT Key Controls	Q4	Final	Follow Up	0	0	0	1	0	0
ICT	Smarter Computing	Q3	Final	Partial	7	0	0	5	2	0
ICT	Adult & Children's Services Case Management System	Q1	Final	Advice and Guidance						
ICT	Feeder System Reconciliations	Q3	Final	Reasonable	5	0	0	2	3	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major				
						Recommendation				
						1	2	3	4	5
ICT	Asset Management Hardware	Q3	Final	Partial	6	0	0	2	4	0
ICT	Cyber Security	Q2	Final	Reasonable	4	0	0	3	1	0
ICT	Information Security Management System Document Review	Q4	Final	Advice and Guidance	8	0	0	5	3	0
Operational	Troubled Families	Q1-4	Final							
Operational	Authority-wide Grant Certifications	Q1-4	Final							
Deferred to 2017/18	Outcomes based accountability	Q2	Deferred							