



# Dorset County Council

## Internal Audit Annual Opinion Report 2017-18

# Contents

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## Summary:

Purpose & Background

Page 1

Annual Opinion

Page 2



## Summary of Audit Work:

Significant Corporate Risks

Page 3-5

Risks Accepted

Pages 6-7

Summary of Audit Opinions

Page 8

Priority Actions

Page 9



## Plan Performance:

Value Added

Page 10

SWAP Performance

Page 11

Summary of Work Plan

Page 12-16

## Summary

**Internal Audit provides an independent and objective opinion on the effectiveness of the Authority's risk management, control and governance processes.**



### 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 SWAP Internal Audit Services. 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) and the CIPFA Local Government Application Note. The work of the Authority 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 2017/18 year.

## Summary

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 generally 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. Generally, 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. However there have been instances during the past year where follow up audits have found that insufficient progress has been made in implementing medium or high priority recommendations and further follow up work has been required to be scheduled.

In 2017/18 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. Any outstanding weaknesses in the governance, risk and control framework will continue to be followed up by Internal Audit. Further details of significant risks identified can be found on pages 3-5.

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 2017/18 there have been instances where high or medium priority recommendations have not been accepted by services. In addition, there have also been instances where previously agreed recommendations have been highlighted during the follow up process as not being implemented, and the service indicate that these are now risks that are accepted. 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 6-7.

I have considered the balance of 2017/18 audit work and outcomes against this environment, enhanced by the work of external agencies, 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 2017/18

### Significant Corporate Risks

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

#### Definitions of Risk:

##### High

Issues that we consider need to be brought to the attention of senior management and the Audit Committee

##### Medium

Issues which should be addressed by management in their areas of responsibility

##### Low

Issues of a minor nature or best practice where some improvement can be made



### Significant Corporate Risks

For those audits which have reached report stage through the year, we have assessed the following risks as High:

#### **Review**

##### **Use and Management of High Needs Block**

The audit work identified that there are issues with the quality of data within Synergy which may impact on the service's ability to accurately track and project future demand on the HNB.

If initiatives to reduce reliance on Independent Sector placements are not progressed promptly with estimated savings revisited regularly for feasibility as more detail becomes known, there is a risk that they may not be achievable, resulting in an increase in the cumulative deficit of the High Needs Block budget.

##### **Safer Recruitment**

The scope of this piece of work looked to assess the following potential risk: *'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.'*

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.

A follow up and further follow up audits have been undertaken to assess the progress to implement the Safer Recruitment recommendations. Of the seven recommendations management agreed to implement, one priority 4 recommendation was still in progress, however implementation of a recommendation to undertake spot checking that appropriate DBS clearance was in place highlighted some concerns and a further programme of work was agreed by Human Resources (as set out in our Internal Audit Progress Report – June 2018).

A further full internal audit review is currently being undertaken to provide assurance on the process for ensuring that a valid DBS clearance has been obtained where appropriate.

### **Resilience of ICT infrastructure – Service Continuity Planning,**

The audit identified that there is a risk that the authority is unable to recover key systems and data when an incident occurs which would result in a loss or corruption to data and systems with the associated financial loss due to business disruption and/or loss of service continuity. The service has agreed to implement all recommendations made in our report and these should all be in place by 31 March 2018. A follow up audit is currently being undertaken to assess the progress made towards implementation of the recommendations.

### **Governance Framework for Tricuro**

This audit was a review of the County Council's oversight of Tricuro, not an audit of the Company itself. The audit found that the Authority's governance framework for Tricuro does not allow the council, as owners of the company, sufficient control and scrutiny to fully measure the effectiveness of:

- Governance arrangements - Reporting of both finance and performance - Oversight of future business strategy

Failure to maintain sufficient control and scrutiny could lead to potential financial and reputational damage to the council. Again, the service agreed to implement our recommendations. A follow up audit undertaken in Q4 of 2017-18 identified that some progress had been made however a contract variation to formalise service and financial performance targets had yet to be issued. In addition, it was found that the minutes of the Audit, Governance and Risk Committee are not being provided by Tricuro.

Further follow up work is currently being undertaken to confirm that all recommendations are now fully implemented, and this work will be reported to the next Audit and Governance Committee.

### **EU General Data Protection Regulations**

A review of the authority's readiness for the new EU General Data Protection Regulations (GDPR) which comes into effect on 25<sup>th</sup> May 2018 was requested by the Authority. The review identified that currently the organisation is not able to fully implement the requirements of the GDPR within the required timescales resulting in non-compliance with the consequence of financial penalties.

The response from the authority has been extremely positive in terms of implementing our recommendations and we have recently undertaken some follow up work which has demonstrated encouraging progress and a positive direction of travel. It is not possible through this work to provide assurance on compliance with GDPR and a further piece of compliance audit work will be undertaken later in 2018-19.

### **Budget Management within Children's Services.**

Significant risks have been identified in Budget Management within Children's Services. It was found that not all budgets had been based on realistic assumptions and achievable savings targets, resulting in the inability to deliver expenditure within available budget. It was also identified that failure to adjust budgets and savings targets in year, as a result of demand led or external changes, resulted in future overspends within the service. The report has been agreed with the Interim Director of Children's Services and a follow up audit is planned for Quarter 2 of 2018-19. The reason for the delay in undertaking this work is to enable audit to assess the impact of the actions on the 2018-19 budget which cannot be judged until sufficient time has passed.

### **Commissioning of Learning Disability Services**

Commissioning of Learning Disability Services through the dynamic purchasing system (DPS) is unsuccessful in the majority of cases and the costs of this are not fully understood. As a result, the DPS does not represent a sustainable or cost-effective model for the Authority for the provision of services to Adults with Learning Disabilities.

In addition, the contractual status of packages not awarded through the DPS was found to be unclear and therefore legally binding agreements may not always be in place with providers of support.

A follow up review has been undertaken and confirmed that the significant risks identified have now been considered to be adequately mitigated.

## Summary of Audit Work 2017/18

### 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 2017/18 there have been the following instances where high or medium priority recommendations have not been accepted by services:

Audit	Suggested Audit Outcome	Priority Level	Suggested Person Responsible	Manager Comments
<b>ICT Contract Management</b>	The ICT Service Manager should ensure that consistent advice approved by Dorset Procurement regarding the process for the tender of contracts is made available on SharePoint and initially communicated to the ICT Contract Manager at the time of alert from Accord when the contract renewal is due. This advice should enable the self-serve element for the ICT Contract Manager to only enable direct contact with Dorset Procurement if a specific issue arises.	4	ICT Service Manager	Not agreed (Disagreement between ICT and Procurement as to the appropriate ownership for this recommendation).
<b>Resilience of ICT infrastructure – Service Continuity Planning</b>	The ICT Service Manager ensures that a method for recording and tracking agreed test days as part of an SLA or wider contract is introduced and the results of this are used to update the Critical Application Service Continuity Plan. It is worthy of note that as this recommendation will relate to a hosted or cloud supplier then the method to record any test day provision should be updated in Accord, the DCC Contract Management System.	3	ICT Service Manager	At the moment I am not aware that there is any provision in any contract for 'test days' relating to hosted/cloud continuity arrangements. Agreed that the logical place to record such agreements would be Accord, with the results from any test days to be noted in continuity plans as appropriate. However, any bespoke requirement specific to Dorset CC would be at specific additional cost to the Council – a more cost-effective approach would be to require feedback on the supplier's internal continuity testing arrangements.
<b>Debt Management</b>	The Chief Accountant should take action to improve the accuracy of invoices.	4	Chief Accountant	Key business areas have been advised of ensuring invoices are raised correctly first time to avoid unnecessary additional processes, this has also been reinforced via the release of the updated debt policy. Unfortunately, despite engagement the level of credits raised as a result of incorrect invoices remains too high. The Chief Accountant has indicated that he is not proposing to take further mitigating action in this area as the directorates responsible for raising invoices need to be more challenging of the information being received and diligent when creating them.



## Summary of Audit Work 2017/18

<b>Debt Management</b>	The Chief Accountant should request that the DWP review the terms and conditions of long standing customers to require payment in advance for services.	3	Chief Accountant	DWP have made a conscious decision to have different payment terms and conditions around their customers. No further action is planned by the Chief Accountant and the risk is accepted.
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In addition to the above, all recommendations contained within the **Section 17 Payments** review were risk accepted when we came to follow up this audit.

A Section 17 payment is a payment made to safeguard and promote the welfare of children in need and to promote the upbringing of such children by their families, by providing a range and level of services appropriate to those children's needs. The services may include providing accommodation and giving assistance in kind or in cash.

The original Section 17 payments audit was concluded in January 2017. The audit was awarded a Partial assurance with five priority 4 recommendations, four of which were accepted by management at the time and one was risk accepted (reported during the annual report of 2016-17).

A follow up review was concluded in March 2018 where the review found no evidence of progress towards implementing agreed actions and enhancing the control framework surrounding use of Section 17 payments since issue of the original audit report.

The Assistant Director for Care and Protection and Interim Director of Children's Services have indicated that further improvement of controls around use of Section 17 Payments is not an immediate priority amongst other demands and tasks faced by the service. Therefore, in the absence of any revised timescales for implementation, we consider that the risks associated with all originally agreed actions have been accepted in the short to medium term, pending further review by the service.

The risk of the service accepting the risks around the audit findings are that the Council is unable to demonstrate that Section 17 payments have been cost effective and prevented or delayed children coming into care with the associated high costs.

# Summary of Audit Work 2017/18

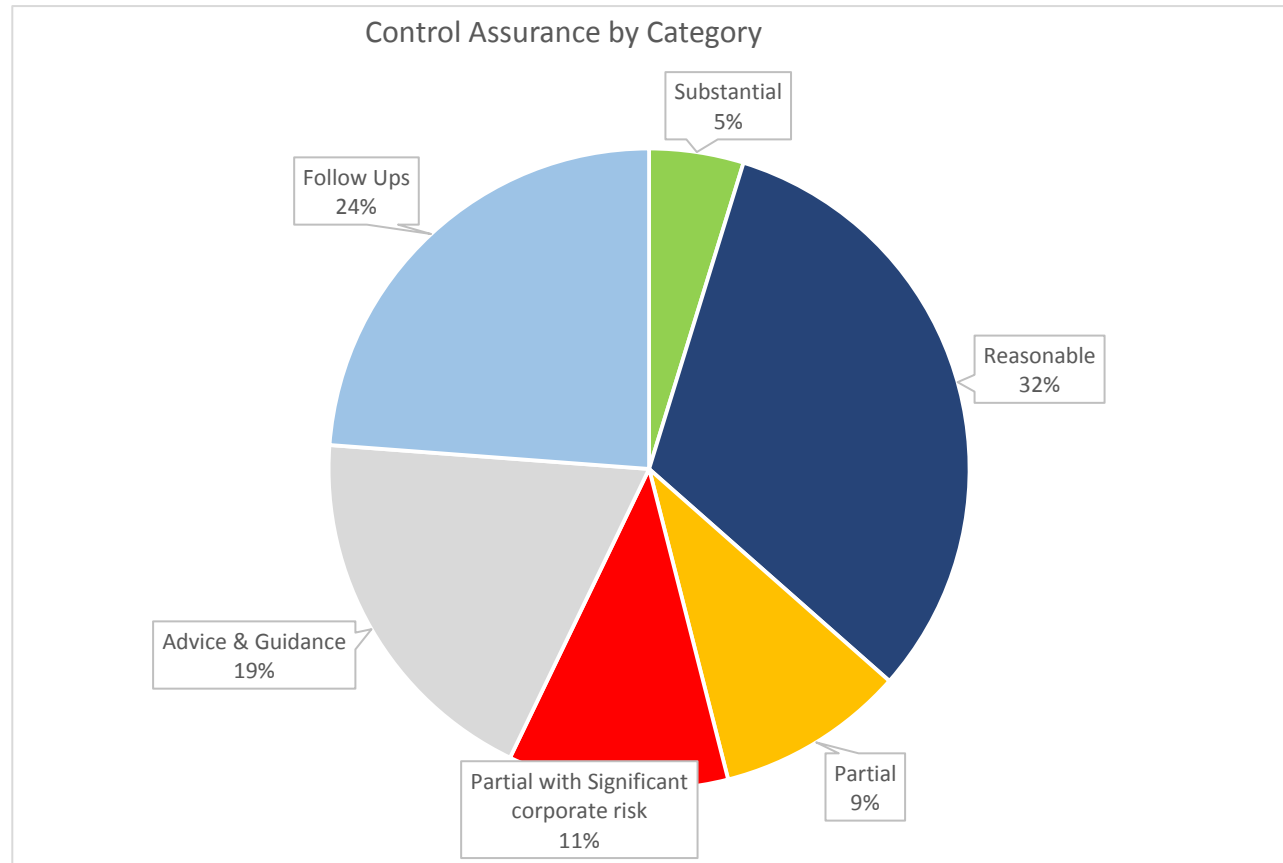
## Summary of Audit Opinions

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

- **Substantial** – Well controlled and risks well managed
- **Reasonable** – Adequately controlled and risks reasonably well managed
- **Partial** – Systems require control improvements and some key risks are not well managed
- **None** – Inadequately controlled and risk are not well managed



## Summary of Audit Opinions



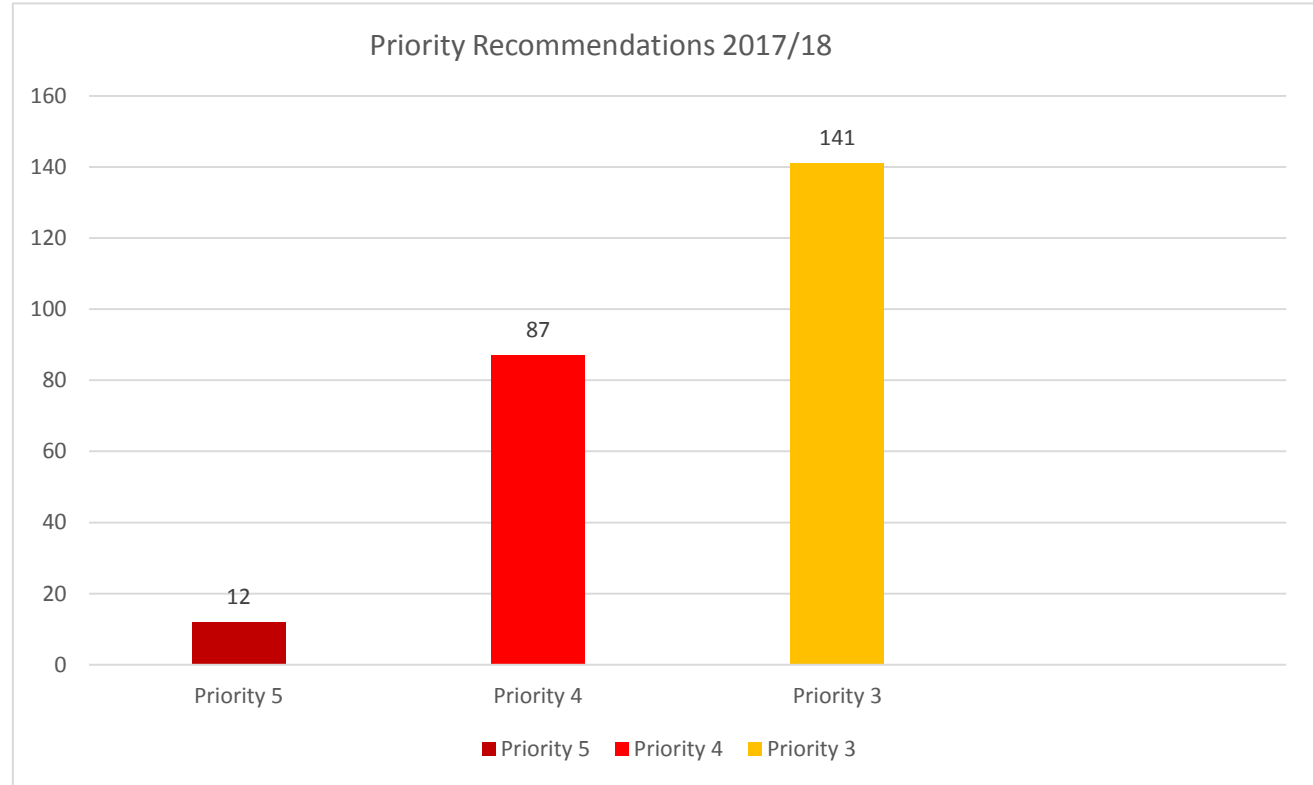
# Summary of Audit Work 2017/18

## Summary of Audit Recommendations by Priority



## Priority Actions

We rank our recommendations on a scale of 3 to 5, with 3 being a medium level of concern to 5 being areas of major concern requiring immediate corrective action. Priority 2 and 1 recommendations are verbally reported to management.



### 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 2017/18 has been:

The compilation of best practice guides for:

- Covert Surveillance
- Flexible Working
- Commercial Contract Management
- Ethics and Culture
- Fraud in schools
- IT Controls in Schools
- Application of Financial Management Standards in Schools

Providing benchmarking data from across SWAP partners for:

- General Data Protection Regulations
- High Needs Block Funding
- Committee Structure
- Partnering and Co-production

As well as the above, we have also made available to DCC detailed analysis of expenditure through SAP in order to identify potential duplicate payments. This work has identified around £7,000 of actual duplicate payments to date. SWAP has also provided Fraud Awareness training to colleagues in Financial Services.

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 24 Councils and public-sector 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 2017/18 year (as at 1 June 2018) are as follows; (the previous year's performance figures are reported in brackets for comparison):

<b>Performance Target</b>	<b>Average Performance</b>
<b><u>Audit Plan – Percentage Progress</u></b> Final, Draft and Discussion Fieldwork Completed awaiting report In progress Yet to complete	100% (98%) 0% 0% 0%
<b><u>Draft Reports</u></b> Issued within 5 working days Issued within 10 working days	75% (77%) 90% (87%) (Average Days of 4) (5)
<b><u>Final Reports</u></b> Issued within 10 working days of discussion of draft report	79% (78%) (Average Days of 8) (8)
<b><u>Quality of Audit Work</u></b> Customer Satisfaction Questionnaire	85% (84%)

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).

The Chief Financial Officer is assured that SWAP maintains a process of continuous quality assurance and has been independently assessed and found to be in Conformance with the Standards.

## Internal Audit Work Plan 2017-18

The schedule below contains a list of audits agreed for inclusion in the Annual Audit Plan 2017/18 and the final outturn for the financial year.

At the conclusion of audit assignment work each review is awarded a “Control Assurance”, a summary of the assurance levels is as follows:

- Substantial – Well controlled and risks well managed.
- Reasonable – Adequately controlled and risks reasonably well managed.
- Partial – Systems require control improvements and some key risks are not well managed.
- None – Inadequately controlled and risks are not well managed

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major ↔ 1 = Minor				
						Recommendation				
						5	4	3	2	1
Follow up	Children in Care	1	Final	N/A						
Operational	Trading Standards	1	Final	Reasonable	6	-	-	6	-	-
Operational	Animal Health and Welfare	1	Final	Reasonable	2	-	-	2	-	-
Operational	Schools IT controls	1	Final	Reasonable	4	-	2	2	-	-
Follow up	Ethical Governance	1	Final	N/A						
ICT	Mosaic – Data Migration Readiness	1	Final	Advice and Guidance						
Operational	Agency Staff - DWP	1	Final	Reasonable	10	-	1	9	-	-
Grant Certification	Careers and Enterprise Grant	1	Final	Advice and Guidance						
Grant Certification	Dorset Growth Hub	1	Final	Advice and Guidance						
Operational	Planned use of School Balances	1	Final	Reasonable	4	-	-	4	-	-

## Internal Audit Work Plan 2017-18

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major ↔ 1 = Minor				
						Recommendation				
						5	4	3	2	1
Operational	Resilience of ICT infrastructure – Service Continuity Plan Arrangements	1	Final	Partial	16	-	3	13	-	-
Follow up	Debt Management	1	Final	N/A						
Follow up	Safer Recruitment <i>(one priority 3 recommendation is new resulting from the follow up work and three are recommendations not implemented from the original audit)</i>	1	Final	N/A						
Operational	ICT Contract Management	1	Final	Partial	10	-	-	10	-	-
Operational	Budget Management – Children’s	1	Final	Partial	16	4	11	1	-	-
Operational	Education of Looked After Children	2	Final	Partial	6	-	4	2	-	-
Follow up	Direct Payments – Children’s	2	Final	N/A						
Follow up	SEN Decision Making	2	Final	N/A						
Follow up	Towards Adulthood project	2	Final	N/A						
Operational	Pimperne School	2	Final	Reasonable	15	-	3	8	4	-
Operational	Deprivation of Assets – Adult and Community Services	2	Final	Partial	5	-	1	4	-	-
Operational	Control of Credit Notes	2	Final	Reasonable	3	-	2	1	-	-
Follow up	Use of Consultants	2	Final	N/A						

## Internal Audit Work Plan 2017-18

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major ↔ 1 = Minor				
						Recommendation				
						5	4	3	2	1
Operational	Covert Surveillance of Social Networking Sites	2	Final	Advice and Guidance						
Operational	Business Continuity	2	Final	Reasonable	9	-	-	9	-	-
Follow up	Agency Staff	2	Final	N/A						
Follow up	Section 17 Payments	2	Final	N/A						
Governance	Accounts Payable Fraud Investigation	3	Final	Advice and Guidance						
Follow up	Better Care Fund	3	Final	N/A						
Key Controls	Financial Reconciliations	3	Final	Substantial	1	-	-	1	-	-
Follow up	Intermediaries Legislation/IR35	3	Final	N/A						
Operational	VAT	3	Final	Reasonable	6	-	-	6	-	-
Operational	General Data Protection Regulations	3	Final	Partial	34	7	26	1	-	-
Operational	Contract Compliance	3	Final	Advice and Guidance						
Operational	Outcomes Based Accountability	3	Final	Reasonable	13	-	-	13	-	-
Governance	Ethics and Culture SWAP Survey	3	Final	Advice and Guidance						
Operational	Commercial Contract Management	3	Final	Advice and Guidance						



## Internal Audit Work Plan 2017-18

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major ↔ 1 = Minor				
						Recommendation				
						5	4	3	2	1
Operational	Management & Control of Flexible Working	3	Final	Advice and Guidance						
Operational	Budget Management – Environment and Economy	3	Final	Substantial	1	-	-	1	-	-
Operational	Payroll – External Customers	3	Final	Substantial	0	-	-	-	-	-
Operational	Learning Disabilities	3	Final	Partial	7	1	6	-	-	-
Operational	Budget Management – Adult and Community Services	3	Final	Reasonable	2	-	2	-	-	-
Governance	Change Programme – Adult and Community Services	3	Final	Partial	9	-	3	7	-	-
Operational	Alignment of Forward Together and Budget Gap	3	Final	Reasonable	4	-	4	-	-	-
Operational	Local Enterprise Partnership	3	Final	Reasonable	-	-	-	-	-	-
Follow up	Oversight of Schools	3	Final	N/A						
Operational	Corporate Working Groups	3	Final	Partial	5	-	1	4	-	-
Operational	Contract Monitoring Arrangements – Children’s Services	3	Final	Partial	7	-	4	3	-	-
Follow up	Tricuro Governance Arrangements	4	Final	N/A						
Follow up	Safer Recruitment – Further Follow Up	4	Final	N/A						
Follow up	Budget Management	4	Final	Advice and Guidance						

## Internal Audit Work Plan 2017-18

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	5 = Major ↔ 1 = Minor				
						Recommendation				
						5	4	3	2	1
Operational	Multi-Agency Safeguarding Hub	4	Final	Reasonable	2	-	-	2	-	-
Operational	Review of Send Travel Project Arrangements	4	Final	Reasonable	1	-	1	-	-	-
Operational	New Youth Service Arrangements	4	Final	Advice and Guidance						
Operational	New Committee Structure	4	Final	Partial	10	-	4	5	-	-
Operational	Vehicle Maintenance – DWP	4	Final	Reasonable	2	-	-	2	-	-
Operational	Sickness Management	4	Final	Reasonable	10	-	3	7	-	-
Key Control	ICT key controls	4	Final	Reasonable	3	-	-	3	-	-
ICT	Threat and Vulnerability	4	Final	Reasonable	6	-	-	6	-	-
Operational	Budget Management – DWP	4	Final	Reasonable	2	-	-	2	-	-
Operational	Strategic Alliance for Children and Young People	4	Final	Advice and Guidance						
Operational	Management and Use of High Needs Block	4	Final	Advice and Guidance	4	-	3	1	-	-
Operational	Co-production and Capacity for Community Build	4	Final	Partial	3	-	-	3	-	-
ICT	Technology Strategy	4	Final	Reasonable	4	-	-	4	-	-