Dorset Council

Report of Internal Audit Activity and Update on Audit Planning

Progress Report 2020/21 – September 2020

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Executive Summary

Audit Opinion, Summary of Significant Risks and Follow up work

Audit Opinion:
This is our second quarterly update for 2020/21 and is the first update since we substantially re-started audit reviews following the pause in our work due to the Covid-19 pandemic. Reviews completed to date, highlight that in the majority of areas, risks are reasonably well managed with the systems of internal control working effectively.

However, since our last report in June 2020, we have issued one Limited opinion on the areas and activities we have been auditing. This Limited opinion piece of work has also been classified as a significant risk. In Appendix A on pages 6-7, we provide a summary of the Limited opinion work, to provide the committee with further insight.

Significant Risks:
SWAP was asked to undertake audit work to assess the reasons for a largely unpredicted budget overspend in 2019-20 for both SEN and Mainstream **Home to School Transport**. The overspends were £1.3m and £419k respectively. Our work has led us to identify key factors that contributed to this situation occurring. The report has been received by the Director for People (Children's), the Corporate Director for Education and Learning, the Corporate Director for Economic Growth and Infrastructure and the Corporate Director for Finance and Commercial. An action plan has been put in place by the Corporate Directors to take the audit recommendations forward and there is a high level of confidence that rapid improvement should be seen. We will of course undertake a follow up audit in due course, however some recommendations around suitability of IT systems for example may take some time to implement.

Follow up
Members will recall at the last meeting, we reported a significant corporate risk around the use of **Pupil Premium Plus (PPP) Grant by the Virtual School (VS) for Looked After Children (LAC).** It was found that it was not possible to evidence that the grant is used effectively in every instance to provide the best value for money for the Council and achieve improved educational outcomes for LAC. This results in Looked After young people potentially making poorer educational progress than might have been possible with more effective oversight and control in place. Since the July meeting we have been working with the current Virtual School Head to complete a follow up review to assess progress. Further details of our work can be found on page 8 in Appendix A.

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Our follow work in respect of this area is not fully completed; however we have undertaken sufficient work to enable us to form an opinion around the progress made. Whilst a significant amount of work has been undertaken to implement our recommendations, it is not yet possible to provide members with assurance that the significant corporate risk has been effectively mitigated. Following the Blueprint for Change review a new structure around the Virtual School will have been implemented on 1st September. It is hoped that this new structure will deliver improved control around grant spending and of course we will be undertaking a further follow up review at a suitable point.

At the audit committee in July 2020 we reported on a partial opinion for a review of **Financial Reconciliations**. A follow up audit has shown there to be substantial improvement since our original audit work but the actions can only be implemented as quickly as other changes allow thus there is more work to do to enable all the recommendations to be fully signed off. Further details on this can be found on page 9 in Appendix A.

In July 2020 we reported two follow up audits where we did not consider sufficient progress had been made towards implementing our recommendations. In respect of the **Whistleblowing** follow up, the Senior Manager for Assurance has reported directly to the committee on this issue and we are working with him in order to be able to report a satisfactory position. In respect of the follow up work with **Portesham School**, we intend to contact the school to undertake further follow up work to ensure satisfactory progress. However, in organising this work, we do have to be aware that schools have not been fully operational since March.

Update to SWAP Audit Assurance Opinions and Definitions
There are no industry-standard audit assurance opinions and definitions. However, in a recent paper, the Chartered Institute of Public Finance and Accountancy (CIPFA) made recommendations to standardise the opinions and the definitions of these. SWAP has chosen to adopt these recommendations and as such our previous Partial opinion has become Limited, and None has become No Assurance. Our Reasonable and Substantial opinions remain unchanged. Limited and No Assurance opinions are being treated as broadly similar opinions to our previous Partial and None opinions. There are new definitions for each of the four opinions and these can be found at the top of page 6 at the start of Appendix A.

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The Chief Executive of SWAP reports overall performance of the company on a regular basis to the SWAP Board of Directors.

SWAP audit plan coverage, changes to the plan, and performance measures

Over the last year we have implemented a more flexible and regular approach to audit planning. This has somewhat been driven by the fast-changing risk profile of the organisation as a result of local government re-organisation. However, recent events such as the pandemic have sharpened the focus on an agile approach to audit planning, which is also recognised as best practice by the internal audit profession.

Historically we have reported the plan progress completion percentage as part of our update reports. However, we have considered what measures would provide greater value and propose providing a diagrammatical representation of how our completed audits and work in progress provides assurance to the committee over the Authority's key strategic risks. At the start of the year there is likely to be gaps in coverage and assurance, but as the year builds with more completed work, coverage across the key risk areas should increase.

Corporate Risk	Coverage	Assurance
CRR 01 – Budget		
CRR 02 – Cyber Attack		
CRR 03 – Recruit, Retain, Develop Workforce		
CRR 04 – GDPR		
CRR 05 – Emergency Response		
CRR 06 – Brexit		
CRR 07 – Infrastructure		
CRR 08 – Education		
CRR 09 – Transformation		
CRR 10 – Corporate Knowledge		
CRR 11 – Climate Change		
CRR 12 – Breach of Statutory Duty		
CRR 13 – Health, Safety, Wellbeing		
CRR 14 – Safeguarding		
CRR 15 – Commissioning		
CRR 16 – Officer/ Member Interface		
CRR 17 – School Transport		Limited
CRR 18 – Evidence Base		
CRR 19 – Partnerships		
CRR 20 – Election		
CRR21 – Covid-19 Response		Advice & Guidance

TABLE KEY:

	Reasonable coverage
	Partial coverage
	Coverage planned but not started or completed
	No planned coverage
	Proposed coverage removed

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We will build our audit plan as the year progresses to ensure that we are auditing the right things at the right time

Changes to the Audit Plan

As a result of the change to our planning approach, we anticipate more changes to the audit plan as the year progresses. Rather than periodically presenting the committee with a static plan and proposed changes, we are looking to provide senior management and members with an improved, real-time solution to view planned audit work; including updates on audits added or removed, together with a risk assessment of the impact of removal on assurance.

This solution is currently being finalised and can be found by accessing this link.

SWAP Performance

Performance Measure	Performance
Quality of Audit Work Overall Client Satisfaction *(did our work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)*	100%
Value to the Organisation *(client view of whether our audit work met or exceeded expectations, in terms of value to their area)*	100%
Outcomes from Follow Up Audit Work Percentage of Priority 1&2 recommendations for Partial assurance audits, that remain outstanding when the follow up audit is undertaken	81%

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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

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

We are introducing and implementing the concept of *'Agile Auditing'*. With increased collaboration and a joint commitment with the service under review, it is possible to complete audits faster and more efficiently. We have used this concept to complete the School Transport audit and have had positive feedback from the senior managers working with us on this review. We are extending this initiative, using it wherever possible in our audits this current financial year.

With the help of SWAP's two newly appointed Data Analysts, we are looking to include analysis of data as part of every audit. This allows us not only the opportunity to test whole populations of data, but where this is not possible or appropriate, to be able to use data analytics to target our testing in a more effective way.

As further examples of adding value, we have also undertaken a benchmarking exercise on school transport using the County Chief Auditor's Network which has delivered some useful benchmarking data for that service. We have also provided benchmarking data on the payment of small business grants. Furthermore, we undertook a piece of advisory work for the Audit and Governance Committee to produce a best practice guide on essential and desirable skills for the Audit and Governance Committee members.

Finally, we were asked to comment on Dorset's draft Risk Management Strategy, which has demonstrated that when compared against other risk management strategies of our partner councils, that the Dorset strategy was a robust example containing all the elements expected. Some recommended minor enhancements have been made. In addition, we have also provided a comparison of recording systems used across the partnership for risk management.

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The role of SWAP as the internal auditors for Dorset Council is to provide independent assurance that the Council's risk management, governance and internal control processes are operating effectively. In order for senior management and members to be able to appreciate the implications of the assurance provided within an audit report, SWAP provide an assurance opinion. The four recently revised opinion ratings are defined as follows:

Assurance Definitions	
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

In addition to the assurance definitions above we also provide an 'assurance dial' which indicates on a range of high medium or low where within the range of that assurance a particular audit assurance sits.

As can be seen in this example the assurance provided is low limited as the dial is sitting on the lower end of the limited scale. It could equally have been a medium limited assurance where the dial sits midway or high limited when it is sitting at the upper end close to the reasonable assurance.

We provide the Committee with details of the overall assurance opinion for all completed audits and they can be seen in the plan progress table in Appendix B on page 10 below. The Committee have indicated that they would like additional insight into Limited assurance audits that have a high number of recommendations and/or could be a cause for concern. We have therefore introduced a section of our report which provides further information for members on the Limited assurance audits completed to date. We have also included the position on the dial, so members are also able to gauge where the audit sits within the Limited assurance range. As a further enhancement, we are now including more detail on follow up audits where we consider the pace of progress toward implementation of our recommendations, to be limited.

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Home to School Transport	To identify potential failures that have led to unpredicted budget overspends in Special Educational Needs and mainstream school transport.	Low Limited	12	4	6	2

Summary of Findings

It is apparent that the data relied upon from the Trapeze and Synergy systems to set the budgets each year is not completely accurate. Staff have reported that it is difficult to maintain accurate records within Trapeze due to the system's functionality and a lack of staff resource. Therefore, it is likely that not only will an unrealistic budget be set at the beginning of the year, it is also difficult to accurately project during the year the final expenditure position using this data. Our audit has highlighted that the Trapeze system, the capacity within Dorset Travel to manage the consolidated billing process and the billing process itself would all benefit from management review to establish how efficiency and accuracy can be improved. Without this review it is possible that a similar unpredicted budget overspend will occur this financial year.

An important factor in the unforeseen overspend of the SEN transport budget was the lack of regular budget monitoring from approximately July 2019 onwards. A Children's Service Manager post with responsibility for SEN Transport was lost as part of a restructure during Local Government Reorganisation. The post-holder had performed budget monitoring activity however this responsibility was not officially assigned to another individual when this post was removed.

Currently there is no commissioning strategy in operation for SEND transport, therefore the development and implementation of a clear, evidence-based strategy would be a positive step to potentially delivering benefits such as a reduction in spot-purchasing and better management of the current market. To feed into this, it would also be recommended that any travel requirements associated with an Education, Health and Care Plan (EHCP) are addressed at an early stage to further reduce the need for spot-purchasing. Furthermore, it should be ensured that the EHCP annual review covers any changes in need regarding school transport.

It is noted that there have been several external/consultant reviews conducted over the past three years covering areas related to SEND transport, however, it is unclear what actions have been taken following these pieces of work. A recommendation was made to ensure that, where appropriate, the recommendations coming from these external reviews are implemented to ensure maximum benefit is achieved from the work commissioned.

In conclusion, the risk of a further unexpected and potentially significant overspend of the SEN and mainstream school transport budgets remain until all the risks highlighted have been mitigated.

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Follow up Audit	Scope and Objective	Progress assessment				

Virtual School

To assess the progress made in implementation of the recommendations made following our original audit which was given a partial opinion.

Progress Summary					
	Completed	Substantially complete	In progress	Not Started	Total
Priority 1	1	0	3	0	4
Priority 2	3	2	5	0	10
Priority 3	1	2	1	0	4
Total	5	4	9	0	18

Summary of Findings

Since July we have been working with the Virtual School (VS) Head to complete a follow up review to assess progress towards the implementation of our recommendations. We recognise that the VS have been working on our recommendations against the backdrop of the significant structural changes being made as part of "Blueprint for Change" and the unexpected challenges faced as a result of Coronavirus. However, whilst a significant amount of work has been undertaken to implement our recommendations, it is not yet possible to provide assurance that the significant corporate risk has been effectively mitigated. It is hoped that the new structure and division of responsibilities will deliver improved control around grant spending and we would therefore be undertaking a further follow up review at a suitable point.

Following our recommendation, a new decision-making matrix has been introduced with the aim to provide a more structured oversight of funding applications, however it has not provided the level of control we had hoped. Following data analysis and sampling, a range of anomalies were found with the data quality and robustness of the decision-making process.

We have however, identified good progress in the implementation of some of our recommendations, for example the spend with suppliers who are not part of a framework contract has significantly decreased, thereby providing a greater level of assurance over safeguarding and monitoring of outcomes. As yet we have not assessed the quality and timeliness of the impact and outcome statements, which were raised as a concern as part of the original audit. From 1st September the brokerage team will be involved in sourcing intervention provisions for the Looked After Children. It is hoped this change will result in further rigour in the use of suppliers.

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Follow up Audit	Scope and Objective	Progress assessment			
Financial Reconciliations	To assess the progress made in implementation of the recommendations made following our original audit which was given a partial opinion.	**Progress Summary**			
			Completed	In progress	Not Started	Total
		Priority 1	-	-	-	-
		Priority 2	0	2	0	**2**
		Priority 3	1	1	0	**2**
		Total	**1**	**3**	**0**	**4**

Summary of Findings

The original audit work was concluded in February 2020 with four recommendations being made; two of which were priority 2 and two priority 3. The follow up audit was concluded in August 2020 where progress in implementing the recommendations was found to be slower than anticipated with only one of the recommendations having been fully completed and three still in progress.

At the time of the original audit, concern was raised around a significant backlog in the reconciliation process for the former Purbeck and East Dorset District Council's (PDC and EDDC), with the latest reconciliations being April and August 2019 respectively. Significant work has been undertaken to get this backlog as up to date as possible with EDDC reconciliations showing as up to date and PDC's latest reconciliation being April 2020.

The process of merging to one bank account will reduce the complexity of the bank reconciliation process along with moving from legacy council financial systems to the one SAP system. Overall, there has been significant improvement and the actions are all in hand but can only be implemented as quickly as other changes allow. However, there is a high level of confidence that the recommendations will be implemented. As the two priority 2 recommendations are still in progress, we will undertake a further follow up once these other changes have allowed the full implementation of the recommendations. The timescale for this is suggested to be April/May next year.

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INTERNAL AUDIT SERVICES
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At the conclusion of audit assignment work each review is given an Audit Assurance; a summary of the assurance levels is as follows:

- Substantial – A sound system of governance, risk management and control in place
- Reasonable – A generally sound system of governance, risk management and control in place
- Limited – Significant gaps, weaknesses or non-compliance were identified
- No Assurance – Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium		
						Recommendation		
						1	2	3
Completed Work								
Redeployment	Revenues and Benefits Team – Small Business Grants	1	Completed	N/A				
Redeployment	Registration Service - Registration of Deaths	1	Completed	N/A				
Redeployment	Discretionary Grant Scheme Administration	1	Completed	N/A				
Investigation	Public Conveniences Investigation	1	Final	Advice and Guidance				
Operational	Financial Support to Leisure Centres during COVID Closure	1	Final	Advice and Guidance				
Operational	Operation of Business Grant Benchmarking Exercise	1	Final	Advice and Guidance				
Grant Certification	Troubled Families Certification	1	Final	Advice and Guidance				
Operational	Audit Committee Skills Best Practice	2	Final	Advice and Guidance				
Operational	Distribution of redundant laptops within the Community	2	Final	Advice and Guidance				
Operational	School Transport	2	Final	Limited	12	4	6	2
Operational	One Time Vendors	2	Final	Advice and Guidance				

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium Recommendation		
						1	2	3
Grant Certification	LEP Grant Certification	2	Final	Advice and Guidance				
Operational	Generation and use of surplus car parking funds	2	Final	Advice and Guidance				
Follow up	Financial Reconciliations	2	Final	N/A	3	0	2	1
Reporting								
Operational	Protection of Property	2	Draft					
In Progress								
Follow up	Virtual School	2	In progress					
Investigation	Complaints Investigation	2	In progress					
Follow up	Fostering Service	2	In progress					
Follow up	Adult Care Services Debt Management	2	In progress					
Follow up	Framework to measure the effectiveness of social care practices	2	In progress					
Operational	Data Protection training	2	In progress					
Operational	High Cost Placements	2	In progress					
Operational	Payroll	2	In progress					
Operational	Transport Operators licence	2	In progress					
Operational	Duplicate Payments	1-4	In progress					

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium		
						Recommendation		
						1	2	3
Grant Certification	Troubled Families Certification	2-4	In Progress					
Scoping								
Operational	Disclosure and Barring Service	2	Scoping					
Operational	Dedicated Schools Grant	2	Scoping					
Operational	Coroners Service	2	Scoping					
Operational	Convergence of Contracts	2	Scoping					

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