



Dorset Council

Internal Audit Annual Opinion Report 2019-20

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

Unrestricted

Contents

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Executive 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, criteria and standards
- 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 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. Internal audit work 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. This report summarises the activity of SWAP for the 2019/20 year.

Executive Summary

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



Annual Opinion

I have considered the balance of 2019/20 audit work for the new Dorset Council, 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 some concerns regarding certain aspects of the control environment, there were no areas of significant corporate risk reported to the committee during the year in question.

Due to the Covid-19 pandemic, we were not able to conclude all planned audit work and some of this work is to be undertaken during 2020/21. However it is our view that our planned work has been substantially concluded in order to inform this opinion.

Over the year SWAP have found management across Dorset 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 Council in implementing agreed recommendations to mitigate exposure to areas of significant risk. However, there have been increasing instances during the past year where follow up audits have found that insufficient progress has been made in implementing recommendations and further follow up work has been required to be scheduled.

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 2019/20 there was only one instance where a high or medium priority recommendation has not been accepted by a service. 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 Page 3 below.

Audit Outcomes

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 2019/20 there was just one instance where high or medium priority recommendations have not been accepted by the service:

Audit Area	Suggested Audit Outcome	Priority Level	Suggested Person Responsible	Manager Comments
Compliance with IR35 (<i>engagement of individuals to provide services through intermediary companies</i>)	We recommend that SLT implements a process that ensures a single, consistent IR35 assessment procedure across the entire organisation to ensure there is a whole council understanding of the management of suppliers and therefore reducing the potential of both errors in the classification of suppliers and future financial liabilities.	2	Service Manager for HR Operations to take a proposal to SLT	It has not been possible to undertake follow up work in this area as yet and an update from the Service Manager for HR operations is pending. We will aim to schedule a follow up audit in the coming weeks.

Audit Outcomes

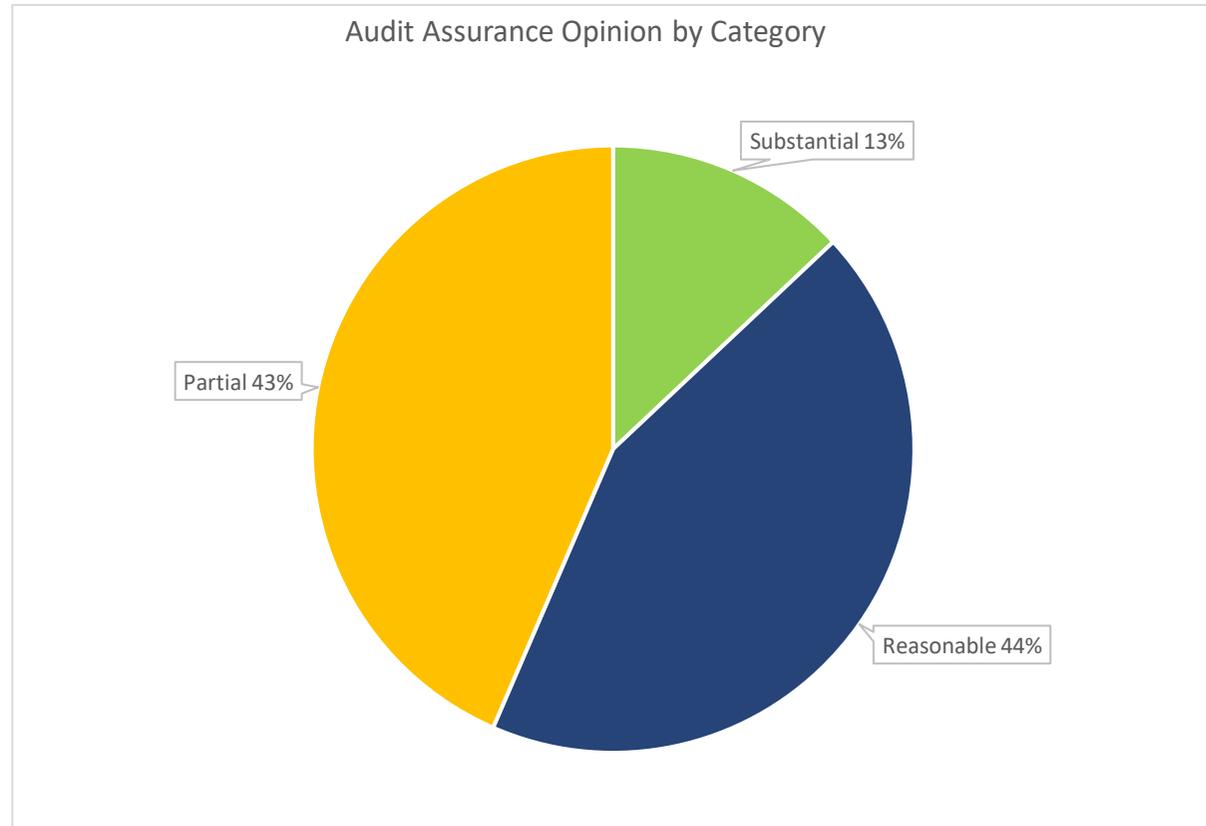
Summary of Audit Opinions

At the conclusion of an audit assignment each review is awarded an Audit Assurance Opinion:

- **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



57% of audits resulted in a Substantial or Reasonable assurance opinion

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 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. This has included the circulation of industry bulletins and fraud prevention alerts wherever possible. We distribute the outcomes of any benchmarking undertaken across our SWAP Partner base and also aim to share 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.

We have provided benchmarking data across either the SWAP partnership or the wider reach of the Chief Auditors Network for:

- Dorset Local Enterprise Partnership
- Fostering
- Sickness Management
- Property Asset Management
- Adult Services Financial Assessments
- Corporate Performance
- Capital Programme
- Equalities and Diversity

In addition, as part of our audit on communications with staff we undertook a survey of Council staff jointly with the Council's Communication team.

Finally, we have expanded our successful data analysis of duplicate payments that we regularly report to the council, to also include data on One Time Vendors as a piece of fraud detection work.

Audit Performance 2019/20

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



SWAP Performance

SWAP’s performance is subject to regular monitoring and review by both the Board of Directors and Owners Board. The respective outturn performance for Dorset Council for the 2019/20 year is as follows:

Performance Target	Performance
<u>Audit Plan – Percentage Progress</u>	
Final, Draft and Discussion	100%
Fieldwork Completed awaiting report	0%
In progress	0%
Yet to complete	0%
<u>Outcomes from Follow Up Audit Work</u>	
Percentage of Priority 1&2 recommendations for partial assurance audits, that remain outstanding when the follow up audit is undertaken	79% (11 of 14)
<u>Value to the Organisation</u>	
Client view of whether our audit work met or exceeded expectations, in terms of value to their area	95.45%

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice Framework 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). Both standards require an Internal and External Assessments (Standard 1300) of the Internal Audit function.

The standards require an External Assessment to be carried out at least every five years. SWAP exceeds this with an assessment undertaken every three years. The latest assessment undertaken in March 2020 found SWAP to be ‘Generally Conforming’ with the International Professional Practices Framework and the Public Sector Internal Auditing Standards (PSIAS) and is the highest level of performance awarded. A summary of the report has been included at Appendix 1 for reference. As a result of the External Assessment, a Quality Assessment Improvement Plan (QAIP) is produced and maintained. This document is a live document, reviewed regularly by the SWAP Board to ensure continuous improvement.

Summary of Internal Audit Work 2019/20

The schedule below contains the audit work undertaken in 2019/20, along with the respective outturn.

At the conclusion of an audit assignment each review is awarded an Audit Assurance Opinion, 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	1 = Major	↔	3 = Medium
						Recommendation		
						1	2	3
Completed Work								
Operational	Election Readiness	1	Final	Advice and Guidance	N/A			
Operational	Induction and Training of Elected Members	1	Final	Substantial	2	-	-	2
Operational	Dorset Local Enterprise Partnership – Enterprise Zone	1	Final	Partial	5	-	5	-
Grant Certification	Weymouth Port Health Authority – Annual Review	1	Final	Grant Certification	N/A			
Grant Certification	Dorset Gateway LEP	1	Final	Grant Certification	N/A			
Grant Certification	Troubled Families Certification	1-4	Final	Grant Certification	N/A			
Follow up	Family Partnership Zones	1	Final	N/A	3	-	1	2
Operational	Mountjoy School	1	Final	Advice and Guidance	N/A			
Follow up	Deferred Payments (DCC)	1	Final	N/A	0	-	-	-

Summary of Internal Audit Work 2019/20

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium		
						Recommendation		
						1	2	3
Follow up	Sickness Management (DCP)	1	Final	N/A	1	-	1	-
Follow up	Data Handling and Disposal (DCP)	1	Final	N/A	4	-	-	4
Follow up	Whistleblowing (DCC)	1	Final	N/A	7	-	4	3
Operational	Property Maintenance Framework	1	Final	Reasonable	3	-	1	2
Operational	Portesham School	1	Final	Partial	13	-	6	7
Follow up	Portesham School	3	Final	N/A	14	-	6	8
Operational	Recording of the new Dorset Council Budget	1	Final	Advice and Guidance	N/A			
Operational	Homes Dorset	1	Final	Partial	10	3	4	3
Operational	Property Asset Management	2	Final	Advice and Guidance				
Operational	Policy Convergence	2	Final	Partial	6	-	4	2
Follow up	Deprivation of Assets	2	Final	N/A	0	-	-	-
Operational	GDPR Compliance	2	Final	Advice and Guidance	N/A			
Operational	Financial Assessments	1	Final	Reasonable	5	-	-	5
Operational	Communication with Staff	2	Final	Advice and Guidance				
Operational	Fostering Service	2	Final	Partial	4	-	3	1

Summary of Internal Audit Work 2019/20

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Recommendation		
						1 = Major	↔	3 = Medium
						1	2	3
Grant Certification	Christchurch Disabled Facilities Grant	3	Final	Grant Certification	N/A			
Grant Certification	Local Enterprise Partnership Interim Certification	3	Final	Grant Certification	N/A			
Operational	Effectiveness of Social Care Practice	2	Final	Partial	6	-	6	-
Operational	Social Care Caseload Management	2	Final	Reasonable	1	-	1	-
Operational	Use of Pupil Premium for Looked after Children	2	Final	Partial	18	4	10	4
Operational	IR35 Compliance	2	Final	Partial	4	-	2	2
Key Control	Key Control – Financial Reconciliations	2	Final	Partial	4	-	2	2
Operational	Deputyship for Service Users	1	Final	Reasonable	5	-	2	3
Follow up	Continuing Health Care	4	Final	N/A	0	-	-	-
Operational	Risk Management	3	Final	Advice and Guidance				
Operational	Housing Benefits	2	Final	Substantial	0	-	-	-
Operational	Public Law Outline	2	Final	Partial	7	-	3	4
Operational	Budget Monitoring and Reporting to SLT and Members	2	Final	Reasonable	2	-	-	2
Operational	Council Tax and Business Rates	2	Final	Substantial	0	-	-	-
Operational	NFI	1-4	Final	N/A				

Summary of Internal Audit Work 2019/20

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium			
						Recommendation			
						1	2	3	
Operational	Duplicate Payments	1-4	Final	N/A					
Operational	Corporate Performance	3	Final	Advice and Guidance					
Operational	Contract Compliance	3	Final	Reasonable	7	-	2	5	
Operational	Effectiveness and Implementation of EHCP's	2	Final	Reasonable	6	-	2	4	
Operational	Programme Management – Children's	2	Final	Reasonable	9	-	-	9	
Operational	Disaggregation of Electronic Records to BCP	3	Final	Advice and Guidance					
Operational	Disaggregation of Paper Records to BCP	3	Final	Advice and Guidance					
Key Control	Main Accounting	4	Final	Reasonable	2	-	-	2	
Operational	Equalities and Diversity	4	Final	Reasonable	7	-	2	5	
Operational	Review of Car Parking Complaint	4	Final	Advice and Guidance					
Operational	Cyber Security	4	Final	Advice and Guidance					
Reporting									
Operational	Preparations for 2020-21 budget	3	Draft						
Operational	Capital Programme/budget	3	Draft						
Operational	Commercial Contract Management (to include contract management in Children's and Adults)	3	Draft						

Executive Summary

SWAP is a high performing and well managed internal audit partnership, delivering professional and high-quality services to its partner/client organisations in conformance with Public Sector Internal Audit Standards. Whilst some areas of partial conformance with the Standards have been identified, none of these are considered to be significant.

Interviews with stakeholders were overwhelmingly positive about the service they receive from SWAP, recognising the value and professionalism of the service. In the interest of continuous improvement, something quite rightly seen as being of great importance to the Chief Executive and SWAP management, we have taken the opportunity as part of this review to identify areas where the organisation can further improve and develop. In many cases, these are simply suggestions for management to consider as in some cases, they may not be appropriate for every internal audit service provider.

PSIAS Statement of Conformance

DEFINITIONS	
Generally Conforms	The internal audit activity has a charter, policies, and processes that are judged to be in conformance with the <i>Standards</i> and the Code of Ethics.
Partially Conforms	Deficiencies in practice are noted that are judged to deviate from the <i>Standards</i> and the Code of Ethics; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
Does Not Conform	Deficiencies in practice are judged to deviate from the <i>Standards</i> and the Code of Ethics, and are significant enough to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

(Ref: Institute of Internal Auditors)

Based on the work carried out it is our overall opinion that SWAP generally conforms with the Standards and the Code of Ethics. A summary of Evaluation Actions to be taken by SWAP to address areas for improvement against individual Standards and the Code of Ethics is shown [below]:

Evaluation Actions Summary

There were a small number of areas where partial conformance was identified. These were minor observations, none of which were significant enough to affect the overall opinion. Some were captured across more than one of the attribute standards or are recommendations for improvement, rather than failures in conformance. A summary of the actions agreed relating to these areas are as follows:

Task
Regular meetings will be held with all Audit Committee Chairs to further strengthen relationships and ensure that they are kept up to date with any issues outside of formal meetings. <i>(Attribute Standard 1000)</i>
We will consider establishing an Internal Audit Strategy which sits alongside the Charter and annual plan, which will cover the objectives and remit of the service, and how it will be delivered. This will include service and staff development. <i>(Attribute Standard 2010)</i>
There will be a consolidation of the templates used as part of the engagement planning process, to ensure that the fraud risks are properly considered. The pre-audit questionnaire will be reviewed and updated, the template loaded onto MK Insight and formally rolled out. The process of reviewing Audit Terms of Engagement will consistently include reviewing the results of the pre-audit questionnaire, to ensure that risks have been properly identified and reflected in the scope of the review. <i>(Attribute standard 1210)</i>
The Internal Audit Charter will be extended to cover the type of consultancy work which could be provided, and how independence will be maintained. This detail will also be reflected within the Internal Audit Strategy, once developed. <i>(Attribute standard 2200)</i>
Whilst it may not be proportionate to report the QAIP (Quality Assessment Improvement Plan) in its entirety to Audit Committees, an update on progress will be included in the annual opinion reports going forward. <i>(Attribute Standards 1300, 1310, 1311, 1320 and 2450)</i>
The inclusion of significant issues identified in AGS (Annual Governance Statement) reports helps ensure that internal audit provides holistic assurance of the organisation, particularly where there are known concerns. The identification of other sources of assurance aim to ensure that work is co-ordinated with other assurance bodies and limited resources are not duplicating effort. The Audit manual will be updated to ensure that the AGS forms part of the audit planning risk assessment process, and other sources of assurance are duly considered. <i>(Attribute standard 2010 and 2050)</i>
The Audit Manual and accompanying power point slides that have been embedded in the induction will be made accessible on the Intranet to all staff. <i>(Attribute Standard 2020)</i>
The QAIP will be maintained as a live document and reported to the Board and respective Audit Committees. <i>(Attribute Standards 1300, 1310, 1311, 1320 and 2450)</i>