

May 2015

Isle of Wight Council  
FINAL Audit Committee Internal Audit Progress  
Report

# Contents

Section	Page
1) Introduction and Internal Audit Overview .....	3
2) Executive Summaries from Internal Audit Reports.....	5
Executive summary – Contact Centre .....	6
Executive summary – Wightnet .....	8
Executive summary – ISMS - Data Centre .....	10
Executive summary – Schools .....	12
Executive summary – Cash and Bank .....	14
Executive summary – Creditors .....	16
Executive summary – Custody of funds .....	18
Executive summary – General Ledger.....	20
Executive summary – Grant Sourced Spend .....	22
Executive summary – Housing / Safe & Secure Homes .....	24
Executive summary – Payroll.....	26
Appendix 1 -Progress on the 2014/15 internal audit plan .....	31
Appendix 2 - Internal audit performance against key performance indicators, as at 26th April 2015.....	34

# 1) Introduction and Internal Audit Overview

## Introduction

This report presents a summary of the activities of Internal Audit for the period February 2015 to May 2015. It provides executive summaries for the eleven 2014/15 reports issued as final since the last meeting of the Audit Committee; it also details progress regarding the wider 2014/15 and 2015/16 plans. The three remaining 2014/15 reports have been issued in draft and are in the process of being finalised; these will be reported to Audit Committee at their next meeting, in June 2015.

## Internal Audit Overview

### Summary of progress against 2014/15 and 2015/16 plans

Following February's Audit Committee meeting we have finalised the remaining fourteen 2014/15 reports, eight being rated as medium risk, with five rated as low risk. Our combined report on five Island schools sets out an individual risk ranking for each school reviewed; one is rated as low risk, three as medium risk and one, Newport CE Primary School, rated as high risk.

Full details regarding progress against the 2014/15 Plan is set out in Appendix 1 of this report.

Scoping activity for our 2015/16 programme of work commenced in March 2015. All quarter one reviews have now been scoped, with fieldwork underway for two reviews, on the governance arrangements for the Council's Transformation Programme and on the development of the Council's IT Strategy. Scoping is underway for our quarter two and three reviews.

## TrAction

At February's meeting of the Committee we provided summary statistics regarding the status of follow-up actions stemming from our Internal Audit reviews, drawn from our tracking tool TrAction; current action status is shown below:

	2012/13	2013/14
Open	39	33
Completed	54	50

Open actions have been entered onto TrAction, pending information regarding implementation from owners; complete actions have had implementation evidence uploaded by owners and have been marked as complete.

Our analysis suggests that the numbers above understate the current position. Over the next few weeks we will be personally contacting owners of open actions to ensure that the information drawn from TrAction is correct; an updated position will be reported to the next meeting of the Audit Committee.

All actions stemming from our 2014/15 reviews have now been entered on TrAction and progress regarding their implementation will be reported to future meeting of the Audit Committee, during the course of 2015/16.

### **Added Value**

We have continued to offer the Council access to our unrivalled teams of experts, often at no additional cost to the Council. Following on from his well received presentation at the Audit Committee Effectiveness Day in October 2014 Tim Pope, our leading expert on transformational change, ran two workshops on the Island in February 2015, for staff leading transformational change at the Council and senior councillors – at no extra cost to the Council.

### **Summary of performance against key performance indicators**



We have met the key performance indicators which were within internal audit's control in relation to providing a high quality internal audit service to the Council. We are pleased to report that our average customer satisfaction score for 2014/15, based on 18 returned Customer Satisfaction surveys, is 9.6 out of 10.

Full details of performance against key performance indicators for 2014/15 can be found in Appendix 2 within this report.

## 2) Executive Summaries from Internal Audit Reports

In this Section we provide the executive summaries for the eleven reports which have been issued as final since the Audit Committee last met in February 2015.

# Executive summary – Contact Centre

<p><b>Report classification</b></p>  <p><b>Medium Risk</b></p>	<p><b>Trend</b></p>  <p>This is the first year we have reviewed the Contact Centre</p>	<b>Total number of findings</b>					
			<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Advisory</b>
		<b>Control design</b>	0	0	2	2	0
		<b>Operating effectiveness</b>	0	0	0	0	0
		<b>Total</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>0</b>

## Summary of findings:

The purpose of this audit was to review the effectiveness of the Council's Contact Centre and its role in supporting transformational change. Regarding management of the Contact Centre we identified a number of examples of good practice:

- A good level of documentation, with a five day induction programme leading to a NVQ 2 in Customer Service, followed by all new joiners. Further training is provided as necessary covering handling calls for specific services, for example where specialist software use is required (e.g. Sidem for Parking Services).
- A service centric model for call handling, with calls routed to staff with specific skillsets where necessary through the use of 'silver numbers' (individual numbers are used for different services, with calls routed accordingly). This provides progression within the Team (i.e. taking on more specialist roles) and, with a cross skilled team, enables staff time to be used efficiently.
- Detailed performance management. A number of individual targets are monitored for all staff, for example calls handled per hour and forms completed; for the period provided for our review (October 2014) a number of team members are resolving in excess of 15 calls per hour (the target is 12.16, although this will vary dependent on the types of call being handled).

We also noted that the Team has been awarded the 'Working in support of others' category in the recent staff awards. The award nomination identifies that the Contact Centre are receiving an average of 41,663 calls per month, resolving in excess of 80% of all these calls at the first point of contact.

Our review identified a number of opportunities for enhancement and minor issues, as summarised below:

- *Strategic Change Management:* high level proposals, which envisage much greater use of Shared Services and the Contact Centre, have been produced by the Organisational Development Team and were approved by Full Council in February. Detailed plans now need to be produced, specifically in the context of this review covering how the Contact Centre will be used to facilitate ongoing transformation. To ensure this process is well managed key actions which need to take place include: sign off of detailed plans by the Corporate Management Team (CMT) and a clear escalation route to CMT to address any 'blockages' and appropriate preparatory work, for example ensuring that controls in existing processes are identified and equivalents planned for, prior to any greater use of the Contact Centre. We have raised this area as a **medium risk** finding.
- *Call Processing:* currently FAQs (Frequently Asked Questions, referred to by Contact Centre staff to answer caller queries) are not dated and in some instances may be out of date. New FAQs are listed at the bottom of lists, increasing the likelihood they will be missed and FAQs do not always link to relevant forms, increasing the time taken by call centre operators to process caller queries. FAQs should be dated and regularly reviewed by service areas, new FAQs should be listed at the top, until sufficient data is available to establish their popularity (the most popular are listed at the top) and FAQs should be reviewed to ensure they link to forms, where appropriate.

Flare, the system used by Regulatory Services, is used by the Contact Centre with generic logins, which should be replaced with named logins to ensure that activity can be uniquely identified. Not all services currently use the back office functionality in the CRM system, meaning that a full record of interaction with clients is not captured in the system; where possible use of back office within the CRM system should be mandated.

There is also a long standing issue regarding the lack of call recording in the Contact Centre. This means there is not any evidence of interactions if required, for example to resolve a dispute where a caller denies that they agreed to terms and conditions (for example ensuring that information given is accurate and agreeing payment conditions). In the short term, terms and conditions should be made easily available on the Council's website, with the recorded call preamble modified to state that continuing indicates agreement with terms and conditions; longer term call recording should be progressed. We sample tested 25 calls, carried out since 1st April 2014; all calls were processed in line with documentation, no issues were identified. We have raised this area as a **medium risk** finding.

- *Call Routing, Documentation and Training*: although the majority of calls are now routed through the Contact Centre there are still 98 public facing numbers where calls are handled directly by service areas. The Contact Centre is actively pursuing transferring call handling into the Contact Centre, an initiative which should continue.



Comprehensive documentation is in place, however this is largely undated and is maintained as a number of separate documents; our review identified a number of minor errors, for example where staff in post/organisational structures have changed since the documentation was produced. Ideally this should be amalgamated into a single staff handbook, dated with the next scheduled review date identified to help ensure that it is easily available and as accurate as possible.

While our sample testing did not identify any staff who had not completed the induction training for the Contact Centre (five staff records were checked) this is currently only evidenced through individual staff records. To help ensure that training is not missed this should be managed through a central repository, for example a spreadsheet with the date training is completed recorded. We have raised this area as a **low risk** finding.

- *Technical Issue and Information Ownership*: there has recently been a drop off in the performance of the CRM system experienced by the Contact Centre. This is likely to be linked to the large volume of historic data (3 million calls) stored in the live database. In the short term old data should be archived, upgrading the infrastructure supporting the CRM system should also be considered, due to its importance in supporting the Council's ongoing transformation.

We also noted that there is no identified system owner for the CRM system, while the Shared Services IT Prioritisation Group and the CRM system user group are no longer meeting. This has led to 'business as usual' issues, for example the current high level of duplicate records and potential developments to enhance the CRM system's functionality not being given the priority that have had historically. An owner should be identified for the CRM system and suitable mechanisms, for example reconstituting the user group, should be put in place to ensure the Council realises maximum value from the CRM system and that the quality of service provided by the Contact Centre is not adversely impacted. We have raised this area as a **low risk** finding.

# Executive summary – Wightnet

<p><b>Report classification</b></p>  <p><b>Medium Risk</b></p>	<p><b>Trend</b></p>  <p>This is the first year we have reviewed Wightnet</p>	<b>Total number of findings</b>					
			<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Advisory</b>
		<b>Control design</b>	0	0	3	0	0
		<b>Operating effectiveness</b>	0	0	0	0	0
		<b>Total</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>0</b>

**Summary of findings:**

The purpose of this audit was to review management of WightNet, the Council’s intranet. WightNet is much more than a repository of static information. Hosting a variety of functionality, for example e-forms managing workflow, WightNet is linked to users’ login profiles, this governing the access which each user will have to the various sub systems hosted within the intranet. Our audit included the following areas:

- Roles, Responsibilities and System Management.
- Acceptable Use.
- Business Continuity.
- Change Management.

Generally the conclusion of our review is positive; we did not identify any major issues, overall our findings relate to bringing in a greater degree of formality to processes. For example ensuring that key change management milestones and approvals are always evidenced; and testing disaster recovery arrangements for WightNet to ensure that these will work as planned in the event of a continuity incident. The key findings identified were:

- *Security and System Management:* there is a centralised security model in place for WightNet; access is linked to network logins, the level of access provided being dependent on the ‘team’ which an individual is in. When an employee leaves the Council their access is removed automatically when their network login is deleted. However, individual owners are not in place for all of the applications hosted on WightNet, there is also no evidence available to show that the level of team access has been ‘approved’. In the first instance, system owners should be identified for all applications, owners then being asked to validate that the current level of access is correct, with the exercise carried out annually in the future. We also noted that audit trails are not maintained at the individual application level; while this may not be justified for current applications it should be considered when future applications are developed.

WightNet is currently administered by the Development Team, who also maintain the system. To enhance segregation of duties, this responsibility should be moved to a different team within the IT Department. We have raised this area as a **medium** risk finding.

- *Disaster Recovery:* WightNet benefits from the standard level of resilience, in place for all systems hosted in the County Hall data centre, for example RAID 5, error tolerant discs and a redundant power supply, backed by centralised UPS (Uninterruptible Power Supply) and a backup generator. WightNet is also hosted on a virtualised server, meaning that in the majority of instances it would be possible to restore WightNet and the systems it hosts within four hours, with minimal data loss. In the event of a wider continuity incident, WightNet is a ‘tier one’ application, planned to be fully recovered in five days. While we were informed that service would be restored, running from hardware which would be provided from the Council’s



continuity partner, this is not currently documented; for clarity this should be documented and confirmed as correct, through re-approval of the next version of the IT Continuity Plan.

We also noted that restoration has not been recently tested. To ensure that expectations can be met, a re-imaging test should be completed at the earliest opportunity, with WightNet included in the rolling programme of system restores, as part of annual disaster recovery rehearsals. We have raised this as a **medium** risk finding.



- *Change Management:* beyond applying patches to the server (these are managed centrally through Windows Servers Update Services (WSUS)) there has been no development of WightNet since the 1<sup>st</sup> April 2014.

From a design perspective we were informed that small changes, for example adding a field to a form, are managed directly between the client service and the Development Team, largely via e-mail. This process was reviewed in the quarter two Software Development internal audit review. However, evidence of key change milestones (e.g. scope sign off, satisfactory completion of testing and approval to go live) should be captured and stored in a suitable repository.

Historically larger developments, where significant resource use is proposed, would have been considered by the IT Steering Group. We were informed that this forum has not met for some time and that most of the senior management who comprised its membership are no longer with the Council. A new group, the Organisational Change and IT Development Group, is in the process of being constituted, with its first meeting scheduled for late March 2015. This should be used to replace the IT Steering Group, becoming the primary decision making forum regarding any proposed significant new systems developments, including any proposed for WightNet. To enable it to satisfy its remit it needs to have senior membership, with its role clearly defined in terms of reference which are approved by the Corporate Management Team.

We were also provided with a range of templates which have recently been adopted to support project managing new developments, for example E-HR. These should be supplemented by additional templates at a more granular level for WightNet, covering scope definition, testing and approval to go live. We have raised this area as a **medium** risk finding.

# Executive summary – ISMS - Data Centre

<b>Report classification</b>  <b>Low Risk</b>	<b>Trend</b>  Consistent with prior risk rating	<b>Total number of findings</b>					
			<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Advisory</b>
		Control design	0	0	2	0	0
		Operating effectiveness	0	0	0	0	0
<b>Total</b>		<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>0</b>	

## Summary of findings:

The purpose of this audit was to review the arrangements the Council has in place for the effective running of the County Hall Data Centre. The Council has made considerable investment in the Data Centre and, from an infrastructure perspective, it is a high quality facility; particular highlights include:

- A substantively virtualised server estate, standardised with a single supplier; in the vast majority of continuity incidents a new server instance can be created, configured from a backup image and deployed in under four hours.
- A high level of physical security; a single point of entry, with a swipe card protected outer door, a pin code protected inner door and an intruder alarm with motion detection.
- Layered power resilience; a centralised dual channel UPS (Uninterruptible Power Supply) with 100% redundancy, backed by a backup generator.
- Mirrored messaging/e-mail infrastructure; even if the County Hall Data Centre goes offline there should be no interruption to service or loss of data.

There are a number of minor issues related to management processes associated with the Data Centre which should be addressed. The most significant issue we identified relates to out of hours cover. This relies on goodwill, with no additional payments made to staff for being on call or for turning out in the event that issues do materialise out of core hours. This is covered in the medium risk finding, immediately below:

- *Resilience and Environmental Controls:* currently there is a single performance metric in place covering the Data Centre, 99.9% availability in core hours (which was met in 2014 and is being met, to date, in 2015), aggregated from the availability for core systems, for example SAP, the system used for core financial and HR functions; while this is monitored and reported via CorStrategy the level has not been agreed with service areas and does not include an agreed level of 'performance'. Metrics used and how these are measured should be reviewed and agreed with service areas.

Spare parts, for example hard disks, are kept on site but there is no inventory of what is available, or assessment of what they provide in terms of continuity. An inventory should be produced, the level of continuity assessed and agreed as correct with a suitable, service led forum.

A range of sensors, for example heat, smoke and humidity, are in place, with all remotely monitored apart from humidity; humidity should be added to the set remotely monitored and all sensors checked to ensure they are functioning correctly.

Currently out of hours cover relies on goodwill. While there have been no issues in the last year, ideally more robust arrangements should be put in place, for example fixed payments for staff being on call. We have raised this area as a **medium** risk finding.

- *Physical and Logical Access:* a comprehensive policy governing access to the Data Centre is in place, however this is marked as draft and should be progressed to final at the earliest opportunity, with ongoing review scheduled.

Access control lists (ACLs), for the outer swipe card door, inner door and intruder alarm, were provided for our review. We identified one member of staff listed who is no longer with the Authority, who should be removed from the ACL. We also noted that job roles/departments are not listed on all ACLs, so

that it is not immediately clear why individuals have access; if possible, for clarity, these should be added. It is also worth considering amalgamating ACLs, to facilitate efficient maintenance.

All servers are in locked cabinets (which provides a final layer of security), although not all of these are routinely locked. All cabinets should be locked, with keys kept in the key safe within the Data Centre.

A large number of staff have access to remotely manage servers hosted within the Data Centre. While it is not realistic to remove this due to cost implications, reviewing remote administrative permissions to servers, to ensure that it is necessary to fulfil job roles, should be carried out. Servers should also be risk assessed and, where identified as 'sensitive', regular review of access logs considered. We have raised this area as a **medium** risk finding.

# Executive summary – Schools

## Overall risk rating per School:

	Critical	High	Medium	Low	Advisory
Overarching	0	0	✓	0	0
<b>School</b>					
Barton Primary School	0	0	✓	0	0
Carisbrooke College	0	0	0	✓	0
Newport CE Primary School	0	✓	0	0	0
Hunnyhill Primary School	0	0	✓	0	0
Niton Primary School	0	0	✓	0	0
<b>Total</b>	<b>0</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>0</b>

## Summary of findings:

Five Schools were selected for audit; the reviews focused on four key areas; Budgeting, Additional Income, Management of Unofficial Funds and Expenditure Transactions. We have also assessed whether in our judgement there are any major discrepancies within our audit work and each school's submitted SFVS (School's Financial Value Standard) assessment.

The five schools reviewed were:

- Barton Primary School.
- Carisbrooke College.
- Newport CE Primary School.
- Hunnyhill Primary School.
- Niton Primary School.

The overall results of the audit have been detailed within this summary, with a specific finding covering issues applicable across the schools' portfolio; more detail for each school is within the detailed findings section of the full report. The specific findings have been communicated to each school prior to the issuing of the audit report. In summary:

Issues applicable to all schools: While each school had differing specific issues, there were a number of common themes identified. The Council may wish to consider addressing centrally across all Council schools. Some of these themes are similar to those raised in the prior year. The Council should consider the effectiveness of communication of the key issues and whether further information/training of Bursars/School Business Managers across Island Schools would be helpful in reducing occurrence in future years. However ultimately it is schools' responsibility to satisfy themselves that their finance staff are appropriately skilled, any training provided would be at additional cost to schools. We have raised this as a **medium** risk finding.

Barton Primary School Barton Primary School financial controls are rated as **medium** risk. In September 2013, the governing body and sub-committees were disbanded and replaced by the IEB (Interim Executive Board), who had been appointed by the Secretary of State for Education following an Ofsted report. The IEB's main focus is to raise educational attainment; however the financial budget was not appropriately monitored or challenged by the governing body. It was noted that the final 14/15 budget was approved by the IEB after being submitted to the Council. On the advice on the Council, the voluntary fund account was absorbed into the main school account during 2012. Contrary to LASFS (Local Authority School Finance Standard) guidance issued by the Department of Education which describes best practise financial management standards, this balance has not been tracked or reconciled.

Carisbrooke College - Carisbrooke College financial controls are rated as **low** risk. There was a strong level of budgetary and financial oversight by the School



Business Manager, whose experience and expertise ensures College performance against budget is rigorously monitored.

Hunnyhill Primary School - Hunnyhill Primary School financial controls are rated as **medium** risk. Hunnyhill has well designed controls in place in respect of income and expenditure; however several exceptions were identified when testing a sample of income and expenditure transactions due to a lack of adequate supporting evidence. There were limited working schedules available to support the budget, including how the salary budget was calculated. Testing identified that the budget monitoring statements submitted to the Council were inaccurate, having been based on the draft budget as opposed to the final.

Newport CE Primary School - Newport CE Primary School financial controls are rated as **high** risk. The School had undergone a change of School Business Manager shortly before the budget was due for finalisation, which meant there was a significant time constraint to perform the relevant duties. As a direct consequence, budgetary working papers were not available for all amounts in excess of £10,000. Additionally, the budget was not submitted to the Council until 12<sup>th</sup> June 2014; missing the internal 15<sup>th</sup> May deadline. It was noted that arrangements are in place for the proper administration of the PTA (Parent Teacher Association) fund. The School also currently lacks detailed procedural documentation for finance transactions. It was noted the SFVS submitted by the School for 13/14 contained several inaccuracies where the School has misinterpreted the extent of the controls necessary, most notably in relation to having a finance policy in place and business continuity plans. Our fieldwork also identified that the adequacy of segregation of financial duty controls were significantly impaired. The School Business Manager was involved in the majority of financial processes at the School, while transactions are not subject to additional review.

Niton Primary School - Niton Primary School financial controls are rated as **medium** risk. We observed a positive attitude and knowledge within the school towards financial controls. However, it was found that there was not sufficient budgetary challenge and discussion by the Governing Body. As a consequence of the limited finance staff at the School, the adequacy of segregation of financial duty controls were not sufficient in some areas. On the advice of the Council, the voluntary fund account was absorbed into the main school account during 2012. Contrary to LASFS guidance this balance has not been tracked or reconciled.

# Executive summary – Cash and Bank

<b>Report classification</b>   <b>Low Risk</b>	<b>Trend</b>   Consistent with prior risk rating	<b>Total number of findings</b>					
			<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Advisory</b>
		Control design	0	0	0	0	0
		Operating effectiveness	0	0	1	2	0
		<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>0</b>

## Summary of findings:

Cash and bank reconciliations are a key financial control and as such are subject to an annual review, with the previous review in 2013/14 review resulting in a low risk report.

Cash handling and the recording of cash receipts occurs throughout the Council, with this review focussing on the processes in place at the Sandown Cash Office as this represents the area where the majority of transactions are recorded. The key findings from this review are set out below.

### **(i) Cash collection, receipting and banking**

Cash received at Sandown Civic Centre is collected, counted and recorded in the cash office before it is collected for banking by Parking Services – Operations on a twice weekly basis. It was identified that in practice there is not always an appropriate segregation of duties; through conversations with key personnel it was noted that the same individual often collects, counts and initially records cash due to staff shift patterns. As a consequence, the risk of fraudulent or erroneous transactions is escalated.

Income received is monitored on an ongoing basis primarily through matching to its respective debtor and through the monthly bank reconciliations at month end, which are independently reviewed. Our testing of 25 days' income noted that the majority had been recorded accordingly and matched to bank statements on a timely basis. Two exceptions were noted where the amount deposited in the bank was different to the cash reports and subsequent SAP record however in each case the difference amounted to 4p. These issues have been combined into a **medium risk** finding.

### **(ii) Petty cash**

There are 50 current petty cash balances held across the Council. Each petty cash tin has a nominated officer, with all purchases and reclaims signed off via an expense-like transaction; approved by a relevant line manager through the SAP workflow. We tested five petty cash balances from across the Council to ensure that all of the relevant paper work could be obtained, the proposed balance reconciled to receipts and bank balances and appropriate security measures were in place. We were not able to perform a physical petty cash count agreement over these balances as, due to the nature of the controls in operation at the Council, we could not ascertain the current balance; the overall petty cash reconciliation is performed annually. The testing noted that the process is effective and no issues were identified.

New nominated officers sign a 'petty cash rules and card agreement form', which describes the appropriate uses of petty cash. However, it was noted that appropriate uses are not documented within the 'Petty Cash Procedure'. To increase clarity and visibility, it is recommended that this is incorporated into the document. This has been incorporated into the finding raised directly below.

### **(iii) Policy and procedures**

In the prior year review we noted that the 'Cash Handling Procedure' had been drafted during 2013/14; however the document had yet to be formally reviewed, authorised and made available to all staff on the intranet. As part of this year's review, we inspected the document and found that while it is now written and uploaded to the intranet, it does not include future review dates and version control. Additionally, the Council have recently constructed procedure notes to assist in the cash flow forecasting process. At the time the fieldwork was performed these had yet to be formally approved.



The 'Cash Handling Procedure' currently states that the levels of money held prior to banking (and overnight) must not exceed the limits agreed by the Council's insurers or the s151 Officer which currently stands at £1,000. Through conversations with key personnel, it was noted that this limit does not match the insurance documentation and there have been instances where it has been exceeded. These issues have been combined into a **low risk** finding.

### **(iv) Bank reconciliations and suspense accounts**

At month end, formal bank reconciliations are prepared by the Cash team for the receipts and payments accounts (C1000) and for the pension accounts (C2000). Testing of two months of reconciliations confirmed this was occurring on a timely basis, with reconciling items adequately explained. However it was found that unpresented cheques are not always cleared on a timely basis, which is defined as within a 6 month period. A further three bank accounts were identified which are not regularly reconciled, although for each account the Council has provided a reasonable response why this is not undertaken. Ideally, these bank account should be reconciled but on a less frequent basis. These issues have been raised as a **low risk** finding.

We reviewed the 'Cashiers Suspense Account', where income that cannot easily be matched to a debtor account is posted to be investigated. At the time the fieldwork was performed, the suspense account contained 34 transactions totalling £38,456 which were older than a month. This was discussed with key personnel who commented that it is not practical to transfer items out until their true profit/cost centre is known. On an annual basis, old unallocated balances are cleared and written off at the year end.

# Executive summary – Creditors

<b>Report classification</b>    <b>Low Risk</b>	<b>Trend</b>    Improvement made since our last review of Creditors	<b>Total number of findings</b>					
			<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Advisory</b>
		Control design	0	0	0	0	0
		Operating effectiveness	0	0	0	3	0
		<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>0</b>

## Summary of findings:

The Accounts Payable (AP) function is responsible for paying debts owed by the Council, such as invoices relating to goods and services received. As part of the internal audit plan for 14/15, this review has considered the processes and procedures in place at the Council in respect of its AP function.

**Policy and procedure notes** -The Council’s most recent Financial Regulations were obtained; it was noted that these were last updated in April 2014 with a review due in May 2015; therefore work performed has been based on the 2014 version.

It was identified that AP maintain a selection of relevant policy and procedure notes, most notably including the Creditors Procedure Manual accompanied by a variety of process related Transaction User Guides (TUGs). Through examination of applicable documents, it was identified that TUGs are appropriate for their use to complete the associated processes.

**Segregation of duties** - In order to ensure effective segregation of duties, individuals should not participate in the raising of purchase orders, processing of invoices and initiation of payment runs. Contrary to these principles, it was identified that two users have access to both the SRM (ordering) and SAP (accounts payable) systems. Furthermore, one of these individuals also has the ability to initiate transaction 110 which enables users to create a payment proposal and execute a payment run.

However, it is important to note that our sample testing did not identify any instances where fraudulent transactions occurred as a result we were also informed that a comprehensive review on effective SAP permissions, across functional areas, is underway, led by the SAP technical team, in consultation with service areas. This has been raised as an open finding from the prior year.

**Raising of orders** - Sample testing of 25 purchase orders was performed to ensure that all had been raised in accordance with policy and procedures, were appropriately documented, coded and properly authorised within a prescribed time limit. We have identified a **low risk** surrounding the accurate raising of purchase orders as the initial GL coding and cost centre coding differed for two of the items sampled. These transactions related to the payment of a door system and vehicle maintenance costs.

**Validation of invoices** - Testing of 25 payments was undertaken, focussing on several payment types. The sample included: fifteen invoice related payments, two payment requests, two direct payments, two personal budget payments and four self-bill payments. Testing identified that all items examined related to goods/services genuinely received, from bona fide suppliers; and that if applicable, invoices were appropriately priced. One instance was noted, however, where there was a delay of 133 days between the invoice date and the payment date. This has been raised as a **low risk** finding.

Of the 25 payments tested, 22 instances were noted where vendor set up forms could not be viewed to confirm the validity of the supplier. This was because the suppliers were exported from the previous system, Wealden, but the vendor set up forms had not been transferred. This is a continuation of a finding raised in the prior year, which has subsequently been closed. A review of vendors was undertaken in September 2014, with all vendors that have not been used in the last 18 months removed.

**Supplier payments and payment runs** - As confirmed by the sample testing performed in relation to the validation of payments; all items were paid to the



correct supplier for the correct amount. With the exception of the incidence noted above, all payments were made on a timely basis. It was ascertained that creditors are paid promptly, with statistics per the monthly Corvu reports demonstrating that 98.06% of invoices were cleared within 30 days during November 2014. A BACS payment run was observed, with current practice confirmed to accurately reflect the related documented procedures.

It has been confirmed that the Council have validated their current suppliers and blocked any that had not been utilised in the past 18 months. In response to the 'erroneous' payment in the prior year, the Council have also implemented controls surrounding suppliers that enter administration, whereby the creditor payments team can block the supplier as soon as they become aware of the administration. We have evidenced an example of this where a letter was received from 'Kingston Smith & Partners' dated 2<sup>nd</sup> February 2015 in relation to the liquidation of 'Navigate Solutions LLP'. We were subsequently able to confirm that the vendor had been blocked on SAP, preventing any further payments. There remains a small risk that the Council may still pay suppliers in administration, if they are not notified about it. We have also confirmed that all payments over £100,000 are reviewed prior to the payment run being completed, supported by a review and verification of all 'self-billing' payments.

**Credit notes** – Testing of 25 credit notes was undertaken, focussing on several types of posting. The sample included: fourteen credit notes related to invoices, seven corrections for internal posting errors, two cancellations for property services and two self-bill corrections. Testing identified that there were 11 instances where there was a delay of more than 20 days between the credit note date and the date that the credit note was posted to SAP. Of these 11 instances, six were posted more than 25 days after the credit note date. This has been raised as a **low risk** finding, alongside the invoice finding above.


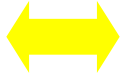
**Reconciliation to the general ledger** - A monthly reconciliation between the general ledger and the creditors system is not performed due to the integrated nature of the systems. Testing therefore focused on the Goods Received Not Invoiced account, as this is where posting errors most frequently occur. The GRNI account clearing process was reviewed and was confirmed to be operating effectively, with appropriate audit trails being maintained. There were some balances older than six months on the GRNI account, which the Council were currently investigating in line with the current procedure.

**Integrity of standing data** - It was ascertained that access to cheques, electronic fund transfers and the accounts payable system was secure with the integrity of the accounts payable standing data being maintained. It was noted that vendor set up is performed by a separate team to the Accounts Payable function, therefore in principle displaying effective segregation of duties. Through conversations with key personnel it was ascertained that certain members of the Creditors team could set up a vendor due to the access permissions granted to them. To prevent unauthorised changes to vendors from occurring, the Payments Manager performs a weekly review of all vendor amendments, however in order to achieve optimum segregation of duties this should ideally be performed by an individual separate to the Creditors team. This has been re-raised in our follow-up section of the full report.

A sample of 20 amendments to supplier bank details were reviewed, focussing on whether checks had been made and that they had been clearly documented. A **low risk** finding has been raised as we have identified two issues. It has not been possible to evidence the confirmation sent to the vendor, confirming that the change to bank details has been made for each amendment tested and on two occasions we were unable to view the initial contact made with the vendor, however on both occasions we were able to evidence the correspondence received from the vendor.

**Implementation of prior year findings** - Follow up testing was performed to ensure that effective progress is being made to implement last year's internal audit recommendations; one out of the four agreed actions had not been implemented. This relates to the ongoing review across the board to review SAP permissions, led by SAP technical team. Our testing in the current period has identified no changes in the permissions.

# Executive summary – Custody of funds

<b>Report classification</b>    <b>Medium Risk</b>	<b>Trend</b>    This is the first year we have reviewed Custody of funds	<b>Total number of findings</b>					
			<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Advisory</b>
		Control design	0	0	2	0	0
		Operating effectiveness	0	0	1	0	0
		<b>Total</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>0</b>

## Summary of findings:

We have considered the controls in place over funds which are held by the Council on behalf of children up to the age of 18. At the time the review was performed, the Council were managing the funds of six children with a total trust value of £112,133. It was noted that a management fee is not levied by the Council to administer the Trusts. The key findings from this review have been set out below.

### **(i) Roles and Responsibilities**

The Council do not have a policy in place which describes the overall strategy in relation to the custody of children’s funds. Furthermore, there is also no procedure which details an approved approach to the management of funds or which defines the roles and responsibilities involved. The lack of clarity over roles and responsibilities has led to confusion over who does what. The lack of a defined process, and consequent limited communication between relevant parties, has led, for instance, to the adoption of two children for which fund custody is held not being communicated to the Principal Accountant – Corporate who manages their funds. This has been raised as a **medium risk** finding.

### **(ii) Management**

Funds are currently managed and recorded by the Principal Accountant – Corporate. The Council does not maintain a separate bank account for each child with the Funds being held in one of the Council’s bank accounts with each Fund allocated to a separate ledger code. Funds are categorised within liabilities in the balance sheet. This ensures that funds can be tracked until their release upon the child’s eighteenth birthday. Interest is apportioned on a yearly basis to each balance, based on the general account interest rate received.

There is currently no internal guidance on how funds should be managed in the best interest of the beneficiary. Funds are unlikely, therefore, to be efficiently invested to maximise the level of return for the beneficiary, which may leave the Council open to challenge. Guidance is therefore required regarding the investment process, balancing the desire to maximise returns while ensuring funds are not put at inappropriate risk.

We could also obtain no evidence that the terms of the trust and beneficiary rights or regular statements which clearly set out the status of funds had been communicated to the relevant child. Although the child may be too young to comprehend this information at the inception of the Council’s management responsibility, it was noted there is confusion as to how and when communication should occur with the child or their representative.



These issues have been incorporated into a **medium risk** finding.

**(iii) Good Practice/Efficiencies**

The Council have not validated its custodial fund arrangements, with legal or professional advice having not been sought regarding the management of custodial funds. As stated above, fund custody is currently held for two children who have since been adopted, with the Council not confident on the legal situation regarding whether these funds should be transferred to custody of the adoptive parents.

The process arrangements have not been subject to a regular review to ensure they are as effective and efficient as possible. Through conversations with key personnel, it was highlighted that there were plans to hold an informal best practice comparisons with Hampshire County Council; however, at the time the fieldwork was performed, this had yet to occur. These issues have been raised as a **medium risk** finding.

# Executive summary – General Ledger

<b>Report classification</b>    <b>Low Risk</b>	<b>Trend</b>    Consistent with prior risk rating	<b>Total number of findings</b>					
			<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Advisory</b>
		Control design	0	0	0	0	0
		Operating effectiveness	0	0	0	3	0
		<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>0</b>

## Summary of findings:

Financial reporting, budgetary control and the general ledger represent areas of key financial control and as such are subject to an annual review, last being audited in 2013/14 resulting in a low risk report. The key findings from this review are set out below.

### (i) Budgetary reporting

Our review of the budgetary reporting structure at the Council identified that although it had changed since the prior year review elements of the legacy reporting structure remain. Mini service boards, led by a Head of Service, produce monthly financial budget reports which combine into Directorate monthly service board reports. Through conversations with key personnel, it was noted that service board meetings have been inconsistent within the current year due to the fluid nature of Directorate structures. However, the Council have demonstrated there is a strong review of budget performance through the monthly ‘Service and Budget Review Steering Group’ meetings through which both capital and revenue are monitored in detail.

Although consistency across the Council in terms of budgetary reporting would be good practice, it is appreciated that each service area has the flexibility to adapt this to their own requirements. The key objective should be that each area reviews their budget to the level stipulated by the Council, such that all significant variances are identified, discussed and addressed as necessary. Two exceptions were identified, however, as a result of sample testing. In both cases mini service board reports were not complete, reducing the ability to fully review the financial information. This has been raised as a **low risk** finding.

### (ii) Budget variances and virements

The Council defines the policy to be followed and the difference between budget variances and virements within the ‘Accountancy guidance note 1 – Virements and Variations’. Budget virements are entered on the cash limits reconciliation file, which records cash limits for each service area from the approved Council budget and tracks changes.

Budget variances and virements are escalated through the budgetary reporting process, with significant budget variances being reported to the Service and Budget Review Steering Group on a monthly basis. Sample testing was performed by inspecting 25 Mini Service Board reports to ensure budget variances were identified, analysed, investigated, explained and escalated, with no issues noted.

In line with the Council’s guidance note, budget adjustments can be defined as changes to a budget whereas budget virements are movements between budgets. A sample of 25 budget adjustments was tested to ensure the numerous in service budget adjustments processed throughout the year were posted accurately and that they were authorised in line with Council procedure. One instance was identified where appropriate authorisation could not be evidenced on the budget adjustment sheet. Furthermore, it was noted that the ‘Accountancy guidance note 1 – virements and variations’ reflected an outdated process for the authorisation of changes to the staffing establishment. These issues have been raised as a **low risk** finding.

We reviewed the virement procedure at the council, noting that virements must only be executed with appropriate approval. At the time the fieldwork was performed, only one virement had been processed since the start of the year which was found to be appropriately authorised and made for a valid reason.

### (iii) General ledger

A listing of all general ledger transaction postings was obtained for the period, from which a sample of 25 transactions were haphazardly selected for detailed

testing. No exceptions were noted; transactions had been correctly and accurately posted to both the general ledger and profit/cost centre codes on a timely basis.

**(iv) Journals**

It was confirmed through a SAP walkthrough that the system prevents one sided journals being entered. Detailed testing was performed over a sample of 25 journals posted to the general ledger during the period. Although all journals were traceable to the originator and were accurately input into the general ledger, several issues were noted. One instance was identified where the journal was not posted within six weeks of its posting date. Furthermore, two occasions were identified where the requesting officer was not detailed on the face of the journal sheet.

It was also identified that the journal procedure document does not specify the authorisation pathway for journals up to £1,000,000. These issues have been combined into a **low risk** finding.

**(v) Feeder systems**


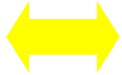
Feeder systems which directly interface with the general ledger were considered. Testing specifically examined the Axis Income Management System, Bank Statement Import, Care Charges and the Revenue and Benefits system. Testing identified that all of these feeder systems are regularly reconciled to the general ledger and reviewed by management.

**(vi) Implementation of prior year audit findings**

Follow up testing was performed to ensure that effective progress is being made to implement the prior year's internal audit recommendations. Although the Council had implemented the majority of the agreed recommendations, it was noted that appropriate journal authorisation continues to be an issue at the Council.

Through conversations with key personnel it was ascertained that the Council are considering moving towards a risk based forecasting process, driven by the future resource restrictions that will affect the Finance department. This would direct resource towards, and focuses on, identified large, high risk budgets. Resource would be diverted away from those budgets deemed low risk, with these being reviewed quarterly as opposed to monthly. It was also noted that the Council are contemplating amending the journal and virement procedures to place emphasis on more significant transactions, both in terms of size and risk, by introducing a minimum posting value therefore reducing the number journals and virements posted. Reducing the number of postings can be good a way to increase efficiency, however the Council should consider the level of risk appetite the Finance function can afford to adopt. The risk appetite within Finance must be defined, with the Council's statutory obligations such as funding from central government and reporting being a key element of this consideration.

# Executive summary – Grant Sourced Spend

<b>Report classification</b>    <b>Medium Risk</b>	<b>Trend</b>    This is the first year we have reviewed Grant Sourced Spend	<b>Total number of findings</b>					
			<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Advisory</b>
		Control design	0	0	2	1	0
		Operating effectiveness	0	0	0	0	0
		<b>Total</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>0</b>

## Summary of findings:

Increasingly the Council is moving to a commissioning approach to service delivery. Often services are being procured using a grant based approach, with payment being dependent on the achievement of a series of agreed outcomes, frequently using a prospectus, rather than the more traditional tender.

This audit reviewed the Council’s approach to grant sourced spend. We examined the guidance used to decide what type of procurement approach is most appropriate and the mechanisms which are used to report/monitor performance, to ensure that services are achieving the agreed outcomes on which payment is dependent. We identified a number of examples of good practice, as below:

- Clear documentation covering the procurement process in the Council’s Constitution and supporting documentation, for example the Procurement Strategy. Specifically this covers legislative requirements, for example promotion through the Official Journal of the European Journal (OJEU) for high value procurements, as specified in the Council’s Constitution and arrangements to comply with requirements stemming from the Localism Act, such as the Community Right to Challenge.
- A range of documentation and training, covering the Council’s approach to partnering and grant sourced spend alongside both documentation and training supporting the strategy to become a commissioning organisation.
- The Council has made nine grants, stemming from the Adult Learning Prospectus Programme, since the 1<sup>st</sup> April 2014; we sample tested three of these, all have signed agreements in place, which clearly identify the services to be provided and the targets which have to be met.


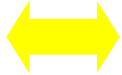
Our overarching finding is that the Council’s current approach is fragmented, with a number of actions necessary to support the aspiration of being a commissioning organisation, as below:

- *Sourcing Services*: current documentation regarding sourcing services is fragmented. Specifically the Council needs to develop a single policy document, setting out its approach to sourcing all services; this should be supported by decision making guidance, with quantified criteria, providing sufficient information to ensure that officers make the right decisions for the Council. Sitting over this, the Procurement Board could be developed into a single ‘gateway’, acting as the ultimate authority over proceeding with all high value services, regardless of the channel used to source services. Potentially the remit of this group could be expanded to make key decisions over the entire commissioning cycle (i.e. need, how, monitor, review – appraisal of need, options appraisal to sourcing, monitor, evaluate and review). We have raised this as a **medium risk** finding.
- *Supporting Organisational Structures, Training and Support*: the Council does not have a single ‘view’ of all of its externally sourced services. As it moves to an increasingly commissioning based approach this needs to be developed (potentially including in-house services as well), leveraging its existing investments in CorStrategy and JCAD, with the aim of providing an up to date and accurate view of service delivery across all delivery channels. To support the move to commissioning, a central team/virtual team should be developed to lead, drive and support sourcing and managing services; a

central, cross skilled team should also be considered to directly manage the most significant externally provided services, for example Highways PFI and Waste. As the Council moves to a more integrated approach this needs to be supported by revised guidance and training as necessary. We have raised this as a **medium risk** finding.

- *Grant Sourced Spend and Procured Spend Documentation:* as the Council moves to a more integrated, primarily commissioning based approach, current good practice must be identified and incorporated into revised arrangements. Specifically ensuring that legislative requirements related to OJEU and the Localism Act need to be appropriately covered. There are also a number of documents, for example the grant sourced spend decision making documentation, based on guidance from the National Audit Office, that could be expanded to be applicable across all service sourcing decisions. Where documentation is reviewed and found to be still fit for purpose it should be marked as such, the next review date identified and the documentation suitably promoted, for example through publication on the Council's website. We have raised this as a **low risk** finding.

# Executive summary – Housing / Safe & Secure Homes

<b>Report classification</b>    <b>Medium Risk</b>	<b>Trend</b>    This is the first year we have reviewed Housing	<b>Total number of findings</b>					
			<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Advisory</b>
		Control design	0	0	1	1	1
		Operating effectiveness	0	0	1	2	0
		<b>Total</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>3</b>	<b>1</b>

## Summary of findings:

The Supporting People Programme is a national scheme, providing support to vulnerable households to help them to maintain their tenancies, live independently and prevent homelessness. On the Island, the Programme is administered by the Council's Supporting People Team, part of the Housing and Family Support Team. The approach of the audit was to focus on the following areas; documentation, processing and performance and risk management.

### Documentation

The Supporting People team maintain a selection of relevant policies and procedures, most notably including the Referral and Assessment policy and procedure, accompanied by a variety of guidance notes and template forms. It was noted that all documents incorporate a specified date of review and this is predominantly on an annual basis. Relevant documentation had all been reviewed within the last year, demonstrating good practice.

During testing and discussion with the team, it was identified that certain key processes had not yet been formally documented. These included processes that occurred in the event of a client requiring a transfer of services and the team's budget monitoring process. To ensure consistency in process throughout the team a **low risk** finding has been raised to address this.

While the review of job descriptions provided a good breakdown of the team's roles and responsibilities, there were instances where additional clarity would be beneficial in ensuring the effectiveness and efficiency of the team. For example, the responsibilities for budget monitoring, performance management and re-commissioning. A **low risk** finding has been raised.

### Processing of Referrals

Sample testing was performed over 25 referrals approved during the period April to November 2014. In all cases referrals were processed in line with documented procedures, sufficient records were maintained on all referrals and placements, specifically including spend and these were kept and disposed of securely when no longer required. However in ten instances the processes carried out by the Supporting People team were considered untimely; where the length of time between the dates of receipt of referral form to the date sent to service provider was greater than two weeks. Thirteen similar cases of untimely processing were identified in relation to the supporting provider. In these cases provision of support commenced more than two weeks after receipt of the approved referral from the Supporting People team.

We acknowledge that these concerns in timeliness of processing are partly due to the availability of support providers, with providers being responsible for the timely provision of support once referrals are passed to them. However, the Supporting People team do have a responsibility in selecting support providers and monitoring their performance. Action should be taken to ensure a more timely response as well as selecting the right providers or options in the future. A **medium risk** finding has been raised in respect of this issue and incorporating timeliness of support provision targets into procedures has been agreed with the



team.

Where people are ineligible for housing support, the Supporting People team provide sign posting to appropriate support. We confirmed this is occurring appropriately through walkthrough testing of ineligible referrals.

### **Performance and Risk Management**

The Supporting People team maintain and monitor performance indicators, with one indicator being reported to the Community and Well Being Directorate on a quarterly basis.

Further review of the team's database identified additional performance indicators that are monitored within the team but not reported at a wider level. In addition to these indicators, there are others with targets but with no data collected to monitor against. Through discussion with the Supporting People team, the targets for the indicators monitored and reported are not subject to regular review and update. Furthermore, some indicators, for example, those relating to hostel accommodation, were consistently underperforming. The team were aware of this and state that these particular targets are unrealistic and unachievable. This further underlines a need to review performance indicators and targets to set realistic goals that will still encourage continuous improvement.


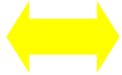
The recent update of the team's database offers more functionality in performance management. The team confirm they can create their own performance indicators within the system and can collect that data from each service provider through their individual online webpage access to the database. It will be beneficial to the team to revisit their performance management process, incorporating new indicators that measure performance in relation to key objectives or risks. As such a **low risk** finding has been raised to address this.

Risk management is a key component of any effective process, in its absence the team could potentially neglect areas of importance and priority leading to an ineffective and inefficient operation. A risk register is not in existence for the Supporting People team. Furthermore, there is little evidence of risk management or assessment in the team's overall policy and processes. We have therefore included a **medium risk** finding, with the recommendation that a risk register is created and maintained for the team alongside consideration of a risk assessment exercise of service providers to improve efficiency and effectiveness of provider performance management.

The Supporting People team continue to assess their service providers against the previous national framework, Quality Assessment Framework (QAF), though this is no longer mandatory. This also limits the team's scope for benchmarking since information for comparison is less available than in previous years. Nonetheless this does demonstrate good practice; however as it was identified that the team were assessing against the minimum requirements only, there is scope for the team to incorporate criteria of higher levels within the framework into their performance management. Additionally, in making use of the Council's current networks with other bodies there are options to share good practice and concerns with other councils. An **advisory finding** has been raised in respect of this opportunity.

The Supporting People team are currently in the process of re-tendering their service providers. Consultation begins from January 2015 and the process of competitive tendering starts from April to December 2015. As a result of this process, there is an expected change in their monitoring process going forward. This presents an opportunity to incorporate our findings and associated actions as the Supporting Team approaches this key exercise.

# Executive summary – Payroll

<b>Report classification</b>    <b>Medium Risk</b>	<b>Trend</b>    Consistent with prior risk rating	<b>Total number of findings</b>					
			<b>Critical</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>	<b>Advisory</b>
		Control design	0	0	1	1	0
		Operating effectiveness	0	0	2	1	0
		<b>Total</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>2</b>	<b>0</b>

## Summary of findings:

Given the volume and value of transactions, Payroll and HR controls are subject to an annual internal audit review, last being audited in 2013/14 resulting in a medium risk report. The key findings from our 2014-15 audit are set out below.

### (i) Payroll procedure documentation

The Council maintain an extensive library of up to date payroll procedure documentation which covers the completion and input of HR, payroll and employee expense transactions. Within the payroll department, a review control sheet is used to track all relevant documents against their designated review date. This is a demonstration of good practice and has clearly contributed to the timely review of procedures. It was noted that the ‘Expenses Guidelines’ document which is published on Wightnet, should be more frequently reviewed. While the document has not missed its scheduled review date of 2015, it has been superseded by amendments to the Council’s Financial Regulations. Similarly, relevant to statutory returns, the ‘HMRC Monthly Payments Over’ procedure has not been reviewed since 2011. These documentation issues have been combined into a **low risk** finding.

### (ii) Starters, leavers, amendments and payroll overpayments

Sample testing was performed over 25 starter, 25 leaver and 25 amendment controls with exceptions noted within each testing population.

As specified within employment law, an employer must provide a written statement of employment particulars within two months of the start of employment. Starters testing identified 21 exceptions where the contract of employment was sent after the start date, however only one instance where this exceeded two months. Furthermore, 12 employment contracts were identified which were not signed by the employee. Although acceptance of contract terms by the employee is implied by commencing work for the Council, contract terms could be disputed in these instances. Six instances were noted where, due to the late submission of information from the relevant managers, the payroll deadline was missed and hence backdated pay had to be processed in the subsequent month. Furthermore on one occasion the starter form was not completed until 117 days after the employee started, meaning that authorisation for the appointment had not been formally obtained until this time.

Testing of 25 leavers identified several processing issues. In four instances it was noted that the manager had authorised the leaver after the leaving date. Furthermore, one instance was identified that, due to a processing delay, a leaver was overpaid by two month’s salary.

Testing of 25 amendments identified eight instances where the change had been authorised after the amendment effective date. Furthermore, four instances were noted where the payroll deadline was missed due to the late submission of amendment information; on three of these occasions, this resulted in a backdated payment in the subsequent month.

These issues have been combined into a **medium risk** finding.

Sample testing was also performed over 20 overpayments with two instances noted where sufficient recovery action had not occurred. In both cases these had not

been identified by the Debtors team and hence recovery procedures had not begun. The cases relate to overpayments during September and November 2014 respectively, and hence do not represent a significant period of time outstanding. This has been raised as a **low risk** finding.

**(iii) Overtime, backdated payments and budget monitoring**

The processing of overtime has become more automated over the year, with employees now routinely submitting requests through the SAP workflow as opposed to through paper based methods. This has contributed to a significant improvement compared with the prior year, with testing of 25 overtime payments noting no exceptions.

Backdated payments were reviewed as a component of the starters, leavers and amendments testing. No issues were noted, with all payments being valid, accurate and appropriately authorised.

The information available to budget holders was also considered. Through conversations with key personnel, it was identified that budget holders can access a wide range of reports on SAP which provide sufficient and timely information enabling the effective monitoring of staffing costs against budget.

**(iv) Payroll payments**

A sample of 25 employee payslips were tested to ensure that allowances, deductions and expenses were calculated correctly. No exceptions were noted.

**(v) Payroll control account reconciliations**

As part of our 2013/14 payroll audit, we raised a medium risk finding that payroll control account reconciliations were not occurring. As per Council policy, a formal payroll reconciliation is required to be undertaken on a quarterly basis by the central finance function, with independent review by another member of senior management in finance. During the current year it was found that although a reconciliation had been prepared during June 2014, regular reconciliations were not occurring on a quarterly basis and hence this continues to be an issue. This has been raised as a **medium risk** finding.

**(vi) Information safeguarding and segregation of duties**

As a component of this review, both the physical security and network security of employee information was reviewed, considering access rights where applicable. It was determined that access to payroll and HR information and physical records is adequately safeguarded.

The segregation of duties arrangements were evaluated in terms of payroll and expenses preparation, authorisation and payment reconciliation. Although arrangements were found to be adequate, an area of weakness was noted surrounding authorisation. The pay run is not formally reviewed and authorised before being submitted for processing and payment. In the context of the infrequent general ledger reconciliations, this is an issue as pay run discrepancies may not be identified. This has been raised as a **low risk** finding.

**(vii) Implementation of prior year audit findings**

Follow up testing was performed to ensure that effective progress is being made to implement the prior year's internal audit recommendations. Although the Council had made progress implementing one of the agreed recommendations relevant to payroll transactions, two were not fully implemented. The prompt processing of starters and leavers continues to be an issue at the Council. Furthermore, the payroll control accounts are not being reconciled with sufficient regularity.

# Classification of report findings





## Assessment rationale

Finding rating	Effect on Service	Embarrassment/ reputation	Personal Safety	Personal privacy infringement	Failure to provide statutory duties/meet legal obligations	Financial	Effect on Project Objectives/ Schedule Deadlines
<b>Critical</b>	<p>A finding that could result in a:</p> <ul style="list-style-type: none"> <li>Major loss of service, including several important areas of service and /or protracted period. Service Disruption 5+ Days</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Adverse and persistent national media coverage</li> <li>Adverse central government response, involving (threat of) removal of delegated powers</li> <li>Officer(s) and/or Members forced to resign</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Death of an individual or several people</li> </ul>	<p>A finding that could result in:</p> <p>All personal details compromised/ revealed</p>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Litigation/claims/ fines from Department £250k +</li> <li>Corporate £500k +</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Costs over £500,000</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Complete failure of project/ extreme delay – 3 months or more</li> </ul>
<b>High</b>	<p>A finding that could result in a:</p> <ul style="list-style-type: none"> <li>Complete loss of an important service area for a short period</li> <li>Major effect to services in one or more areas for a period of weeks Service Disruption 3-5 Days</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Adverse publicity in professional/ municipal press, affecting perception/ standing in professional/local government community</li> <li>Adverse local publicity of a major and persistent nature</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Major injury to an individual or several people</li> </ul>	<p>A finding that could result in:</p> <p>Many individual personal details compromised/ revealed</p>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Litigation/claims/ fines from Department £50k to £125k</li> <li>Corporate £100k to £250k</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Costs between £50,000 and £500,000</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Significant impact on project or most of expected benefits fail/ major delay – 2-3 months</li> </ul>

<b>Finding rating</b>	<b>Effect on Service</b>	<b>Embarrassment/reputation</b>	<b>Personal Safety</b>	<b>Personal privacy infringement</b>	<b>Failure to provide statutory duties/meet legal obligations</b>	<b>Financial</b>	<b>Effect on Project Objectives/Schedule Deadlines</b>
<b>Medium</b>	<p>A finding that could result in a:</p> <ul style="list-style-type: none"> <li>Major effect to an important service area for a short period</li> <li>Adverse effect to services in one or more areas for a period of weeks Service Disruption 2-3 Days</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Adverse local publicity /local public opinion aware</li> <li>Statutory prosecution of a non-serious nature</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Severe injury to an individual or several people</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Some individual personal details compromised/ revealed</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Litigation/claims/ fines from Department £25k to £50k</li> <li>Corporate £50k to £100k</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Costs between £5,000 and £50,000</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Adverse effect on project/ significant slippage – 3 weeks–2 months</li> </ul>
<b>Low</b>	<p>A finding that could result in a:</p> <ul style="list-style-type: none"> <li>Brief disruption of important service area</li> <li>Significant effect to non-crucial service area Service Disruption 1 Day</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Contained within section/Unit or Directorate</li> <li>Complaint from individual/small group, of arguable merit</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Minor injury or discomfort to an individual or several people</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Isolated individual personal detail compromised/ revealed</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Litigation/claims/ fines from Department £12k to £25k</li> <li>Corporate £25k to £50k</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Costs less than £5,000</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>Minimal impact to project/ slight delay less than 2 weeks</li> </ul>
<b>Advisory</b>	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.						

# Report classifications

Findings rating	Points
<b>Critical</b>	40 points per finding
<b>High</b>	10 points per finding
<b>Medium</b>	3 points per finding
<b>Low</b>	1 point per finding

Report classification	Points
 Low risk	6 points or less
 Medium risk	7– 15 points
 High risk	16– 39 points
 Critical risk	40 points and over

## Appendix 1 -Progress on the 2014/15 internal audit plan

<b>Audit name</b>	<b>Audit days in plan</b>	<b>Audit days completed at 26<sup>th</sup> April 2015</b>	<b>Current Status</b>	<b>Report classification for those audits completed</b>
Adult Safeguarding *	30	-	Suspended	-
Adult Social Care Follow-Up *	30	30	Final Report	Medium Risk
Benefit Payments	30	30	Final Report	Low Risk
Cash and Bank	25	25	Final Report	Low Risk
Contact Centre	25	25	Final Report	Medium Risk
Corporate Governance	30	30	Final Report	Medium Risk
Creditors	25	25	Final Report	Low Risk
Custody of funds	30	30	Final Report	Medium Risk
Debtors	25	25	Final Report	Medium Risk
Deputyships *	30	30	Final Report	Medium Risk
Development Control	25	25	Draft Report	-
General Ledger	30	30	Final Report	Low Risk

<b>Audit name</b>	<b>Audit days in plan</b>	<b>Audit days completed at 26<sup>th</sup> April 2015</b>	<b>Current Status</b>	<b>Report classification for those audits completed</b>
Grant Sourced Spend	30	30	Final Report	Medium Risk
Hampshire Strategic Partnership	30	30	Draft Report	-
Highways PFI - Delivery Phase Client Relationship*	30	6	Postponed	-
Housing / Safe & Secure Homes	30	30	Final Report	Medium Risk
Income Generation	30	30	Draft Report	-
Information Management	30	30	Final Report	Low Risk
ISMS (Information Security Management System)	25	25	Final Report	Low Risk
IT Change & Configuration Management	30	30	Final Report	Low Risk
Licensing	25	25	Final Report	Medium Risk
Local Taxation	30	30	Final Report	Low Risk
Longer Term Interventions Team *	30	-	Suspended	-
Medina	25	25	Final Report	Low Risk
Payment Card Industry, Data Security Standard (PCI DSS)*	20	-	Suspended	-



<b>Audit name</b>	<b>Audit days in plan</b>	<b>Audit days completed at 26<sup>th</sup> April 2015</b>	<b>Current Status</b>	<b>Report classification for those audits completed</b>
Payroll	35	35	Final Report	Medium Risk
Public Health	30	30	Final Report	Medium Risk
Recruitment and retention	25	25	Final Report	Medium Risk
Risk Management	30	30	Final Report	Medium Risk
Schools' Audits	45	45	Final Report	N/A
Sickness absence	25	25	Final Report	Medium Risk
Software Development	30	30	Final Report	Medium Risk
Tourism/Destination Management Organisation (DMO) *	30	-	Suspended	-
Waste Procurement	30	30	Final Report	Medium Risk
WightNet (Intranet)	25	25	Final Report	Medium Risk

\* Our scheduled reviews in Adult Social Services (Adult Safeguarding and the Longer Term Interventions Team), our review of the Destination Management Organisation (DMO) and our PCI DSS review have been suspended, substantively being replaced by reviews of Deputyships, a follow-up of our high level review across the Adult Social Care Service, along with additional time allocated elsewhere within the Audit Plan; context regarding these changes was reported to Audit Committee at their December meeting. Following the last meeting of the Audit Committee our scheduled review of Highways PFI has been postponed to July 2015, subsequent to completion of work currently being carried out reviewing the Contract by a specialist engineering consultancy.

As of 26<sup>th</sup> April 2015 we have delivered 100% of planned audit days (in addition to the above this figure includes audit time spent on support activities, for example contract management).

# Appendix 2 - Internal audit performance against key performance indicators, as at 26th April 2015

<b>Key performance indicator</b>	<b>Adult Safeguarding *</b>	<b>Adult Social Care Follow-Up *</b>	<b>Benefit Payments</b>	<b>Cash and Bank</b>	<b>Contact Centre</b>	<b>Corporate Governance</b>	<b>Creditors</b>	<b>Custody of funds</b>	<b>Debtors</b>	<b>Deputyships *</b>	<b>Development Control</b>	<b>General Ledger</b>	<b>Grant Sourced Spend</b>	<b>Hampshire Strategic Partnership</b>	<b>Highways PFI *</b>	<b>Housing / Safe &amp; Secure Homes</b>	<b>Income Generation</b>	<b>Information Management</b>	<b>ISMS</b>	<b>IT Change &amp; Configuration</b>	<b>Licensing</b>	<b>Local Taxation</b>	<b>Longer Term Interventions Team *</b>	<b>Medina</b>	<b>PCI DSS*</b>	<b>Payroll</b>
Scope agreed prior to fieldwork commencing?	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	-	Y	-	Y
Exit meeting held?	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	-	Y	-	Y
Draft report issued within 10 working days of completion of exit meeting?	-	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	-	Y	Y	Y	Y	Y	Y	N	-	Y	-	Y
Draft report issued within 10 working days of receiving documentation from auditee?	-	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	-	Y	Y	Y	Y	Y	Y	N	-	Y	-	Y
Management response received?	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	-	Y	Y	-	-	Y	-	Y	Y	Y	Y	Y	-	Y	-	Y
Final report issued within five working days of agreement of management response?	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	-	Y	Y	-	-	Y	-	Y	Y	Y	Y	Y	-	Y	-	Y
Client satisfaction survey score (if received)?	-	10	8.2	-	-	9.2	-	-	10	8.6	-	-	10	-	-	-	-	10	10	9.8	-	10	-	9.6	-	-

\* Our scheduled reviews in Adult Social Services (Adult Safeguarding and the Longer Term Interventions Team), our review of the Destination Management Organisation (DMO) and our PCI DSS review have been suspended, substantively being replaced by reviews of Deputyships, a follow-up of our high level review across the Adult Social Care Service, along with additional time allocated elsewhere within the Audit Plan; following the last meeting of the Audit Committee our scheduled review of Highways PFI has been postponed to July 2015, subsequent to completion of work currently being carried out reviewing the Contract by a specialist engineering consultancy.

## Key performance indicator

	Public Health	Recruitment and retention	Risk Management	Schools' Audits	Sickness absence	Software Development	Tourism/DMO *	Waste Procurement	WightNet (Intranet)
Scope agreed prior to fieldwork commencing?	Y	Y	Y	Y	Y	Y	-	Y	Y
Exit meeting held?	Y	Y	Y	Y	Y	Y	-	Y	Y
Draft report issued within 10 working days of completion of exit meeting?	Y	Y	Y	Y	Y	Y	-	Y	Y
Draft report issued within 10 working days of receiving documentation from auditee?	Y	Y	Y	Y	Y	Y	-	Y	Y
Management response received?	Y	Y	Y	Y	Y	Y	-	Y	Y
Final report issued within five working days of agreement of management response?	Y	Y	Y	Y	Y	Y	-	Y	Y
Client satisfaction survey score (if received)?	10	8.8	10	-	10	10	-	10	9.6

Our scheduled reviews in Adult Social Services (Adult Safeguarding and the Longer Term Interventions Team), our review of the Destination Management Organisation (DMO) and our PCI DSS review have been suspended, substantively being replaced by reviews of Deputyships, a follow-up of our high level review across the Adult Social Care Service, along with additional time allocated elsewhere within the Audit Plan; following the last meeting of the Audit Committee our scheduled review of Highways PFI has been postponed to July 2015, subsequent to completion of work currently being carried out reviewing the Contract by a specialist engineering consultancy.