

***Isle of Wight Council  
Annual Internal Audit  
Report  
2014/2015***

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## Distribution List

For action	The Audit Committee
For information	Stuart Fraser, Head of Finance & Section 151 Officer Dave Burbage, Managing Director and the senior management of the Isle of Wight Council

This document has been prepared only for the Isle of Wight Council and solely for the purpose and on the terms agreed with the Isle of Wight Council under our engagement letter dated 29<sup>th</sup> July 2010.

# 1. *Executive summary*

## *Introduction*

This report outlines the internal audit work we have carried out for the year ended 31<sup>st</sup> March 2015.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control (i.e. the organisation’s system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The Audit Committee agreed an internal audit budget of £220,000. During 2014/15, 88% of that was used to directly fund Internal Audit reviews, and in agreement with the Audit Committee and Head of Internal Audit, with the balance used to fund support activities, for example implementing and supporting our co-sourced partner’s online TrAction internal audit follow-up action management system, planning and time to meet with the Council’s management.

Internal audit work was performed in accordance with the Council’s Internal Audit methodology, which is in conformance with the Public Sector Internal Audit Standards.

## *Head of Internal Audit Opinion*

We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

## **Opinion**

Our opinion is as follows:

Substantial	<b>Generally satisfactory with some improvements required</b>	Improvement required	Unsatisfactory
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There are some weaknesses in the framework of governance, risk management and control which potentially put the achievement of Council objectives at risk.

Improvements are required in those areas to enhance the adequacy and effectiveness of governance, risk management and control. Please see our Summary of Findings in Section 2.

An explanation of the types of opinion that may be given can be found in Appendix 2.

## Basis of opinion

Our opinion is based on:

- All audits undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.
- Any significant recommendations not accepted by management and the resulting risks.
- The effects of any significant changes in the Council's objectives or systems.
- Any limitations which may have been placed on the scope or resources of internal audit.
- What proportion of the Council's audit needs have been covered to date.

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

## Commentary

The key factors that contributed to our opinion are summarised as follows:

- *Reduced support/supervision:* a number of our reviews identify reduced supervision/support is available. For example our quarter two review of Risk Management identified that there is reduced capacity to support risk management centrally, with a number of risk registers we reviewed having actions which had not been updated in a timely manner.
- *Out of date documentation/corporate expectations:* a number of our reviews identified key corporate documentation which is out of date/refers to teams/individuals which are no longer in place at the Council. For example our quarter three review of Corporate Governance identified that the Council's Performance Management systems needs to be revised and that the Council anti-fraud arrangements need review. Arrangements for dealing with alleged fraud also need to be reviewed.
- *Segregation of Duties:* a number of our reviews identified processes are increasingly being carried out in cross skilled teams, where process elements would have historically been carried out by separate teams/individuals. For example our quarter four Cash and Bank review identified that 'the same individual often collects, counts and initially records cash due to staff shift patterns.'

We also raised a high risk finding with regard to financial management in one of the Council's supported schools.

## Acknowledgement

We would like to take this opportunity to thank Council staff, for their co-operation and assistance provided during the year.

## 2. Summary of findings

Our annual internal audit report is timed to inform the Council's Annual Governance Statement. A summary of key findings from our programme of internal audit work for the year work is recorded in the table below:

<i>Description</i>	<i>Detail</i>
<p><b>Overview</b></p> <p>We completed 30 internal audit reviews. This resulted in the identification of one high, 55 medium and 48 low risk findings to improve weaknesses in the design of controls and/or operating effectiveness.</p>	<p>This is the fifth year of the co-sourced internal audit contract. We have continued to build upon the work carried out in previous years, using our knowledge of the Council and current and emerging risks to prepare and undertake the audit plan.</p> <p>We have incorporated a number of value protection reviews in our 2014/15 programme, for example reviews of Governance, Risk Management and Information Management, where our primary focus was identifying control gaps in arrangements and agreeing ways in which these can be addressed, mindful of reduced Council resources and new, streamlined organisational structures.</p> <p>Across our programme of value protection work we have continued the trend established in previous years, incorporating value enhancement elements, for example helping to ensure that measures to maximise both efficiency and effectiveness are identified and progressed.</p> <p>In 2014/15, with the Council continuing to come under cost pressures, we have focussed on ensuring that the Council realises ever greater value from the available Internal Audit resource. For example reducing the frequency of audits over areas which our work has shown to be low risk, freeing resources for use elsewhere; this trend will continue into 2015/16, with the majority of our finance work being combined into a single 'key financial systems' review. This has enabled us to schedule more cross cutting reviews, for example a review of income generating areas and a review across Public Health, a new area of responsibility for the Council, helping to ensure that appropriate controls are in place.</p> <p>We continue to be flexible regarding scheduling our reviews, wherever possible avoiding busy times of year; for example moving our creditors review to midyear and scheduling our leisure centre review outside of the school holidays.</p>

<i>Description</i>	<i>Detail</i>
	<p>As in previous years we have readily scheduled additional reviews as required, for example our review of Adult Social Care Deputyships.</p> <p>We have met all of our performance indicators and have provided regular reports during the course of the year to Audit Committee detailing our performance, helping to ensure that they have sufficient information to carry out their role effectively.</p> <p>In addition to the above our co-sourced partner hosted and facilitated a workshop for the Audit Committee and key members of the Scrutiny Committee at their Southampton offices, following on from a similar event in 2013/14. As previously this was well received and a similar event will be considered in 2015/16.</p> <p>Wherever possible we have also introduced our co-sourced partner's specialists to share good practice with the Council's management teams. For example one of our co-sourced partner's VAT experts has met with the Council's Finance Team, to share emerging trends and help to shape the Council's response; while one of the leading national experts on transformational change has shared his specialist knowledge with councillors and the Council's Organisational Development Team at workshops, held on the Island.</p>
<p><b><i>Internal Control Issues</i></b></p> <p>During the course of our work we identified a number of weaknesses that we consider should be considered for inclusion in your Annual Governance Statement 2014/15.</p>	<p><b><i>Streamlined Organisational Structures and Reduced Resources at the Corporate Centre</i></b></p> <p>Reduced capacity at the corporate centre was identified as an emerging concern in our 2013/14 annual report.</p> <p>Two 2014/15 reviews in particular, Risk Management and Corporate Governance, confirm that corporate expectations are lagging behind the speed at which organisational structures are being revised and central resource, available to support expectations, is being reduced, for example:</p> <ul style="list-style-type: none"> <li>• A number of core Council policies (e.g. Performance Management and Anti-Fraud) and supporting documentation we reviewed during the course of our work identify teams which are no longer in place and posts which no longer exist at the Council.</li> </ul>

<i>Description</i>	<i>Detail</i>
	<ul style="list-style-type: none"> <li>• Mechanisms, for example regarding how performance and risk management should function, identify escalation routes and sources of support/oversight which are no longer available.</li> <li>• Arrangements for countering fraud are also over-due for review which poses a threat to the council. While the number of alleged fraud incidents continues to be low, there is nonetheless a need to ensure that arrangements for dealing with it are fit for purpose.</li> </ul> <p>Our reviews, including the two identified above, highlight the need for documentation to be accurate (i.e. that the teams and mechanisms are up to date) and realistic, in line with the significantly reduced resources available to support corporate expectations, with agreed actions in the process of being implemented.</p> <p>The key risks associated with these areas are:</p> <ul style="list-style-type: none"> <li>• Information regarding risk and performance will either be inaccurate or out of date, due to limited central support and unclear expectations.</li> <li>• Issues may not be identified and escalated at the earliest opportunity, due to inaccurate and unclear processes.</li> </ul> <p><b><i>Ongoing Transformation/Cost Savings</i></b></p> <p>Increasingly we are seeing teams and roles being combined in all areas of the Council's work we review, continuing the trend of previous years.</p> <p>While the Council has little choice but to follow this route in order to achieve cost savings, it does have the potential to impact adversely on key controls, for example segregation of duties (i.e. no one team or individual having excessive control over a process) and review/approval, with process elements previously carried out by separate teams/individuals moving to combined, cross skilled teams.</p> <p>The Council has put in place a central transformation team (Organisational Development), part of whose remit is to lead on identifying and achieving cost savings, which will inevitably entail continuing the rationalisation process outlined above. The Team brings together</p>

<i>Description</i>	<i>Detail</i>
	<p>a wealth of experienced officers from across the Council, however the urgency and short timescale in which cost savings have to be achieved will put significant pressure on this Team.</p> <p>In all of our reviews we have identified where this is a potential issue, emphasising the need to ensure that key controls are identified, with equivalent controls included in revised structures.</p> <p>The key risks associated with this area are:</p> <ul style="list-style-type: none"> <li>• Increased potential for inaccurate/fraudulent processing, with reduced 'checks' in place.</li> <li>• Delays in processing, due to reduced capacity.</li> </ul> <p>Associated with this area we also note that the Council has recently completed a job evaluation exercise, which has led to a number of staff having their pay reduced, although overall the result of this exercise is cost neutral. This has the potential to impact adversely on morale and exacerbate the potential issues identified above.</p> <p><b><i>Schools' Financial Management</i></b></p> <p>This area was identified as an emerging issue in our 2013/14 annual report.</p> <p>Issues identified in our 2013/14 school reviews, for example training, staff named on bank mandates and appropriate policies being in place, have also been identified in schools reviewed in 2014/15. This indicates that areas for improvement we identify are not being communicated effectively across the Island's maintained schools for remedy.</p> <p>We also noted that this area now falls within the remit of the strategic partnership with Hampshire County Council. While the Partnership is having a genuine effect on the quality of educational provision on the Island, detail regarding arrangements/progress is not as visible as would be desirable to the council.</p> <p>The key risk associated with this area is that the council may not have an up to date understanding of arrangement in place and progress which has been made. While Hampshire are providing the service the Council is still ultimately accountable and needs access to sufficient information to satisfy itself that arrangements are meeting its needs. This has been highlighted in our review of</p>



<i>Description</i>	<i>Detail</i>
	<p>the Hampshire Strategic Partnership.</p> <p><b>Adult Social Care</b></p> <p>In 2013/14 one of our reviews, of Adult Social Care, was rated as high risk.</p> <p>In 2014/15 we carried out a specific follow-up review in quarter three, to check on the progress of improvement effort. While the direction of travel is positive and our review identified a number of significant improvements, for example improvements in quality assurance and the consistency of documentation and its use, the rate of progress is not as timely as would be desirable.</p> <p>The Council has responded by allocating significant resources to Adult Social Care; for example:</p> <ul style="list-style-type: none"> <li>• A highly experienced Head of Adult Social Care recruited from the mainland.</li> <li>• Replacing the Swift Social Care system with Paris; implementation is ongoing.</li> <li>• Recruiting specific staff to lead on integration and related improvement effort, for example revising and promoting updated and rationalised process documentation.</li> </ul> <p>The key risk, particularly with the scale of change associated with Adult Social Care, specifically the ongoing integration agenda with Health, is that momentum will be lost going into 2015/16. We also note that this area is the most significant area of controllable spend for the Council – mistakes in this area could be extremely costly for the Council.</p>
<p><b>Other weaknesses</b></p> <p>Other minor weaknesses were identified within the organisation's governance, risk management and control, which relate to documentation being out of date, roles and responsibilities being unclear and minor processing errors.</p>	<p>We identified 55 medium risk issues during the course of our internal audit work in 2014/15; In addition to the issues already identified above the main weakness we identified is that transformational work to date is not progressing at sufficient speed to meet the Council's cost saving requirements. Two specific themes are expanded on below:</p> <ul style="list-style-type: none"> <li>• <i>Identifying and progressing good practice and benchmarking:</i> where appropriate this was included as a specific item in terms of reference for our 2014/15 reviews.</li> </ul> <p>We identified a number of areas which are using benchmarking effectively, for example</p>

<i>Description</i>	<i>Detail</i>
	<p>Democratic Services, often through the well regarded CIPFA (Chartered Institute of Public Finance) benchmarking clubs.</p> <p>However this is not being done consistently across the Council. For example Leisure Services only benchmark internally, between Council owned leisure sites and Licensing do not benchmark fees or performance against peer authorities due to the view that any comparisons would be invalid, as sufficiently similar comparator organisations cannot be identified.</p> <p>As appropriate we have raised this issue in our reports this year. We also noted that the Council is increasingly benchmarking internally at the transactional level, between 'similar' processes, led from within Shared Services; this has significant potential to identify efficiencies in parallel with ongoing efforts to source valid external benchmarking.</p> <ul style="list-style-type: none"> <li>• <i>Revenue and Fees:</i> A number of our reviews included elements of revenue maximisation and we carried out a specific review in quarter four, focussed on Income Generation.</li> </ul> <p>This area can be problematic, due to legislative constraints on fees which can be charged, for example for Deputyships, Building Control and Planning. However the majority do allow for the Council to ensure that its costs are fully recouped.</p> <p>Central to achieving this is ensuring that corporate recharges are correct and services are not in effect being subsidised unnecessarily from the Council's wider budget.</p> <p>The high level risks associated with the above are:</p> <ul style="list-style-type: none"> <li>• The increasing need to make quick, 'salami slicing' type cuts which will have an unnecessarily severe impact on the quality of services provided.</li> <li>• Increasing reliance on reserves, potentially impacting on the Council's long term finances.</li> </ul>
<p><b><i>Follow up</i></b> During the year we have undertaken follow up work on previously agreed actions.</p>	<p>As in previous years agreed actions stemming from prior year financial reviews, where these are carried out annually, have been followed up as part of 2014/15 reviews, with actions being re-raised where necessary.</p>

<i>Description</i>	<i>Detail</i>
	<p>During 2014/15 the implementation of our co-sourced partner's TrAction agreed action online tracking system has been ongoing, with the Audit Committee receiving its first summary report from TrAction in February 2015.</p> <p>We are pleased to report that 63% of 2013/14 actions have now been closed, with all actions stemming from 2014/15 now entered into the system; during 2015/16 the Audit Committee will receive regular, detailed reports regarding action statuses, drawn from TrAction.</p> <p>Further detail regarding our follow-up activity and the outcomes of recommendations made is set out in section 3, below.</p>
<p><b><i>Good practice</i></b></p> <p>We also identified a number of areas where few weaknesses were identified and / or areas of good practice.</p>	<p>We identified elements of good practice in all of our 2014/15 reviews; particular highlights being:</p> <ul style="list-style-type: none"> <li>• <i>The Contact Centre</i>: this is a well-run, efficient and effective resource. The Team are meeting their target of resolving 80% of calls within the Contact Centre and performance management over the Team is strong. This has been recognised by the Team receiving a Council award in 2014, for the quality of the service they are providing.</li> <li>• <i>The Data Centre</i>: the Council has made considerable investment in the Data Centre and our review did not identify any issues regarding infrastructure in place.</li> </ul> <p>A number of our reviews resulted in reports rated low risk, as below:</p> <ul style="list-style-type: none"> <li>• Benefit Payments</li> <li>• Cash and Bank</li> <li>• Creditors</li> <li>• General Ledger</li> <li>• Information Management</li> <li>• ISMS (Information Security Management System)</li> <li>• IT Change &amp; Configuration Management</li> <li>• Local Taxation</li> <li>• Medina</li> </ul> <p>As highlighted in our 2013/14 report all of these areas have stable staffing and well understood</p>

<i>Description</i>	<i>Detail</i>
	processes. The challenge for 2015/16 will be to realise further savings from these areas, while maintaining an effective service.

## 3. Internal Audit work conducted

### Introduction

Our internal audit work was conducted in accordance with the Council's agreement with our co-sourced partner, dated 29<sup>th</sup> July 2010 and subsequent amendments, set out in the Change Control Notice, dated 23<sup>rd</sup> May 2013, Public Sector Internal Audit Standards, and the Internal Audit Risk Assessment and Plan.

The table below sets out the results of our internal audit work and implications for next year's plan. The control direction of travel is also analysed so management can consider whether any additional action is necessary.

All reviews cover controls effective from 1<sup>st</sup> April 2014, up to the fieldwork date of individual reviews, we also include a comparison between planned internal audit activity and actual activity, to assist with budgeting and forward planning.






### Results of individual assignments

Review	Report classification	Number of findings			
		Critical	High	Medium	Low
Adult Social Care Follow-Up	Medium Risk	-	-	3	-
Benefit Payments	Low Risk	-	-	1	2
Cash and Bank	Low Risk	-	-	1	2
Contact Centre	Medium Risk	-	-	2	2
Corporate Governance	Medium Risk	-	-	2	3
Creditors	Low Risk	-	-	-	3
Custody of funds	Medium Risk	-	-	3	-
Debtors	Medium Risk	-	-	3	1
Deputyships	Medium Risk	-	-	2	2
Development Control*	Medium Risk	-	-	2	3
General Ledger	Low Risk	-	-	-	3
Grant Sourced Spend	Medium Risk	-	-	2	1
Hampshire Strategic Partnership*	Medium Risk	-	-	2	1
Housing / Safe & Secure Homes	Medium Risk	-	-	2	3

<i>Review</i>	<i>Report classification</i>	<i>Number of findings</i>			
		<i>Critical</i>	<i>High</i>	<i>Medium</i>	<i>Low</i>
<i>Income Generation*</i>	<i>Low Risk</i>	-	-	1	3
Information Management	Low Risk	-	-	1	3
ISMS (Information Security Management System)	Low Risk	-	-	2	-
IT Change & Configuration Management	Low Risk	-	-	1	4
Licensing	Medium Risk	-	-	1	5
Local Taxation	Low Risk	-	-	-	2
Medina	Low Risk	-	-	1	2
Payroll	Medium Risk	-	-	3	2
Public Health	Medium Risk	-	-	3	-
Recruitment and retention	Medium Risk	-	-	4	1
Risk Management	Medium Risk	-	-	4	2
Schools' Audits	N/A	-	1	4	1
Sickness absence	Medium Risk	-	-	3	2
Software Development	Medium Risk	-	-	3	1
Waste Procurement	Medium Risk	-	-	1	1
WightNet (Intranet)	Medium Risk	-	-	3	-
	<b>Total</b>	-	<b>1</b>	<b>60</b>	<b>55</b>

\* Report in draft, pending finalisation

## Direction of control travel

Finding rating	Trend between current and prior year	Number of findings		
		2014/15	2013/14	2012/13
Critical		0	0	0
High		1	1	1
Medium		60	52	67
Low		55	40	59
<b>Total</b>		116	93	127

Following the reduction in findings in 2013/14, while the number of high risk findings is stable across all three years, the number of medium and low risk findings has increased in 2014/15. This is indicative of a slight weakening of the Council's control environment, linked to the issues we identify elsewhere in this report; covering for example:

- Reduced support/supervision.
- Out of date documentation/corporate expectations.
- Segregation of Duties.

Considering the pressures which the Council is under, specifically the need to make significant, rapid and ongoing cost savings, to a degree this is unavoidable. With traditional controls, for example review and segregation of duties, being eroded, the focus needs to be on ensuring the integrity of the overall control environment.

Internal Audit have responded by continuing the trend of previous years, increasingly moving to carrying out fewer, but broader reviews recognising risks do not tend to only impact discrete areas of systems or processes, using the available Internal Audit resource as efficiently as possible. This is illustrated by the table below:

Audit Year	Total reviews
2010/11	48
2011/12	43
2012/13	35
2013/14	32
2014/15	30

This will continue into the current audit year, with 23 reviews currently planned for 2015/16. Examples of where we have combined reviews to provide broad assurance over key areas of the Council's work include:

- *Contract Management*: rather than carrying out reviews of individual contracts we have scheduled a single review across contract management, focussing on a subset of three key contracts, giving the Council assurance across their contracts portfolio.
- *Key Financial Controls*: combining a number of areas which historically have been subject to individual review, for example Accounts Receivable, Accounts Payable and Payroll, giving the Council assurance across its financial management activity.

This innovative approach is supplemented by use of our co-sourced partner's cutting edge technology; for example TrAction, their follow-up tool incorporating automatic escalation and computer assisted audit techniques over key financial controls and cycles.

### *Comparison of planned and actual activity*

<i>Audit Unit</i>	<i>Suspended Review</i>	<i>Additional Review</i>	<i>Comments</i>
Adult Safeguarding	■		Suspended in Quarter 2, due to improvement plan in progress, post peer review led by Local Government Association (LGA). Adult Safeguarding is scheduled to be reviewed in Quarter 1, 2015/16.
Adult Social Care Follow-Up		■	Additional review, following up on improvement plan actions, stemming from our high risk review of Adult Social Care in 2013/14.
Benefit Payments			
Cash and Bank			
Contact Centre			
Corporate Governance			
Creditors			
Custody of Funds			
Debtors			
Deputyships		■	Additional review, covering the Council's management of Deputyships by Adult Social Care.
Development Control			
General Ledger			
Grant Sourced Spend			
Hampshire Strategic Partnership			
Highways PFI – Delivery Phase Client Relationship	■		Initially postponed due to resignation of PFI Manager in Quarter 3; suspended in Quarter 4 following the decision to appoint Atkins (a specialist engineering consultancy) to carry out a detailed review of



<i>Audit Unit</i>	<i>Suspended Review</i>	<i>Additional Review</i>	<i>Comments</i>
			Highways PFI. Now scheduled to be reviewed in Quarter 2 2015/16 (post completion of Atkins review), focussing on ensuring that sustainable, long term arrangements are in place.
Housing / Safe & Secure Homes			
Income Generation			
Information Management			
ISMS (Information Security Management System)			
IT Change & Configuration Management			
Licensing			
Local Taxation			
Longer Term Interventions Team	■		Suspended in Quarter 2, post scoping having been completed, following decision to reorganise Adult Social Care; post reorganisation the Team no longer exists.
Medina Leisure Centre			
Payment Card Industry, Data Security Standard (PCI DSS)	■		Suspended in Quarter 4. PCI DSS historically has been an annual review. However this area was rated as low risk in 2013/13 and will now next be reviewed in 2016/17.
Payroll			
Public Health			
Recruitment and retention			
Risk Management			
Schools' Audits			In 2014/15 we reviewed: <ul style="list-style-type: none"> <li>• Barton Primary School</li> <li>• Carisbrooke College</li> <li>• Hunnyhill Primary School</li> <li>• Newport Primary School</li> <li>• Niton Primary School</li> </ul>

<i>Audit Unit</i>	<i>Suspended Review</i>	<i>Additional Review</i>	<i>Comments</i>
Sickness Absence			
Software Development			
Tourism/Destination Management Organisation (DMO)	■		Suspended in Quarter 2, postponed to 2015/16 to enable transition to increased funding from private sector to be included in scope.
Waste Procurement			
WightNet (Intranet)			

In addition to the audit work detailed above, the total Internal Audit fee for 2014/15 of £220,000 covers a number of supporting activities, as summarised below:

- Planning and preparation of the annual Internal Audit Risk Assessment and Plan.
- Engagement management meetings held with management and attending Audit Committee.
- Engagement administration and project management.
- Provision of the TrAction follow-up tool. \*
- Provision of the annual Audit Committee Effectiveness Day.
- Ad hoc support from our specialists.

\* Additional, unplanned time was also spent in 2014/15 supporting the Council's implementation of TrAction.

### *Implications for management*

The changes above evidence Internal Audit responding flexibly to the Council's needs, as these evolve in year; for example allocating additional time to support the TrAction implementation and carrying out detailed follow-up work in Adult Social Care.

While potentially there is an increased risk where scheduled reviews are delayed, these are either offset by the Council sourcing alternative assurance, as is the case with the work Atkins is carrying out regarding Highways PFI, or delaying reviews makes the work of greater value to the Council, as is the case with the Tourism DMO, where we will be able to provide assurance over areas which we would have not been able to include in review scopes, if carried out when originally scheduled.

## 4. Follow up work conducted

### Introduction

Time was allowed within the Internal Audit Risk Assessment and Plan for 2014/15 an indicative budget for follow-up work. In practice during 2014/15 our follow-up activity was primarily delivered through our co-sourced partner's TrAction online action tracking system, with summary reports produced from TrAction having been provided to the last three meetings of the Audit Committee. TrAction is a sector leading system, prompting action owners when updates are required and automatically escalating overdue actions to senior management. Alongside follow-up activity managed through TrAction during 2014/15 we have continued to follow-up prior year findings as part of the fieldwork for areas which we review annually.

During 2015/16 our approach to follow-up will increasingly move to reliance on TrAction for all agreed actions, including those areas reviewed annually, enabling us to make ever more efficient use of Internal Audit resource, alongside other initiatives, for example the ongoing move to fewer, broader reviews.

The detailed status of actions raised in 2013/14 is shown in the table below:

### Results of follow up work

Audit unit	Report classification	Number of agreed actions	Status of agreed actions			
			Implemented	Ongoing	Outstanding	Not yet due
Accounts Payable	Medium Risk	4	3	1	-	-
Accounts Receivable	Medium Risk	5	5	-	-	-
Adult Safeguarding	High Risk	9	9	-	-	-
Adult Social Care Contracts	Medium Risk	6	3	3	-	-
Balance Sheet, Suspense & Control Accounts	Medium Risk	3	3	-	-	-
Benefit Payments	Low Risk	1	1	-	-	-
Building Control	Low Risk	3	2	1	-	-
Business Continuity	Medium Risk	3	-	3	-	-
Capital Accounting	Low Risk	2	2	-	-	-
Car Parking Income	Low Risk	4	1	3	-	-

<i>Audit unit</i>	<i>Report classification</i>	<i>Number of agreed actions</i>	<i>Status of agreed actions</i>			
			<i>Implemented</i>	<i>Ongoing</i>	<i>Outstanding</i>	<i>Not yet due</i>
Cash and Bank	Low Risk	1	1	-	-	-
Procurement	Medium Risk	6	-	6	-	-
General Ledger	Low Risk	2	2	-	-	-
Grant Processes	Low Risk	3	3	-	-	-
Information Security Management System (ISMS)	Medium Risk	4	1	3	-	-
Heritage Assets	Medium Risk	3	3	-	-	-
IT First Line Support	Low Risk	5	5	-	-	-
Local Taxation	Low Risk	2	2	-	-	-
Northgate Revenues (Application System review)	Medium Risk	7	4	3	-	-
Payroll	Medium Risk	2	2	-	-	-
PCI DSS	Low Risk	3	1	2	-	-
Pensions Administration	Low Risk	1	1	-	-	-
Schools Payroll & HR	Medium Risk	2	2	-	-	-
Sickness absence	Medium Risk	3	3	-	-	-
The Heights	Low Risk	3	3	-	-	-
Transformation Programme	Medium Risk	6	4	2	-	-
Treasury Management	Low Risk	2	1	1	-	-
VAT	Low Risk	2	2	-	-	-
<b>TOTAL</b>		<b>97</b>	<b>69</b>	<b>28</b>	-	-

<i>Audit unit</i>	<i>Report classification</i>	<i>Number of agreed actions</i>	<i>Status of agreed actions</i>			
			<i>Implemented</i>	<i>Ongoing</i>	<i>Outstanding</i>	<i>Not yet due</i>
<b>Please note:</b> the figures above do not include all advisory findings.						

## *Summary*

As noted in the introduction on the previous page our follow-up work is increasingly reliant on TrAction. Action owners have generally adapted well to our new approach but in some areas we are aware that users are still not fully used to the new online approach to follow-up. It is also important to note that the system is not yet fully implemented, for example auto escalation is not yet enabled and new, enhanced reporting will be made available to the Council during 2015/16.

Supported by our co-sourced partner we will be carrying out additional, manual follow-up during quarter two, to assist users who are having difficulty with TrAction, with a particular focus on updating the status of the 35 actions which we are aware remain open from 2012/13. It is important from an assurance perspective that process and control weaknesses are promptly addressed to safeguard the governance and control framework of the Council. Therefore we are committed to ensuring that outstanding actions are completed at the earliest opportunity.

# ***Appendix 1: Limitations and responsibilities***

## ***Limitations inherent to the internal auditor's work***

Our work has been performed subject to the limitations outlined below.

### ***Opinion***

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

### ***Internal control***

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### ***Future periods***

Our assessment of controls relating to the Isle of Wight Council is for the period 1<sup>st</sup> April 2014 to the 31<sup>st</sup> March 2015. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

The specific time period for each individual internal audit is recorded within section 3 of this report.

## ***Responsibilities of management and internal auditors***

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

## Appendix 2: Opinion types

The table below sets out the four types of opinion that we use, along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit will apply his/her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.





<i>Type of opinion</i>	<i>Indication of when this type of opinion may be given</i>
<b>Substantial</b>	<ul style="list-style-type: none"> <li>• Generally only low risk rated weaknesses found in individual assignments; and</li> <li>• None of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Generally satisfactory with some improvements required</b>	<ul style="list-style-type: none"> <li>• Medium risk rated weaknesses identified in individual assignments that are <i>not significant in aggregate</i> to the system of internal control; and/or</li> <li>• High risk rated weaknesses identified in individual assignments that are <i>isolated</i> to specific systems or processes; and</li> <li>• None of the individual assignment reports have an overall classification of critical risk.</li> </ul>
<b>Improvement Required</b>	<ul style="list-style-type: none"> <li>• Medium risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or</li> <li>• High risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or</li> <li>• Critical risk rated weaknesses identified in individual assignments that are <i>not pervasive</i> to the system of internal control; and</li> <li>• A <i>minority</i> of the individual assignment reports may have an overall report classification of either high or critical risk.</li> </ul>
<b>Unsatisfactory</b>	<ul style="list-style-type: none"> <li>• High risk rated weaknesses identified in individual assignments that <i>in aggregate are pervasive</i> to the system of internal control; and/or</li> <li>• Critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or</li> <li>• <i>More than a minority</i> of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Disclaimer opinion</b>	<ul style="list-style-type: none"> <li>• An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either:               <ul style="list-style-type: none"> <li>○ Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or</li> <li>○ We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.</li> </ul> </li> </ul>

# Appendix 3: Basis of our classifications

## Report classifications

The report classification is determined by allocating points to each of the findings included in the report

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

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



### Individual finding ratings

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> <ul style="list-style-type: none"> <li>All 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 £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</li> </ul> <p>Service Disruption 3-5 Days</p>	<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</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> <ul style="list-style-type: none"> <li>Many 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 £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>

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
		major and persistent nature					
<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</li> </ul> <p>Service Disruption 2-3 Days</p>	<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</li> </ul> <p>Service Disruption 1 Day</p>	<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.						

# Appendix 4: Performance of internal audit

## Key Performance Indicators

We agreed a suite of Key Performance Indicators (KPIs) with management and the Audit Committee. Our performance against each KPI is shown in the table below. These highlight the focus of our work and the standard attained:

<i>KPI</i>	<i>Target</i>	<i>Performance</i>	<i>Comments</i>
<b>Planning</b>			
• % of audits with scope agreed prior to fieldwork commencing.	100%	100%	
<b>Fieldwork</b>			
• % of audits with an exit meeting.	100%	100%	
<b>Reporting</b>			
• % of audits with draft report issued within 10 working days of completion of exit meeting.	100%	100%	
• % of audits with draft report issued within 10 working days of receiving documentation from auditee	100%	100%	
• % of audits with final report issued within five working days of agreement of management response	100%	100%	
<b>Relationships</b>			
• Average individual satisfaction score	9	9.6	Based on 13 returned customer satisfaction surveys.
• Overall client satisfaction score	9	9	Overall satisfaction score, from the annual Independent Senior Partner Review (ISPR), carried out by our co-sourced partner.