

April 2016

Isle of Wight Council
FINAL Audit Committee Internal Audit Progress
Report

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1) Introduction and Internal Audit Overview

Introduction

This report presents a summary of the activities of Internal Audit for the period February 2016 to May 2016. It provides executive summaries for seven of the nine reports issued as final since the last meeting of the Audit Committee and details progress regarding the wider 2015/16 plan. Two reports, rated as high risk, are covered under separate agenda items.

Internal Audit Overview

Summary of progress against 2015/16 plan

Following February's Audit Committee meeting we have finalised all of our remaining 2015/16 reports, apart from our reviews of SAP, Economic Development, Coroners and Adult Safeguarding, which are all pending finalisation. These reports will be presented to the next meeting of the Audit Committee, in June 2016.

Of the reviews summarised in this report five are assessed as medium risk and one at low risk. Our Key Financial Systems review covered five separate areas (Cash and Bank, Creditors, Debtors, General Ledger, Payroll), all individually rated as medium risk, apart from Creditors, which is rated as low risk. Regarding the reviews rated as high risk, Highways PFI and Business Continuity and IT Disaster Recovery, these are presented to the Committee under separate agenda items.

As reported to the Audit Committee previously in addition to our planned programme of reviews we carried out two additional pieces of work in quarter four, on financial management at Newport Primary School and a high level review of how 'speed' is specified in the Rural Broadband Contract and the mechanisms in place to ensure that the projected bandwidth is delivered. Summaries of this additional work are provided below.

Newport Primary School

This review sought to verify that the reasons for over payments to staff were understood and being addressed. The school have actively addressed the key issues, reducing complexity in staff contracts and monitoring repayments.

New controls in place should significantly reduce the risk of future overpayments, however, due to a lack of easily accessible retained information, there remains a possibility that some current employees are at risk of being overpaid.

Rural Broadband

Upgrading the infrastructure to rural areas of the Island was part of a wider national initiative, led by BDUK (Broadband UK, part of the Department of Culture, Media and Sport). National press coverage implied that this 'guaranteed' superfast broadband to

substantively all properties in the Country. This is misleading, the national initiative and its local, Island component, was focussed on upgrading the infrastructure to local cabinets, with 'success criteria' based on theoretical speeds set out in the BT Chief Engineer's Model (CEM), enabled through upgrading this element of the infrastructure – specifically the infrastructure from the cabinet to individual property, which may have a significant impact on the 'actual' speeds possible, was never included in the Project.

Our review of contract documentation and interviews with Council staff engaged in overseeing the local initiative identified:

- Verification of speed uplift potential was set out in the BDUK national Testing Strategy. This checked speeds delivered to the cabinets serving 6,000 early adopter households, confirming that speeds were within tolerance, i.e. close to the expected speeds for those properties. Further testing was carried out in December 2015, This covered 560,000 properties nationally, included all properties where infrastructure had been upgraded to December 2015 on the Island and identified that the variance from that projected was 0.04%.
- Within an area on the Island, where a number of properties are identified as receiving less than predicted in the Speed and Coverage Template, additional work was carried out to identify if there are options to increase speed; for example linking properties to a closer cabinet, if one is available and providing fibre to actual properties, for approximately 200 properties where distances to the closest cabinet are identified as too great for properties to benefit from any uplift in spend.
- Further work is planned to enhance broadband speed on the Island, for example provision of satellite connectivity and ongoing discussions with Wight Cable, regarding provision of high speed wireless in the West Wight.
- There have been no direct communications to the Council from householders regarding insufficient speeds being delivered to individual properties.

There are further options available to the Council, should they wish to investigate if BT has failed to comply with the requirements of the Project. For example independent tests could be commissioned of speeds delivered to cabinets, as reported by BT or enquiry of households regarding actual speeds delivered, against those set out in C3 reports provided by BT (these provide data on the speeds available to individual properties, based on the speed to the cabinet, the distance from the cabinet and the quality of the infrastructure between the cabinet and individual properties) – both of these actions would require agreement from BT.

Before either of these actions are pursued the Council would need to attempt to quantify the dissatisfaction to justify additional expenditure, potentially leveraging dissatisfaction identified to ward councillors. One option would be to direct householders to a webpage on the Council's website, where they could sign up for an online survey and potentially a simple online speed check; although

any speed check carried out by householders themselves would not be definitive, for example internal wiring and any use of wireless would impact on its results. Potentially Internal Audit could carry out this survey on the Council’s behalf (this would need to be agreed), which could then be used to inform further investigation, for example site visits and independent speed checks, if there is sufficient evidence to justify this course of action.

Full details regarding the progress of the 2015/16 Plan is set out in Appendix 1 of this report.

Summary of progress against 2016/17 plan

Scoping has been completed for two of our scheduled quarter one reviews, on the Electronic HR Project and our delayed 2015/16 review of Property Assets; fieldwork for both of these reviews is due to start imminently.

Scoping for our other scheduled quarter one reviews, on Adult Services and the Council’s relationship with Hampshire County Council for Children’s Services, has been delayed, pending confirmation of review sponsors. As reported to Audit Committee in February 2016 our review of the relationship with Hampshire will focus on the education side of the Partnership, ensuring that there are appropriate sustainable and affordable long term plans for how the Partnership will be managed in future.

TrAction

Current internal audit agreed action status reported from our TrAction action tracking tool, is shown below:

	2012/13	2013/14	2014/15
Open	0	25	77
Completed	93	58	43

At February’s meeting of the Audit Committee we reported that progress regarding implementing actions stemming from our reviews was disappointing. Subsequent to that meeting we have uploaded actions agreed during our 2015/16 programme of work and spent time with the Council’s Head of Internal Audit, at no additional charge to the Council, to support the Council in taking a more robust approach to following up on agreed actions. All prior year actions have been reviewed, with a number being assessed as completed or no longer applicable; for actions stemming from our work in 2012/13 this has resulted in all actions being closed. Action ownership has also been reviewed and updated, to reflect changes in staff in senior posts across the Council.

We have agreed with the Council's Head of Internal Audit that performance in this area will be closely monitored, with a view to providing us with additional resources to take on this responsibility, should performance not improve to an acceptable level.

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 2015/16, based on eight returned Customer Satisfaction surveys, is 9.1 out of 10.

Full details of performance against key performance indicators for 2015/16 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 seven reports, rated as medium risk or lower, which have been issued as final since the Audit Committee last met in February 2016.

Executive summary – Contract management

Report classification  Medium Risk	Trend  We have not previously reviewed Contract Management.	Total number of findings					
			Critical	High	Medium	Low	Advisory
		Control design	0	0	1	0	1
		Operating effectiveness	0	0	1	3	0
Total		0	0	2	3	1	

Summary of findings:

As the Council increasingly provides its services via contracts with third parties, good contract management controls and performance monitoring are key to ensuring that services are delivered and paid for in line with the agreed contract specification. We have undertaken a review of controls relating to contract management. Where applicable, our review has focused on the following contracts at the Council:

- 1) Home to school bus, coach and community bus services;
- 2) Integrated grounds, parks and cemeteries contract;
- 3) Early help services contract.

Our key findings have been set out below.

Contract management framework

The Council have not developed an approved contract management framework. As such corporate expectations as to how to manage contracts in order to achieve best value for the Council and its citizens are not clearly set out and therefore key requirements not identified. As demonstrated within the Contract Management section below, this has contributed to variability in how contracts are managed across the Council, leading to potential inefficiencies or poor performance not being identified and managed. This has been raised as a **medium risk** finding.

The ‘Procurement Strategy 2013-16’ is aimed at supporting the Council in achieving its corporate priorities and delivering its vision by promoting effective procurement across the whole Council. Following a review of this document, we found that it had not been reviewed in line with its designated review date of October 2015. Although the document is technically out of date, it covers up until 2016, ensuring key priorities are still technically relevant. This has been noted as a **low risk** finding.

Staff involved in managing contracts have not been provided with any specific guidance on how to effectively manage the contracts they have responsibility for. Although the Procurement department acts as a knowledge hub for contract management good practice, advice has not necessarily been cascaded through to services, and responsibilities in relation to contract management have not been clearly defined. Training needs and plans are typically developed for staff as part of the annual appraisal process, however this does not necessarily have a specific contract management focus and does not extend to all personnel involved in the process. We have incorporated these issues into a **low risk** finding.

Contract management

As corporate expectations are not defined, for example in the form of a contract management framework, we could not test whether the three contracts under consideration had been appropriately managed in line with the Council’s requirements. We did consider the individual contracts’ current administrative controls in place and whether these addressed the key risks. We found that there were consistent issues where contract management processes and controls could be improved, these were:

- 1) There is a lack of formalised contract management meeting arrangements;
- 2) Contracts had poorly defined or non-existent Key Performance Indicators;
- 3) There is no independent review/assurance of contractor performance; and
- 4) Contract variation procedures are ill-defined.

We have combined the issues noted into a **medium risk** finding


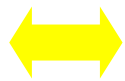
Corporate oversight and expectations

A central register is kept of all contracts, along with individuals responsible, key dates and other standing data. The Council are currently in the process of migrating this database to a new system, called Due North. The register does not provide any information in respect of contract variations or the ability to record comments such as where contracts contain annual inflationary increases. We tested the three contracts detailed above to ascertain whether the data held within the central register was accurate. In respect of the home to school bus, coach and community bus services contract and the integrated grounds, parks and cemeteries contract, we found that information was not always consistent between the contract and the contract register, for example the contract commencement date and annual value. We have therefore raised a **low risk** finding.

Each service at the Council are responsible for maintaining their own risk registers which should include significant contracts. To reduce the risk of contracts not having appropriate risk management in place, either a central register should be kept which documents all significant contracts, identifying appropriate control measures and mitigations, or a record should be held, detailing where each contract is managed from a risk perspective. If feasible, the Council could integrate this into the central contract risk register. This has been raised as an **advisory** finding.

It is within the Audit Committee terms of reference to periodically review contract management arrangements. As there is no contract management framework, we could not test whether contract activity is regularly reported to the committee in line with the requirements of the framework, although we did find that particular contracts were regularly discussed, such as the Highways PFI and Hampshire SLA.

Executive summary – Destination Management Organisation

Report classification  Medium Risk	Trend  We have not previously reviewed the management of the Council's relationship with the DMO.	Total number of findings					
			Critical	High	Medium	Low	Advisory
		Control design	0	0	2	1	0
		Operating effectiveness	0	0	0	2	0
		Total	0	0	2	1	0

Summary of findings:

The purpose of this audit was to review the Council's management of its relationship with the Destination Management Organisation (DMO), specifically the arrangements it has in place to ensure compliance with agreed elements of the DMO Grant Agreement, signed on the 1st October 2012.

Overall our review identified that the DMO has carried out a variety of activities to promote the Island's tourism offer, for example:

- Extensive press coverage, supported by promotional effort from the DMO, for example articles in the Independent on Sunday, the Daily Mirror, the Daily Mail and the Lady magazine; the total value of press exposure is estimated at £3.5 million for 2015.
- 2.37 million visitors to the DMO website in 2015.
- The new Visitor Centre in the Guildhall winning Gold at the recent South East Tourism Awards, after just four months of operation.
- Overall tourist numbers increased by 1.9% from previous years; day visits increasing by 5.2%, supported by the DMO's promotional effort.

The Council has notified the DMO of its intention to withdraw its revenue support funding (£330,000 per year) from April 2016. The future of the DMO is reliant on the success of the current Destination Business Improvement District (D BID), which will be voted on later this year by Island businesses – if successful the DMO will in future be funded through a levy on all Island businesses. Due to the importance of tourism to the Island, the Council is providing £100,000 of funding to support this process; if successful new arrangements are scheduled to be in place by September 2016.

While the DMO has met its remit to promote and support Island tourism there are lessons to be learned by the Council as to how future relationships of this kind, specifically grant funded organisations, where the aim is for them to become self-funding over a transitional period should be managed. Our overarching observation is that the relationship with the DMO has effectively been managed mainly by senior officers and members, with limited involvement from support corporate services, for example finance, insurance and risk management. We also noted that while in most areas broadly equivalent arrangements to those specified in the DMO Grant Agreement are in place, the Council has no effective mechanisms in place to assure itself that all clauses of the Agreement are being complied with.

As the Council increasingly moves to being a commissioning organisation it will need to define a consistent framework to be used for relationships of this kind, ensuring that supporting corporate services are appropriately involved in both drafting and the ongoing performance management and that agreements set out a 'roadmap' for how the relationship will change over its course, covering areas such as TUPE and ultimately, as relevant, arrangements for how funding will tail off over time. While, with funding ceasing in April 2016, any actions specific to managing the interface with the DMO are likely to be of limited value we have raised three detailed findings, with actions applicable across all grant funded services:

- *Oversight:* the DMO Board meets monthly, attended by an executive member and senior officer representing the Council. A variety of reports are presented to this forum, for example rolling performance reports, with all documentation available to Board members through a shared drop box facility (a password protected, online file store) – these arrangements effectively satisfy the requirement in the DMO Grant Agreement for quarterly

performance reporting and an annual review meeting with the Council. We also noted that annual reports, detailing the work of the DMO, are produced and considered by this forum.

As noted above, there has been limited involvement from Council staff in managing the interface with the DMO, for example the Council's Insurance Manager was not involved in the specification phase and has not had sight of the DMO's insurance documents. For future agreements of this type a standard format agreement should be used as far as possible, to promote consistency and help ensure efficient management. The Council should utilise core staff, for example in Organisational Development for Risk Management, to both support specifying agreements and provide a degree of ongoing oversight. We have raised this area as a **medium risk** findings.



- *Finance:* the DMO produces annual accounts, which are not required to be externally audited, due to the size of the DMO and are forecasting a surplus of £27,614 for the year ending 31st December 2015 (final accounts are not yet available). A rolling finance monitoring report is considered at monthly Board meetings (attended by an executive member and a senior officer from the Council), with key financial reports available to all Board members on the shared drop box facility. Our main observation is that the core mechanism used by the Council to assure themselves that the financial clauses of the DMO Grant Agreement are being complied with is attendance at the Board meetings; there has been no oversight from the Council's corporate finance team or other sources of independent assurance.

With the Council moving towards being a commissioning organisation, grant funded services will be more common in future. The Council needs to ensure that future relationships are correctly managed from a financial perspective. Options include managing agreements along the same lines as in-house services, with an assigned budget accountant, who is made aware of the financial clauses of contracts, attends meetings where finance is discussed and is responsible for providing monitoring and oversight from a financial perspective, or including the requirement in future agreements for independent, third party review. We have raised this area as a **medium risk** finding.

- *Insurance and Risk Management:* We have been provided with a copy of the DMO's insurance certificate, confirming that it has public liability insurance of £10,000,000 and employer's liability of £5,000,000 in place, complying with clause 17.2 of the DMO Grant Agreement. However the Council's Insurance Manager was not consulted regarding the level of nor has he had sight of the documents – when future agreements of this kind are drafted the Council's insurance Manager or an alternative source of expertise should be consulted, specifically to ensure the correct level of cover is required.

Clause 6.4 required the DMO to have a risk register, addressing the health and safety of staff. In practice this was not enforced. With future agreements of this type if the decision is taken not to enforce a clause the change process should be formally managed, with changes documented and signed agreement by both parties. Specifically the reason for the change needs to be captured, for example if equivalent mechanisms are felt to sufficiently address the underlying issue. We have raised this area as a **low risk** finding.

Executive summary – Flood and Water Management Act Responsibilities

Report classification  Medium Risk	Trend  This area has not previously been reviewed	Total number of findings					
			Critical	High	Medium	Low	Advisory
		Control design	0	0	1	2	0
		Operating effectiveness	0	0	0	3	0
Total		0	0	1	5	0	

Summary of findings:

As a Lead Local Flood Authority, the Council must comply with the requirements of the Flood and Water Management Act (FWMA) 2010. Flood and water management is an important area for the Council, with the autumn and winter of 2013/14 seeing the wettest period in the south of England for 250 years. Furthermore, due to the Isle of Wight's geography, it is unusually exposed to coastal flooding, with approximately 110km of coastline.

In order to fulfil the requirements of the Act, the Council have assigned responsibility for compliance across several services including Planning, Coastal Management and Emergency Management, with the contractor Island Roads also undertaking various functions. Flooding incidents are initially reported and responded to through Island Roads, who will co-ordinate their response with the Emergency Management team as category one responders in the case of significant incidents. It is the responsibility of Coastal Management to maintain a register of assets that have a significant effect on flooding, whereas the Planning department have overall responsibility for the creation and maintenance of local flood risk management strategy.. Our key findings have been set out below.

(i) Local flood risk management strategy

The Council currently do not have an approved local flood risk management strategy in place, as required by the FWMA. However, it was noted at the time the fieldwork was performed that a strategy was being actively developed and is due to be finalised in early Summer 2016.

This has been raised as a **medium risk** finding. Although not required by the act, it was noted that operational procedures are kept within each relevant department.

In order to validate their arrangements in line with the FWMA, the Council have demonstrated good practice by directly liaising with the Environment Agency. This has consisted of an individual seconding from the Environment Agency into the Planning Department in order to assist with the development of the local flood risk management strategy. Alongside this, the Council has consulted with the Environment Agency to get their agreement on the Council's approach to forming local protocols.

(ii) Incident reporting and monitoring

The Council is responsible for responding to road flooding, flooding from public drains, flooding from groundwater and flooding from ordinary watercourses. As part of the Highways PFI Contract, Island Roads have been contracted to deliver on responsibilities where they relate to highway flooding.

Although all flooding incidents should initially be reported to Island roads, cases are passed on to the relevant area of the Council where appropriate. Through an inspection of the Council's website, we found it to be unclear as to who the different categories of flooding incident should be reported to by the public, and as such we have raised this as a **low risk** finding.

Island Road's responsibilities are defined within the PFI Highways Contract. We noted that as defined within the contract, Island Roads are required to have a flood response plan in place, updated on an annual basis. The most recent document provided for our review was dated 2014, and hence has not been reviewed on a timely basis. We have therefore raised this as a **low risk** finding. Following the completion of our fieldwork, it was noted that a 2016 flood response plan was submitted to the Council during February 2016.

Performance against the PFI Highways Contract, and therefore performance regarding responding to flood incidents, is monitored at monthly contract meetings, which are attended by key personnel involved in the process. However, Island Roads report against their own compliance with the contractual terms

of the PFI Highways Contract. Although the Council do have access to Island Road's management information system, and have developed a new audit tool in collaboration with external consultants, regular and methodical checks of all compliance statistics presented by Island Roads is not undertaken in order to validate this information. This includes performance in relation to flood and water management. Good practice would suggest that the Council monitors performance independently, to ensure compliance that response times are adequate and performance standards are maintained. As this issue is not applicable to compliance with the Flood and Water Management Act 2010, we have raised this as a finding within our 2015/16 'Highways PFI' internal audit report (IOW-05). There have been no significant flooding incidents during the period covered by this review, and therefore we have been unable to test whether there has been appropriate coordination in responding to flood incidents across the Council. However, through conversations with key personnel, we received positive feedback in relation to the level of communication between Island Roads, Coastal Management and the Emergency Management Team.

(iii) Asset register and enforcement

As part of the 2010 Shoreline Management Plan, a register of all structures and features both on Council and private land were identified and recorded as part of the shoreline defence appraisal. To support this, a paper file register is maintained which includes detailed information in relation to each asset, such as ownership details, state of repairs and pictures of the structure/feature. Any relevant new structures are communicated to Coastal Services by the Planning department and are added to the register. In line with best practice, the Council should consider converting the register to electronic form.

Upon a review of the register, it was noted that it did not contain all assets which may have a significant effect on flooding, as required by the FWMA. At present it focusses on shoreline structures, however it omits land assets such as ordinary watercourses and sustainable drainage systems. This has been raised as a **medium risk** finding.


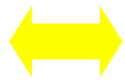
An enforcement protocol is in place which sets out when the Council will take action if there has been damaging or potentially damaging works that have been undertaken without consent or are in contravention to an issued consent. There have been no enforcement actions undertaken by the Council during the period this review covers, and as such we were unable to undertake detailed testing over this area. To support the enforcement protocol, we found that it would be beneficial for the Council to develop a standardised enforcement procedure, to ensure that all cases are responded to consistently. This has been raised as a **low risk** finding.

(iv) Validation and service costs

The Council have liaised directly with the Environment Agency in respect of the local flood risk management strategy in order to ensure that the Council's legal obligations under the FWMA are being complied with. This is an appropriate approach, however once the strategy has been approved and any arrangements with the Environment Agency are concluded, the Council should ensure that it has sufficient processes in place to verify that it is meeting all of the requirements of the FWMA.

As noted above, responsibility has been assigned across the Council for ensuring compliance with the Act. As a consequence, we found that costs in respect of the service are not recorded and controlled, meaning it would be difficult for the Council to ascertain whether the service was achieving value for money. This has been raised as a **low risk** finding.

Executive summary – IT application: Northgate

Report classification  Medium Risk	Trend  Consistent with our review of Northgate in 2013/14	Total number of findings					
			Critical	High	Medium	Low	Advisory
		Control design	0	0	2	1	0
		Operating effectiveness	0	0	0	0	0
		Total	0	0	2	1	0

Summary of findings:

The purpose of this audit was to review arrangements in place to manage and support the Northgate Revenue and Benefits system, covering the following areas:

- *Framework*: ensuring appropriate overarching arrangements are in place, for example documentation, performance management and technical support arrangements.
- *User management*: ensuring timely granting and revocation of access and segregation of duties.
- *Continuity*: ensuring regular backups are taken and appropriate arrangements are in place to restore the system in the event of a continuity incident.
- *Change Management*: ensuring that changes are correctly managed; for example tested and authorised, prior to migration to the live system.

Northgate is a key system for the Council, with frontline Revenues and Benefits teams being heavily reliant on the system for service delivery. The core system has over 100 users, primarily based in Sandown, although there are an increasing number based in Westridge, as first line queries are now handled by the Call Centre. Since our last review we also note that the Landlord Portal has been implemented, giving social landlords read only access to their tenants’ benefit details. A particular highlight of how Northgate is managed is fully role based access, where users’ access is implemented solely according to profiles which have been authorised by key process owners, in line with good practice. As part of this review we sample tested five changes, one new user and five users where access levels have changed; we also checked 100% of staff who have left the Council since the 1st April 2015 against live Northgate accounts – our testing did not identify any issues. We have raised three detailed findings, as summarised below:

- *Framework*: Appropriate documentation, for example job descriptions and process notes, are in place covering key activities necessary to support Northgate. We did note that the job description for the Corporate Applications Development Lead has not been reviewed for a number of years and refers to forums, for example the Business Process Owners group, which are no longer in place; this should be reviewed and updated to ensure it is reflective of current practice. We also identified that while a generic job description covering business owner responsibilities has been drafted, this has not yet been implemented for Northgate; this should be implemented as planned.

The contract with Northgate, the system vendor, has been renewed on an annual basis since our last review, in 2013/14, as the Council’s long term requirements have been unclear, for example due to changes in national expectations regarding benefit management. We were informed that long term needs are now clear, with a multiyear agreement scheduled to be put in place during 2016/17; this should continue as planned, specifically ensuring that there are appropriate technical support arrangements included, with the key member of the technical support team with Unix skills scheduled to retire in August 2016.

While there is no specific monitoring of performance regarding Northgate, we did note that it is covered by the overarching performance indicator regarding availability of IT systems in core hours (target 99%). We were also informed that this area will be revisited as part of a wider review of IT/client relationships, potentially including implementing SLAs (Service Level Agreements) in 2016/17 – this should continue as planned. We have

raised this area as a **medium risk** finding.

- *Continuity*: While hosted on a single server the Northgate infrastructure does have a level of resilience, for example data is hosted on a SAN (Storage Area Network), which is error tolerant and there are multiple data links between County Hall, where the server is hosted and Sandown and Westridge in Ryde, the two sites where the majority of users are located. We also noted that the database backing Northgate is backed up daily to Enterprise House, a suitably distant site from County Hall.

While Northgate is covered by the Council server recovery contract, ensuring replacement hardware will be available if required, a disaster recovery rehearsal for Northgate has not been carried out for over three years. While realistically there are higher priority applications to be tested in 2016/17, for example Paris, the system scheduled to be implemented in Adult Social Care in April 2016, Northgate should be included in the 2017/18 test. We also noted in the core IT Disaster Recovery Plan that Northgate may be down for up to three weeks, in the event that the County Hall data centre is lost and the entire core network infrastructure has to be restored. While this is an unlikely event, the timeframe within which Northgate will be restored should be revisited and confirmed with senior management, as part of a wider review of system criticality in 2016/17. We have raised this area as a **medium risk** finding.

- *Change Management*: separate test and live environments for Northgate are in place and all changes are tested and authorised prior to being migrated to the live system. To confirm that the change process is working correctly we sample tested five changes implemented since the 1st April 2015. While our testing did not identify any significant issues, all changes were tested and signed off before being migrated to live, we did note that authorisation is currently noted in a spreadsheet for each change. Potentially this could be manipulated, opening the potential for unauthorised changes to be migrated to the live system. A more robust control would be for e-mails granting authorisation to be saved and embedded in the change spreadsheet. We have raised this as a **low risk** finding.





As part of the fieldwork for this review we revisited the actions agreed in 2013/14, when Northgate was last reviewed; current statuses are summarised below:


- *Technical Responsibilities, Central IT* – **partially implemented**: the first part of action has been substantively addressed, with the database backing Northgate backed up to Enterprise House, sufficiently distant from the Data Centre in County Hall. The second part of this action referred to the single member of staff in the central IT team with Unix skills - at the time of our last review the Council had a number of systems hosted on Unix. When Swift, the system used by Adult Social Care, is replaced by Paris in April 2016 Northgate will be the only system the Council has hosted on Unix. In the short term the Council does have a support contract in place, specifically covering Unix. Longer term we have re-raised this element of the finding, as per 'Framework' above.
- *Framework* – **partially implemented**: this finding covered documenting processes, considering centralising technical responsibilities carried out by the Sandown team and ensuring that changes were implemented out of hours. Core processes are now documented and, while not always carried out outside of hours, we were informed that frontline users are always consulted as part of the process of scheduling changes. Centralisation of all technical responsibilities is complicated by the fact that the Sandown team are also responsible for technical business processes, for example running scheduled jobs; due to this dual role the decision has been taken to leave arrangements unchanged.
- *Business Ownership* – **partially implemented**: this finding covered documenting the business owner role for Northgate. We were informed that a generic job description for all system business ownership has been drafted but that this has not been implemented for Northgate yet. We have included implementing the generic job description as planned as per 'Framework' above.
- *Liaising with technical staff* – **implemented**: this finding covered support calls coming into central IT being routed via First Line Support and managing call through LANDesk, the Council's service desk system. The second part of the action covered documenting meetings held with Northgate, the system vendor; both of these actions have been implemented.

- *Performance management* – **not implemented**: this finding covered identifying, monitoring and reporting performance measure specific to Northgate. While this has not been progressed we were informed that it will be re-visited as of a wider review of IT/client relationships, potentially including implementing SLAs (Service Level Agreements) in 2016/17, as per '*Framework*' above.
- *Monitoring user activity* – **not implemented**: while Northgate provides an interface to view actions carried out by users it was not proactively monitored at the time of our last review, this being unchanged at the time of this review. To an extent this is mitigated by role based access and our sample testing of user access management did not identify any issues. With reduced staffing available, it is not considered realistic to implement proactive monitoring at this time.
- *Continuity* – **not implemented**: this action covered including Northgate in the disaster recovery rehearsal in 2014/15. In practice a rehearsal was not carried out in 2014/15 or 2015/16. Although a rehearsal is planned for 2016/17 this will focus on higher priority systems, for example Paris, the Adult Social Care system. We have re-raised this action for Northgate to be included in the 2017/18 test, under '*Continuity*' above.

Executive summary – Key Financial Systems

Overall risk rating per Key Financial System:

<p>Cash and Bank</p>  <p>Medium Risk (7 points)</p>	<p>Total number of findings: 3</p> <table border="1"> <thead> <tr> <th></th> <th>Critical</th> <th>High</th> <th>Medium</th> <th>Low</th> <th>Advisory</th> </tr> </thead> <tbody> <tr> <td>Control design</td> <td>-</td> <td>-</td> <td>1</td> <td>-</td> <td>-</td> </tr> <tr> <td>Operating effectiveness</td> <td>-</td> <td>-</td> <td>1</td> <td>1</td> <td>-</td> </tr> <tr> <td>Total</td> <td>-</td> <td>-</td> <td>2</td> <td>1</td> <td>-</td> </tr> </tbody> </table>		Critical	High	Medium	Low	Advisory	Control design	-	-	1	-	-	Operating effectiveness	-	-	1	1	-	Total	-	-	2	1	-
	Critical	High	Medium	Low	Advisory																				
Control design	-	-	1	-	-																				
Operating effectiveness	-	-	1	1	-																				
Total	-	-	2	1	-																				
<p>Creditors</p>  <p>Low Risk (3 points)</p>	<p>Total number of findings: 4</p> <table border="1"> <thead> <tr> <th></th> <th>Critical</th> <th>High</th> <th>Medium</th> <th>Low</th> <th>Advisory</th> </tr> </thead> <tbody> <tr> <td>Control design</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Operating effectiveness</td> <td>-</td> <td>-</td> <td>-</td> <td>3</td> <td>1</td> </tr> <tr> <td>Total</td> <td>-</td> <td>-</td> <td>-</td> <td>3</td> <td>1</td> </tr> </tbody> </table>		Critical	High	Medium	Low	Advisory	Control design	-	-	-	-	-	Operating effectiveness	-	-	-	3	1	Total	-	-	-	3	1
	Critical	High	Medium	Low	Advisory																				
Control design	-	-	-	-	-																				
Operating effectiveness	-	-	-	3	1																				
Total	-	-	-	3	1																				
<p>Debtors</p>  <p>Medium Risk (8 points)</p>	<p>Total number of findings: 5</p> <table border="1"> <thead> <tr> <th></th> <th>Critical</th> <th>High</th> <th>Medium</th> <th>Low</th> <th>Advisory</th> </tr> </thead> <tbody> <tr> <td>Control design</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Operating effectiveness</td> <td>-</td> <td>-</td> <td>2</td> <td>2</td> <td>1</td> </tr> <tr> <td>Total</td> <td>-</td> <td>-</td> <td>2</td> <td>2</td> <td>1</td> </tr> </tbody> </table>		Critical	High	Medium	Low	Advisory	Control design	-	-	-	-	-	Operating effectiveness	-	-	2	2	1	Total	-	-	2	2	1
	Critical	High	Medium	Low	Advisory																				
Control design	-	-	-	-	-																				
Operating effectiveness	-	-	2	2	1																				
Total	-	-	2	2	1																				
<p>General Ledger</p>  <p>Medium Risk (12 points)</p>	<p>Total number of findings: 6</p> <table border="1"> <thead> <tr> <th></th> <th>Critical</th> <th>High</th> <th>Medium</th> <th>Low</th> <th>Advisory</th> </tr> </thead> <tbody> <tr> <td>Control design</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Operating effectiveness</td> <td>-</td> <td>-</td> <td>3</td> <td>3</td> <td>-</td> </tr> <tr> <td>Total</td> <td>-</td> <td>-</td> <td>3</td> <td>3</td> <td>-</td> </tr> </tbody> </table>		Critical	High	Medium	Low	Advisory	Control design	-	-	-	-	-	Operating effectiveness	-	-	3	3	-	Total	-	-	3	3	-
	Critical	High	Medium	Low	Advisory																				
Control design	-	-	-	-	-																				
Operating effectiveness	-	-	3	3	-																				
Total	-	-	3	3	-																				

 Medium Risk (8 points)	Total number of findings: 4				
	Critical	High	Medium	Low	Advisory
	Control design	-	-	-	-
	Operating effectiveness	-	-	2	2
Total	-	-	2	2	-

Summary of findings:

Our review included a number of key finance systems during the period April 2015 to February 2016 within the Council. The key financial systems in scope for testing this year are:

- **Cash and Bank** - The Cash and Bank Team is located at the Sandown Centre. Cash and bank reconciliations form part of the Council's Treasury Management procedures, defined as the management of the Council's cash flows, banking, money market and capital market transactions. The areas of cash and bank in scope for our review were the collection and banking of monies, the reconciliation of bank accounts and the reconciliation of local tax income. A high level analysis of the Cowes Floating Bridge's cash controls was also undertaken.
- **Creditors** - Accounts Payable staff within the Shared Services Department are responsible for paying debts owed by the Council, such as invoices relating to goods and services received. The payments are processed through the SAP financial system. The ordering and payment of goods, services and large contracts have been reviewed. In addition the procedures around the changes of supplier standing data and the purchasing authorisation hierarchy have also been tested.
- **Debtors** - The Accounts Receivable function is responsible for collecting sundry debts due to the Council, for example invoices relating to homecare, allotments and school music lessons. The raising of invoices, receiving of income invoices, collection of debtor balances and the writing off of debtor balances, as well as the procedures in place over the raising of credit notes, have been reviewed
- **General Ledger** - The general ledger module within the SAP main accounting system provides key financial information to managers regarding financial performance, as well as forming the main source of data for the production of the Council's statement of accounts. Ensuring appropriate journals have been posted and authorised, that appropriate procedures exist around new and dormant codes, that suspense accounts are maintained effectively as well as effective financial reporting is undertaken by the Council, were the main areas within the scope of this review.
- **Payroll** - The Payroll Team is located at the Westridge Shared Services Centre, with the HR Transactional Team being located at County Hall. The Payroll Team is responsible for processing the payroll for directly employed Council staff but not Island schools staff. The HR Transactional Team is responsible for processing starters, transfers and leavers. Both payroll and HR systems are managed through the integrated SAP system. Procedures in place over starters, leavers and amendments, payroll reconciliations and appropriateness of payroll advances have been reviewed.

Our report includes findings within each of the above areas as well as agreed actions for improving the design and operating effectiveness of the current controls in place. A number of the findings that have been raised relate to controls which have not been effectively implemented by managers. With the reducing level of management capacity there is a risk that the Council will not be able to consistently operate controls effectively.

Our detailed findings are included in section two of this report with a summary set out below.

Cash and Bank – We have raised three findings in relation to the review of Cash and Bank controls. The overall risk rating awarded to Cash and Bank is **Medium** risk. A *low* risk issue has been raised due to the operating effectiveness of the bank reconciliation process. The October 2015 treasury reconciliation has not been reviewed on a timely basis. In addition to this, the November 2015 NNDR and council tax reconciliations were not prepared on a timely basis. Timely being defined as a month from the preparation of the reconciliations. Officers explained that the delay was due to time pressure as a result of other priorities in the first half of the year. Management have confirmed that bank reconciliations are now up to date.

Findings have been raised over the cash controls in place at the Cowes Floating Bridge. A *Medium* risk issue has been found in relation to the cash handling controls including no prescribed cash collection method for the use of the floating bridge by vehicles; unclear classification of vehicle types using the bridge therefore resulting in customers being undercharged; and the inability of floating bridge staff to access the Council's main bank account to verify the accurate banking of receipts. A *Medium* risk finding has also been raised in relation to the lack of segregation of duties when counting and reconciling cash as well as the uneven distribution of the cash float between staff members.

Creditors – We have raised four findings in relation to the review of Creditor controls. The overall risk rating awarded to Creditors is **Low**. A *low* risk finding was raised over the ordering of goods and services. Testing of 25 purchases identified an inconsistency in the GL and Cost Codes between SAP and the purchase order in two cases. A *low* risk finding has also been raised over the payment of invoices. It was identified through testing that three out of the twenty five tested were not paid on a timely basis, as well as one occasion where a retrospective purchase order had been raised.

Of the twenty five payments tested, seventeen instances were noted where vendor set up forms could not be viewed to confirm the validity of the supplier. In line with the prior year explanation, this was because the suppliers were exported from the previous system, Wealden, but the vendor set up forms had not been transferred. To address the related risk, the Council undertook a review of vendors in September 2014, with all vendors that have not been used in the last 18 months removed.

A *low* risk finding has been raised as it was noted the Vendor Set Up policy has not been updated on a timely basis.

Debtors – We have raised five findings in relation to the review of Debtor controls. The overall risk rating awarded to Debtors is **Medium** risk. A *medium* risk finding was noted on the raising of invoices. Testing identified that on two instances out of the twenty five, invoices were not raised on a timely basis, alongside this, on two occasions appropriate review by senior management of large invoices (above £20,000) could not be evidenced. Testing also identified one instance where a debtor balance had not been pursued in a timely manner. Timely has been defined as one month from the outstanding overdue debtor. A *low* risk finding has been raised over the appropriateness of credit notes. Testing of twenty five credit notes identified one instance where the same individual raised and posted a credit note. A *medium* risk finding has been raised over the debt recovery and write off procedures. The Council do not currently define priorities in collecting, i.e. which types of debt or amounts should be focused on, and hence large sums may become irrecoverable. As well as this it has been noted at the time of the review (January 2016) 75.21% of overdue debt was within the less recoverable sector of outstanding debt, this being 120 days plus. Testing of twenty five write offs identified that on three occasions no write off form was retained, hence the appropriateness of them could not be verified; on five occasions the date of the write off per the form and SAP were not consistent; and on three occasions there was no date disclosed on the write off form, so timeliness of the write off could not be tested. A *low* risk finding has also been raised over the debtor policies and procedures, where five of seven policies reviewed have not been updated for more than a year.


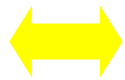
General Ledger – We have raised six findings in relation to the review of General Ledger controls. The overall risk rating awarded to General Ledger is **Medium** risk. A *medium* risk finding has been raised over journals. Through the testing of twenty five journals it was identified that appropriate authorisation did not occur on two occasions; on five occasions journal documentation was not complete; and on three occasions the same staff member requested and posted the journal. A *medium* risk finding was also raised on the set up of new GL codes. Testing of twenty five new GL codes identified seventeen occasions where the new code had been self-authorized as well as two occasions where the required new GL code set up form was not used. A *medium* risk finding has

been raised on suspense accounts not being reviewed on a timely basis. In addition to this, it was identified the Council have no set timeframes within which suspense accounts should be cleared.

In relation to budget monitoring, a *low* risk finding has been raised as there is no threshold on what constitutes a significant financial variance and hence should be reported and explained. A *low* risk finding has also been raised as the Council currently do not have a consistent approach in reporting financial information to the mini-service or service boards in operation at the Council. The final *low* risk finding relates to the lack of timely review of policies and procedures.

Payroll – We have raised four findings in relation to the review of Payroll controls. The overall risk rating awarded to Payroll is **Medium** risk. A *medium* risk finding has been raised over the starters and leavers process. Testing over twenty five starters and twenty five leavers identified three starters and four leavers forms that had not been sent prior to the starter's/leaver's date; the HR deadline had been missed on a total of four starters and leavers; while twenty starters' contracts have been sent late and after the start date. Timely authorisation of starters and leavers has also been noted as an issue. On three occasions for starters and four occasions for leavers, authorisation to process the individual's data had not been obtained prior adding or removing the individual. A *medium* risk finding has been raised on the amendments process, as testing of twenty five amendments identified on four occasions the HR deadline was not met, causing backdated payments or reductions in future salary for all four occasions. As well as this, on one occasion an amendment was not authorised until after the change effective date. A *low* risk finding has been raised in regard to payroll suspense accounts reconciliations as there are old reconciling items present on the reconciliation, with the one dated July 2014. A *low* risk finding has also been raised on payroll policies and procedures as the Regrading and Change of Hours policy has not been reviewed within the 15/16 financial year.

Executive summary – Pensions Governance

Report classification  Medium Risk	Trend  We have not previously reviewed Pensions Governance.	Total number of findings					
			Critical	High	Medium	Low	Advisory
		Control design	0	0	2	0	0
		Operating effectiveness	0	0	0	1	2
		Total	0	0	2	1	2

Summary of findings:

The Council is a pension scheme administering authority, and, as such, has varying oversight responsibilities over a number of different pension schemes. The Council acts as administering authority and scheme manager for the Isle of Wight Council Pension Fund, part of the Local Government Pension Scheme (LGPS). As at the 31st March 2015, there was a scheme deficit of £202,617,000, with Council employees totalling 88.9% of the scheme's total membership and 79.4% of active membership.

The Council also acts as scheme manager for the unfunded Fire Fighters Pension Schemes, which recognised the council's share of the national scheme deficit of £79,200,000 as at the 31st March 2015.

The Council also has employees who are members of the unfunded NHS Pension Scheme and the Teacher's Pension Scheme, with responsibilities limited to collecting and paying contributions over to the applicable scheme. As the Council's responsibilities are limited for the NHS and Teachers Pension Schemes, governance arrangements are not specifically required for these schemes and hence we have not considered these further as part of this review. Our key findings have been set out below.

Governance structure

There is a robust governance structure covering both of the Council managed pension schemes. A key part of these arrangements is the Pension Fund Committee, which is currently comprised of seven elected members and two non-voting representative members. In respect of the LGPS, this committee is responsible for determining the strategic investment policy, as well performing various other duties such as monitoring the performance of fund managers, investment advisors and actuaries. From November 2015 onwards, the remit of this committee was extended to also consider the Fire Fighters Pension Scheme.

In addition, the Public Services Pensions Act 2013 placed a responsibility on the Council, as an administering authority, to establish pension boards no later than the 1st April 2015, to provide oversight over compliance with these regulations. As such, terms of reference were constituted by the Full Council for the Local Government Pension Board and the Fire Fighters Pension Board during the January 2015 and February 2015 sessions respectively. The Pension Fund Committee also have an approved terms of reference in place which forms part of the Council's constitution.

A review has been performed by the Technical Finance Manager to ensure that board/committee terms of reference are in line with the duties and responsibilities required by the Council, as specified by relevant pension scheme regulations. Going forward, given the consequences of LGPS fund pooling investments, as identified within the Chancellors Summer Budget 2015, the Council will need to reconsider the responsibilities of each board/committee.

Membership and voting rights

The current structure and membership of both the LGPS Pension Board and the Pension Fund Committee was in line with their terms of reference and good practice guidance. The LGPS Pension Board is equal in respect of the number of employee and employer members in line with guidance, comprising of four members in total: a participating employer representative, an admitted body representative, a pensioner member and an active member. Membership of the Pension Fund Committee is detailed on the Council's website, however only the seven elected members are shown, not the non-voting employee and admitted body representative. This oversight is raised as an **advisory** finding.

Although the terms of reference have been constituted for the Fire Fighters Pension Board, at the time of this review membership of the board had not been finalised nor had the board met. The remit of the Pension Fund Committee was extended during November 2015 to also cover the Fire Fighters Pension Schemes in respect of the duties and responsibilities outlined in the Governance Structure section above, before this time being overseen by the Full Council. This has been raised as a **medium risk** finding.

Through inspecting the terms of reference for the LGPS Pension Board and the Fire Fighters Pension Board, we found that the policy on voting rights was clear and transparent, with rights given to each member. However, although voting rights for Council committees are explained elsewhere within the Council's constitution, within the Pension Fund Committee's terms of reference it does not clearly justify the reason for not extending voting rights to the non-elected committee members. This is raised as a **low risk** finding.

Board and committee operation

Both the LGPS Pension Board and the Pension Fund Committee meet quarterly, with the dates of meetings synchronised so that the LGPS Pension Board sits the month after the Pension Fund Committee. From our review of the minutes we concluded that the performance of the LGPS investment fund is robustly analysed by the Pension Fund Committee. As raised above, the Fire Fighters Pension Board did not meet during the year as membership has yet to be finalised. However this scheme is unfunded meaning there are no investment funds that require scrutiny.

Through a review of papers and minutes and a series of interviews with key personnel, we considered whether reports presented to the LGPS Pension Board and the Pension Fund Committee were appropriate and meet member requirements. It was highlighted to us that reports were useful, allowing members to discharge their responsibilities fully. It was noted that on a national level the Council are seeking clarification who pension boards are reportable to, for example to Full Council themselves, or perhaps to a local government or pensions regulator. At present, officers are involved in supporting the operation of the committee, for example by preparing papers. However going forward, once the relationship has been clarified, the Council should consider the independence implications of the outcome in relation to the operation of both the LGPS Pension Board and the Fire Fighters Pension Board.

Policies and training

For elected members, policies on training, facility time and the reimbursement of expenses are covered as part of the Council's constitution. However, there are no such policies in place which cover the other representatives who may sit on the Pension Fund Committee, LGPS Pension Board and the Fire Fighters Pension Board. As a consequence, the LGPS Pension Board is currently operating with no budget, however per Section 106 of the Local Government Pension Scheme Regulations, the expenses of a local pension board should be regarded as part of the costs of administration of the fund held by the administering authority.

Both the Pension Fund Committee and the LGPS Pension Board have put an annual work programme in place to ensure members receive training, holding sessions either before or during scheduled meetings. In respect of the Pension Fund Committee, we found that the training needs analysis had not been formally updated since July 2013.

A training needs analysis has not yet been undertaken for the LGPS or Fire Fighters Pension Boards. As new bodies, this is important to ascertain where development is needed. We have incorporated this issue and the issue directly above into a **medium risk** finding.



Publishing of governance arrangements

The Pension Fund Committee have a dedicated section on the Council's website, where minutes, agendas, member information and details of forthcoming meetings are available for stakeholders. In addition to this there is a comprehensive pension's service section providing information to current, past and pensioner members as well as various forms and leaflets. Fund reports are also published, including the LGPS pension fund annual report, triennial valuation reports and pension strategies and policies. However, it was noted that this section of the Council's website is not directly linked to the Pension Fund Committee section. Furthermore, the Council's website does not clearly explain how stakeholders can express an interest in wanting to be part of governance arrangements, although sufficient information is provided in general in respect of the Isle of Wight Council Pension Scheme.

In addition to these points, the pensions services section of the Council's website focuses on the Local Government Pension Scheme, however does not provide

any information in relation to the Fire Fighters Pension Scheme. Although the fund report is included within the Council's annual accounts, this is not signposted to stakeholders and therefore sufficient information is not made available to stakeholders. On the pension's services section, we noted several documents links as part of the 'Fund Reports' page to be out of date/superseded. We have incorporated these issues into a **low risk** finding.

Executive summary – Waste

Report classification  Low Risk	Trend  Risk is consistent with our reviews of the procurement phase of the Waste Contract	Total number of findings					
			Critical	High	Medium	Low	Advisory
		Control design	0	0	2	0	0
		Operating effectiveness	0	0	0	0	0
		Total	0	0	2	0	0

Summary of findings:

The purpose of this audit was to review the arrangements the Council has put in place to ensure a smooth transition to the new Waste service provider, Amey, from the 1st November 2015; specifically our review covered:

- *Needs Identification:* ensuring that areas excluded from the new Waste Contract are planned for and opportunities for value added services, not provided by the current contractor, are identified and progressed.
- *Provider Relationship Management:* ensuring that how the ongoing relationship will be managed is appropriately documented and agreed.
- *Transition:* specifically that a shadow team is in place, with appropriate knowledge and skills, to help ensure the transition to the new provider is as smooth as possible.
- *Ongoing Management:* appropriate staffing and resources are in place to manage the ongoing relationship with Amey and maximise their performance.

The procurement of the new Waste Contract has been long and complex and it is not possible to conclude definitively that no issues will arise over the 25 year term of the agreement. However the Council has learned from previous large, high profile contract procurements and has put a number of mechanisms in place to both realise additional value from the contract with Amey, both in terms of cost savings and additional services. This will help to ensure that the contractor is held to an agreed level of service; for example:

- Cost savings of approximately £500,000 in year one of the Contract, when compared to the previous Waste Contract – subsequent to the completion of our fieldwork we were informed that savings will rise to £1 million per year from year two and subsequent years of the Contract.
- A number of additional services included in the new Waste Contract, for example a ‘hit squad’ to tackle fly tipping on Council land, we also note that this service covers both known and unknown Council land – subsequent to the completion of our fieldwork we were additionally informed that free Christmas Tree collection was also provided by Amey, at no additional cost to the Council as part of their service.
- A shadow team, covering technical, finance and legal responsibilities; we also note that two of the three members of this Team have signed agreements prohibiting them from working for Amey for the next 15 months.
- A comprehensive performance management framework, covering the information which will be available to the Team, the reports which will be produced, meetings which will be held and how any underperformance will be addressed, for example through withholding payment.

The fieldwork for this review was completed in November 2015. Subsequent to the completion of our initial fieldwork we have validated that actions stemming from two of our initial findings have been satisfactorily addressed. To ensure the Audit Committee have complete visibility over our review these are summarised below:

- *Impact of Changed Provision:* as above the Waste Contract provides for a number of additional services, for example covering fly tipping, not included in the existing Contract. However gate fees for waste disposal at landfill (fees chargeable when waste is disposed of), which were covered in the previous contract, will in future be levied, as the landfill site is the property of Biffa Waste Services Ltd and the Council have no contractual relationship with Biffa. The services affected being Highways, Grounds Maintenance and Beach Cleaning, all of which are provided by external contractors. Highways waste costs are currently the subject of ongoing negotiations, while the Beach Cleaning Contract will be re let for 2016 (waste disposal costs are clearly specified in the specification for the new contract); the position regarding costs stemming from Grounds Maintenance, which has a number of years left to run) is not explicit in the current contract but we were informed is understood by both the Council and the contractor – when this Contract is re-let we were informed that where costs sit will be made explicit, as has been done with the Beach Cleaning Contract.
- *Provider Interface and Performance Management:* this area is significantly improved over previous high value, long duration contracts. Schedule two of the Contract goes into considerable detail regarding the performance standards which have to be met and the cost deductions which will be made if they are not met. We have confirmed that the Management Information System (MIS), which interfaces to the Council’s Customer Relationship Management (CRM) system, using an automated interface, is now fully live, with information passing across to Amey’s systems automatically. We have also confirmed that regular contract management meetings are now happening with Amey, with terms of reference covering their remit and formal management (i.e. agendas and agreed minutes) in place – during our initial fieldwork we were informed that this these were planned, although detail of how these would run was not specified in the Contract.

Our initial fieldwork identified two further findings; the first of these has been partially resolved, the second is in the process of being resolved. These are summarised below:

- *Call Handling:* As with the previous Waste Contract, calls will be handled by the Council’s Call Centre. An increase in calls was expected but this has been much greater than anticipated – 3,443 calls in the first 17 days of November, compared to 1,078 for the first 17 days of November 2014, this equates to a daily increase from 63 calls per day, to 203 calls per day. The biggest increase is related to green waste handling (831 calls to date in November – with the new Contract householders have to request a pickup, at least three working days in advance of when required), this has been widely covered in the local press and may well reduce as the people become more accustomed to the new service. The best way to handle this increase is to strongly encourage people to use online forms. Call volumes should also be monitored and, if they continue at their elevated level, the Council will either have to increase capacity within the Call Centre or accept that it will only be able to offer a reduced level of service across all call handling activity. We have raised this area as a **medium risk** finding.
Subsequent to the completion of our fieldwork we have been provided with statistics from the Call Centre, covering December 2015 and January 2016. These identify that while call volumes are reducing they are still at a higher level than for the equivalent period in 2014/15. As originally recommended in November 2015 these should be monitored and either additional resources made available or a degraded level of service accepted as necessary.
- *Waste Contract Management Team:* two of the three core members of the Waste Procurement Team have signed an agreement, prohibiting them from working in waste related industries for 15 months. While this is a significant improvement over previous high value, long duration contracts, there is nothing to stop any of the shadow team leaving the Council, subject to normal notice periods. Discussions should be had with HR to identify if it is possible to increase the notice periods for these key members of staff.

At present the Council is in the process of implementing a specific team to manage high value contracts, including Waste. As this progresses, specific to Waste, the following areas need to be addressed:

- Ensuring that there is appropriate documentation covering key processes.
- Ensuring job descriptions are accurate.
- Cross skilling/succession planning; minimising reliance on key members of staff.

- Third party support; ensuring cost effective services can be sourced as necessary, for example legal and financial services.

Ultimately the Council needs to be confident that it has a robust and resilient waste management function in place for the duration of the Contract; we have raised this area as a **medium risk** finding. As above this issue is still in the process of being resolved.

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

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
Medium	<p>A finding that could result in a:</p> <ul style="list-style-type: none"> • Major effect to an important service area for a short period • Adverse effect to services in one or more areas for a period of weeks Service Disruption 2-3 Days 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> • Adverse local publicity /local public opinion aware • Statutory prosecution of a non-serious nature 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> • Severe injury to an individual or several people 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> • Some individual personal details compromised/ revealed 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> • Litigation/claims/ fines from Department £25k to £50k • Corporate £50k to £100k 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> • Costs between £5,000 and £50,000 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> • Adverse effect on project/ significant slippage – 3 weeks–2 months
Low	<p>A finding that could result in a:</p> <ul style="list-style-type: none"> • Brief disruption of important service area • Significant effect to non-crucial service area Service Disruption 1 Day 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> • Contained within section/Unit or Directorate • Complaint from individual/small group, of arguable merit 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> • Minor injury or discomfort to an individual or several people 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> • Isolated individual personal detail compromised/ revealed 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> • Litigation/claims/ fines from Department £12k to £25k • Corporate £25k to £50k 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> • Costs less than £5,000 	<p>A finding that could result in:</p> <ul style="list-style-type: none"> • Minimal impact to project/ slight delay less than 2 weeks
Advisory	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
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	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 2015/16 internal audit plan

Audit name	Fee	Current Status	Report classification for those audits completed
Adult Safeguarding	£7,016	Draft Report	-
Benefit Payments	£4,618	Final Report	Low Risk
Business Continuity, IT Disaster Recovery and Data Centre	£8,892	Final Report	High Risk
Contract management	£8,295	Final Report	Medium Risk
Coroners	£7,016	Draft Report	-
Destination Management Organisation	£7,016	Final Report	Medium Risk
Economic Strategy	£7,016	Draft Report	-
Fire Partnership Project	£7,016	Final Report	Low Risk
Flood and Water Management Act Responsibilities	£7,016	Final Report	Medium Risk
Fraud & corruption arrangements	£7,016	Final Report	N/A
Hampshire Strategic Partnership*	£7,016	Postponed to 2016/17	-
Highways PFI	£7,016	Final Report	High Risk

Audit name	Fee	Current Status	Report classification for those audits completed
IT application: Northgate	£7,016	Final Report	Medium Risk
IT application: SAP	£7,016	Draft Report	-
IT Network Security	£8,892	Final Report	Medium Risk
IT Strategy	£7,016	Final Report	Medium Risk
Key Financial Systems:	£8,228	Final Report	
o Cash and Bank	-	-	Medium Risk
o Creditors	-	-	Low Risk
o Debtors	-	-	Medium Risk
o General Ledger	-	-	Medium Risk
o Payroll	-	-	Medium Risk
Local Taxation	£4,618	Final Report	Low Risk
Pensions Governance	£4,618	Final Report	Medium Risk
Property Assets**	£7,016	Postponed to 2016/17	-
Schools' Audits	£5,311	Final Report	N/A
Transformation Programme	£7,016	Final Report	Medium Risk
Value for Money	£4,618	Final Report	Medium Risk

Audit name	Fee	Current Status	Report classification for those audits completed
Waste	£7,016	Final Report	Medium Risk

* As reported to the Audit Committee above our scheduled review of the strategic partnership with Hampshire County Council for Children's Services has been postponed to quarter one 2016/17, to allow the review to be refocussed specifically on the Education side of the partnership, ensuring that there are appropriate sustainable and affordable long term plans for how this partnership will be managed in future.

** As reported to the Committee in December 2015 our scheduled review of Property Assets has been postponed to quarter one 2016/17, resourced freed being used to increase the seniority of staff and coverage of our quarter two fraud review and additional work on the Rural Broadband Project.

Appendix 2 - Internal audit performance against key performance indicators 2015/16

Key performance indicator	Adult Safeguarding	Benefit Payments	Business Continuity, IT Disaster Recovery and Data Centre	Contract management	Coroners	Destination Management Organisation	Economic Strategy	Fire Partnership Project	Flood and Water Management Act Responsibilities	Fraud & corruption arrangements	Hampshire Strategic Partnership*	Highways PFI	IT application: Northgate	IT application: SAP	IT Network Security	IT Strategy	Key Financial Systems	Local Taxation	Pensions Governance	Property Assets**	Schools' Audits	Transformation Programme	Value for Money	Waste
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	Y	Y	-	Y	Y	-	Y	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	Y	-	Y	Y	-	Y	Y	Y	Y	Y	-	Y	Y	Y	Y
Management response received?	-	Y	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
Client satisfaction survey score (if received)?	-	8.6	-	-	-	-	-	10	8	-	-	-	-	-	10	9.8	-	9	-	-	8	9.6	-	-

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