

***Isle of Wight Council
Annual Internal Audit
Report
2015/2016***

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Distribution List

For action	The Audit Committee
For information	Chris Ward, Director of Finance and section 151 officer John Metcalf, Chief Executive and the senior management of the Isle of Wight Council

1. *Executive summary*

Introduction

This report summarises the internal audit work we have carried out for the year ended 31st March 2016.

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 council's internal audit service is largely provided by an external contractor. This engagement was tendered during July 2015 and our existing provider reappointed. Subsequent to this process the external spend on internal audit was £194,062 for 2015/16. This does not include internal resources expended on the Head of Internal Audit role.

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

I am 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

My opinion is as follows:

Satisfactory	Generally satisfactory with some improvements required	Major improvement required	Unsatisfactory
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There are some weaknesses and non-compliance in the framework of governance, risk management and control which may potentially put the achievement of organisational objectives at risk.

Improvements are required in those areas to improve the adequacy and effectiveness of governance, risk management and control. Please see the 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

My opinion is based on:

- All audits undertaken during the year. The review of Adult Safeguarding had not been completed by 31 March 2016, hence is not included in the formation of this opinion.
- 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 the opinion and together with the opinion should be read in its entirety.

Commentary

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

- *Reduced Capacity at the Corporate Centre:* this is continuing to have an impact on 'core' compliance functions. Internal Audit reviews of the council's Fraud and VfM (Value for Money) arrangements identify that the council has limited capacity centrally to support good fraud and VFM arrangements in service areas.
- *Management of Third Party Relationships:* third party relationships are not always consistently managed. Internal Audit reviews of Highways PFI (report rated as high risk) and the DMO (Destination Management Organisation) both identified an over reliance on senior staff to manage relationships, compounded by limited record keeping; this is particularly salient with the council's aspiration to move to being a primarily commissioning authority.
- *Business Continuity and IT Disaster Recovery:* Internal Audit's 2015/16 review of Business Continuity and IT Disaster Recovery was rated as high risk. The overarching issues are out of date business impact analysis (the process of identifying the 'key' services which the council must keep running), with corresponding weaknesses in supporting business continuity plans and a failure to rehearse IT disaster recovery for over three years.
- *Coroners:* Internal Audit's 2015/16 review of the Coroners Service was rated as high risk. The issues identified are either historic, expired contracts, or significant overspend, largely beyond the council's control, linked to statutory need which the council is required to meet. However the report evidences the need to implement more robust central control, to ensure that corporate expectations are complied with and control costs as far as possible, to minimise the impact on the council's wider budget.

Acknowledgement

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

2. Summary of findings

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

Description	Detail
<p>Overview</p> <p>Internal Audit completed 21 internal audit reviews. The review of Adult Safeguarding was not completed by 31 March 2016. This resulted in the identification of four high, 49 medium and 35 low risk findings to improve weaknesses in the design of controls and/or operating effectiveness.</p>	<p>This is the sixth year the council has had the majority of internal audit work provided by an external partner. The external partner has continued to build upon their work carried out in previous years, using their knowledge of the council and current and emerging risks to prepare and undertake the audit plan.</p> <p>During 2015/16 there has been an increased focus on carrying out broader and deeper reviews, combining risk areas which would have historically been the subject of separate reviews; this makes the most efficient use of Internal Audit time, maximises the value the council receives from its investment in the Service and minimises the overhead for service areas being reviewed. Over the course of our relationship with our co-sourced provider this has led to a reduction in the number of reviews from 48 in 2010/11, to 22 reviews in 2015/16. Examples of where reviews have been combined in 2015/16 are set out below:</p> <ul style="list-style-type: none"> • <i>Key Financial Systems</i>: covering Cash and Bank, Creditors, Debtors, General Ledger and Payroll reducing the impact of finance staff time and increasing audit coverage over these key controls. • <i>Schools</i>: combining all school audits into a single review enabling themed findings to be identified and actions to be shared across all schools. • <i>Business Continuity and IT Disaster Recovery</i>: combining two related and interdependent areas to increase the impact of internal audit work. • <i>IT Network Management</i>: covering Wireless, the Data Centre and the IT Network in a single review reducing the impact on IT staff time but increasing internal audit coverage of key IT risk areas. <p>We have also increased the interval between reviews of areas where few issues have been identified historically, for example Pension Administration and Treasury Management, further increasing the efficiency of the Internal Audit Service, and enabling it to focus on areas of higher risk, for example transformational change.</p> <p>How change is managed has been a particular area of focus in the Internal Audit 2015/16 programme of work, both the high level change covered by the Transformation Programme and more discrete initiatives, for example the Delivering Differently in Partnership by the Fire Service and the new responsibilities introduced by the Flood and Water Management Act.</p> <p>As in previous years Internal Audit has readily scheduled additional reviews as required, for example the review of the Rural Broadband contract and a review of financial management at Newport Primary School.</p>

Description	Detail
	<p>Internal Audit has met all of its performance indicators and has provided regular reports during the course of the year to Audit Committee detailing performance, helping to ensure that it has sufficient information to carry out its role effectively.</p> <p>In addition to the above our co-sourced partner hosted and facilitated a workshop for the Audit Committee and members of the Scrutiny Committee, following on from a similar event in 2014/15. As previously this was well received and a similar event will be considered in 2016/17.</p> <p>Wherever possible Internal Audit has also introduced specialists from the council's co-sourced partner to share good practice with the council's management teams. For example during 2015/16 a specific review was carried out by one of our co-sourced partner's national fraud prevention specialists and a number of presentations have been provided to the council on innovative technological solutions available from our co-sourced provider. This has included a visual interrogation tool for expenses (Halo) and the sector leading Engage digital platform. Our co-sourced provider is also actively engaging with the council to help identify ways in which they can help the council to transform and meet its cost saving requirements.</p>
<p>Good practice We identified a number of areas where few weaknesses were identified and areas of good practice.</p>	<p>In previous annual reports Internal Audit has noted that one of the council's main strengths is its efficient and effective delivery of transactional functions and support services, particularly by the various teams within Shared Services/the Business Centre.</p> <p>Internal Audit observed this trend continuing in 2015/16, with a number of areas continuing to be rated as low risk:</p> <ul style="list-style-type: none"> • Benefit Payments • Creditors (part of Key Financial Systems review) • Local Taxation <p>These areas are the highest performing with regard to addressing actions stemming from Internal Audit findings.</p> <p>We note that further savings are planned from back office services, including the Contact Centre, which Internal Audit identified as a particularly high performing service in the 2014/15 Annual Report – the impact of these savings should be carefully monitored, to ensure that they do not result in services being reduced to an unacceptable level.</p> <p>Other areas Internal Audit reviews identified as low risk were:</p> <p><i>Fire Partnership Project (Delivering Differently in Partnership)</i> This report was rated as low risk, with no findings raised – this is only the second time Internal Audit has published a report with no findings during the last six years. More specifically the Project had a clear business case setting out its benefits, supported by documentation detailing the work to be carried out under each strand of the Project. Appropriate governance and reporting were in place at the time of the review, with formally managed meetings (i.e. agendas and minutes</p>

Description	Detail
	<p>produced), capturing detail regarding progress of the Project and demonstrating that appropriate oversight was in place.</p> <p>This continues the trend of previous reviews we have carried out of the Fire Service, evidencing a robust level of governance regarding change management within the Service.</p> <p><i>Waste</i></p> <p>This followed on from a number of positive reviews Internal Audit carried out during the procurement phase. While low rated issues were identified, for example the impact of changed provision on call volumes in the Contact Centre, the key observation is that the council has learned lessons from the Highways PFI procurement, putting much more robust arrangements in place during the Waste procurement.</p>
<p>Internal Control Issues</p> <p>During the course of work we identified a number of weaknesses that we consider should be reported in the Annual Governance Statement.</p>	<p>Reduced Capacity at the Corporate Centre</p> <p>Internal Audit first highlighted this as a concern in the 2013/14 annual report and again in the 2014/15 report.</p> <p>The corporate centre comprises of functions such as finance, governance, IT and other support services. While these are not directly 'statutory' they play a key role in supporting statutory services and providing oversight to ensure compliance with good practice and corporate/legislative expectations – put simply frontline services will not be able to operate effectively without sufficient support from the corporate centre.</p> <p>Specific impacts we have observed during 2015/16 reviews include:</p> <ul style="list-style-type: none"> • <i>Anti Fraud</i>: documentation is out of date, identifying teams/mechanisms which are no longer in place. Since the transfer of the Benefit Fraud Team to central government the council has limited internal capacity to prevent, identify and address instances of fraud. • <i>VfM (Value for Money)</i>: documentation is out of date, identifying teams/mechanisms which are no longer in place. The council has limited central capacity to support achievement of VfM. <p>Management of Third Party Relationships</p> <p>The most significant third party relationships the council has are with Island Roads (the Highways PFI) and with Hampshire County Council, for Children's Services.</p> <p>During 2015/16 Internal Audit has reviewed the council's management of the relationship with Island Roads and the DMO (Destination Management Organisation); the scheduled review of the relationship with Hampshire County Council has been postponed to 2016/17, although this relationship was reviewed in 2014/15 and external reviews of the relationship and its outcomes have been carried out by the Department for Education (DfE) and through a peer review.</p> <p>Internal Audit's 2015/16 review of the management of the relationship with Island Roads was rated as high risk. The key issue is reliance on self-reporting of performance by Island Roads, with minimal checking</p>

<i>Description</i>	<i>Detail</i>
	<p>of information provided by the council. There are also a number of secondary issues, for example a lack of sufficient resourcing at the council, leading to an overreliance on senior staff to manage the relationship.</p> <p>While issues are ongoing the review confirmed that the council has a clear 'recovery plan' for this area of its responsibilities, largely based on work done and recommendations made by a specialist engineering consultancy. We also noted that the council has learned lessons from PFI, with a significantly improved approach taken with arrangements in place to manage the new Waste Contract, also reviewed in 2015/16 (see <i>Good Practice</i> section above).</p> <p>Internal Audit's review of the DMO identified that, whilst the DMO did in fact comply with the majority of the agreement, there was a virtual complete reliance on senior council staff meeting with the DMO and managing the relationship, with minimal evidence of discussions being recorded; specifically there was no involvement from corporate functions such as finance, risk management or insurance.</p> <p>Consistent themes have arisen from the reviews of third party contract management:</p> <ul style="list-style-type: none"> • Overreliance on senior staff managing the relationship, with minimal record keeping. • Minimal involvement from key corporate services, for example finance in supporting and overseeing the relationship. <p>As the council's increasingly moves towards realising its ambition to become a commissioning organisation, and continuing to provide the residents of the Island with effective, efficient and cost effective services, the council needs to take a more consistent and robust approach to optimising these relationships, fully utilising the skillsets of key corporate functions.</p> <p><i>Business Continuity and IT Disaster Recovery</i> This review was rated as high risk. The overarching issues are:</p> <ul style="list-style-type: none"> • A lack of an up to date business impact analysis, to identify the key services the council must keep running, with a resultant lack of supporting, up to date business continuity plans. • A failure to regularly test IT disaster recovery; this has not been tested for over three years, leading for the increased potential for assumptions to prove incorrect and a resultant unacceptable interruption to key services, in the event of a continuity incident. <p>There were also a small number of medium risk findings in relation to the lack of data restoration testing noted in separate reviews of individual IT systems (including Northgate and SAP).</p> <p><i>Coroners</i> The Coroner Service is a statutory function, funded and supported by the council but with spend largely outside of its control, due to the unpredictable level of demand on the Service.</p>

Description	Detail
	<p>Internal Audit's 2015/16 review of this area was rated as high risk. While the majority of issues are minor, for example documentation which is overdue review, the level of overspend could impact on the level of funding available for other areas of the council. The service also has two contracts with third parties, for body transport and mortuary services which were both renewed during the year without necessary waivers being sought from Procurement Board; both contracts are currently in the process of being retendered.</p> <p>Adult Social Care</p> <p>Internal Audit first raised this area as a concern in the 2013/14 Annual Report, following the high risk rated review of the Service in that year. In 2014/15 Internal Audit carried out a follow-up review, noting in the 2014/15 Annual Report that, while concerns remained, the direction of travel was positive, although we also noted that the rate of progress was not as timely as desirable.</p> <p>The 2015/16 review of Adult Social Care, focussing on Adult Safeguarding, had not been completed by 31 March 2016, and has not been considered in forming this opinion.</p> <p>During 2015/16 Internal Audit carried out a review of Business Continuity and IT Disaster Recovery. Through this review we identified that Adult Social Care Business Continuity Plans have not been updated for a number of years and are unlikely to be fit for purpose in the event of a continuity incident; this resulted in the Business Continuity and IT Disaster Recovery report being rated as high risk overall.</p> <p>Across all of the work we have carried out covering elements of Adult Social Care in the last six years, we have identified a number of recurring themes with the Service:</p> <ul style="list-style-type: none"> • A lack of change being effected in a timely manner. • Overreliance on a small number of long serving and highly experienced members of staff. • Processes which are not complied with consistently. • Overreliance on paper files. • Significant overspends. • Frequent changes in leadership – over the course of the last five years the council is now on its sixth Director of Adult Services, the last two of whom have been interim appointments. <p>While there are grounds for optimism with Vanguard funding, ongoing integration with Health and the recent Paris implementation (the core system which has replaced Swift, the previous system used in Adult Social Care), the Service currently presents a number of significant risks to the council, for example:</p> <ul style="list-style-type: none"> • <i>Budgetary:</i> Adult Social Care is the most significant service still directly run by the council. With spend exceeding budget consistently for the last five years this has the potential to severely impact all areas of the council, if not brought under control.

Description	Detail
	<ul style="list-style-type: none"> • <i>Serious interruption to Service:</i> until realistic, tested business continuity plans are in place, it is unlikely that the Service would be able to continue at an acceptable level in the event of a continuity incident lasting more than a few days.
<p>Other weaknesses</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>Internal Audit identified 49 medium risk issues during the course of the internal audit work in 2015/16. In addition to the issues already identified above the main themes of weakness we identified across reviews are highlighted below:</p> <p><i>Out of date or missing strategies:</i> in several instances the council is either operating to strategies which have not been reviewed for a number of years (for example the overarching Economic Strategy dates from 2008) or which do not exist (for example in respect of Flood and Water Management Act Responsibilities). In order that the council can continue to meet its strategic objectives, it is important that clear plans are in place to demonstrate how it intends to do this.</p> <p><i>Out of date or missing procedures and processes:</i> in several reviews it became apparent that current practice is not necessarily following the documented procedures. In many instances this is because the documentation has not been updated to reflect system and personnel changes, particularly where the resources within the teams have been reduced. It is important that documented procedures and processes are reviewed and updated, to ensure they reflect the current operation of the team and the council, and to prevent inconsistent, potentially inefficient and ineffective practice. Areas to which this finding was relevant include IT Security, Contract Management, Key Financial Systems and Value for Money.</p> <p><i>Pensions Governance</i></p> <p>2015/16 was the first year in which Internal Audit has reviewed this area. The main issues identified were a need to finalise governance arrangements in relation to the Fire Fighters Pension Board and to provide training to all members of the Pension Fund Committee, and the newly formed LGPS and Fire Fighters Pension Boards.</p> <p><i>Transformation Programme</i></p> <p>Transformation has been ongoing for a number of years at the council, with a specific team constituted to support the Programme from 2014. The main issues the review identified were a need to better control change control/prioritisation, making sure this is linked back to saving targets, better integrating the work of the new Transformation Team (Organisational Change) with the work of other teams, and enhancements to governance arrangements.</p> <p><i>Schools' Financial Management</i></p> <p>Internal Audit first raised this area as a concern in the 2013/14 Annual Report, specifically the reduced capacity available in the council to support effective financial management in schools.</p> <p>This trend has continued through 2014/15 and into 2015/16. The</p>

<i>Description</i>	<i>Detail</i>
	<p>2015/16 review of school financial management identified a number of ongoing issues, for example:</p> <ul style="list-style-type: none"> • A lack of challenge/oversight on financial monitoring statements, submitted by the schools in the year. • A failure to consistently monitor Pupil Premium Grant Expenditure. • Inconsistent controls in place over unofficial funds. • No effective training provided to school business managers, to support them in complying with the SFVS (School's Financial Value Standard). <p>The council is ultimately responsible for school financial management and must put effective arrangements in place to both support and enforce expectations.</p>
<p>Follow up 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 mainly been followed up as part of 2015/16 reviews, with actions being re-raised where necessary.</p> <p>From 2014/15 the primary mechanism to follow up actions stemming from reviews has been our co-sourced partner's TrAction agreed action online tracking system; actions are loaded onto TrAction by our co-sourced partner, with the council responsible for following up actions.</p> <p>Performance has been less than expected, linked to lack of capacity within the council to take ownership of TrAction, a high rate of staff turnover in some areas, leading to 'orphan' actions (i.e. those which no longer have owners employed by the council) and the rapid pace of change, leading to some actions either no longer being relevant or realistic.</p> <p>In collaboration with our co-sourced partner we have carried out a review of all actions, re-parenting where necessary and reviewing all actions raised in 2012/13 (the first year actions were entered into TrAction), leading to all 93 actions raised in this year being closed. In addition, all actions raised in 2013/14 have also been reviewed and reallocated where appropriate, resulting in all 83 actions from that year being closed.</p> <p>Currently 43% of actions raised in 2014/15 have been recorded as implemented on the system, although it is likely that more have been implemented just not recorded as such. Not all of the 2015-16 actions have yet been input on TrAction. Priority will be given to updating and maintaining the TrAction system in 2016/17 in order for the council to maximise the value it gains from the work of Internal Audit. .</p> <p>Further detail regarding follow-up activity and the outcomes of recommendations made is set out in section 3, below.</p>

3. Internal Audit work conducted

Introduction

Internal audit work was conducted in accordance with the council's agreement with our co-sourced partner, dated 29th July 2010 subsequent amendments, set out in the Change Control Notice, dated 23rd May 2013 and from the 27th November 2015 in accordance with the revised agreement, signed on that date, Public Sector Internal Audit Standards, and the Internal Audit Risk Assessment and Plan.

The table below sets out the results of 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 1st April 2015, 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 Safeguarding	Report has not yet been finalised	-	-	-	-
Benefit Payments	Low Risk	-	-	1	2
Business Continuity, IT Disaster Recovery and Data Centre	High Risk	-	1	2	-
Contract management	Medium Risk	-	-	2	3
Coroners	High Risk	-	2	0	2
Destination Management Organisation	Medium Risk	-	-	2	1
Economic Strategy	Medium Risk	-	-	3	-
Fire Partnership Project	Low Risk	-	-	-	-
Flood and Water Management Act Responsibilities	Medium Risk	-	-	1	5
Fraud & corruption arrangements	N/A	-	-	-	-
Highways PFI	High Risk	-	1	3	-
IT application: Northgate	Medium Risk	-	-	2	1
IT application: SAP	Medium Risk	-	-	4	-
IT Network Security	Medium Risk	-	-	2	1

<i>Review</i>	<i>Report classification</i>	<i>Number of findings</i>			
		<i>Critical</i>	<i>High</i>	<i>Medium</i>	<i>Low</i>
IT Strategy	Medium Risk	-	-	3	-
Key Financial Systems:		-	-	-	-
• Cash and Bank	Medium Risk	-	-	2	1
• Creditors	Low Risk	-	-	-	3
• Debtors	Medium Risk	-	-	2	2
• General Ledger	Medium Risk	-	-	3	3
• Payroll	Medium Risk	-	-	2	2
Local Taxation	Low Risk	-	-	-	3
Pensions Governance	Medium Risk	-	-	2	1
Schools' Audits	N/A	-	-	5	1
Transformation Programme	Medium Risk	-	-	3	1
Value for Money	Medium Risk	-	-	3	3
Waste	Low Risk	-	-	2	-
	Total	0	4	49	35

Direction of control travel

<i>Finding rating</i>	<i>Trend between current and prior year</i>	<i>Number of findings</i>		
		<i>2015/16</i>	<i>2014/15</i>	<i>2013/14</i>
Critical		0	0	0
High		4	1	1
Medium		49	60	52
Low		35	55	40
Total		88	116	93

There are four high risk findings identified in the table above, across three reviews, all of which were rated as high risk overall. This is a significant deterioration on the position in 2014/15, when no reports were rated as high risk overall and 2013/14, when one report was rated as high risk overall.

There has been a reduction in the number of medium and low rated risk rated findings raised. Follow up is covered in more detail in section four below.

As a result of Internal Audit combining reviews for related areas, for example combining the reviews the majority of financial control review into a single review, combining Business Continuity and IT Disaster Recovery, and covering all areas of IT due review as a single audit, the total number of reviews carried out each year continues to reduce, as shown by the table below:

<i>Audit Year</i>	<i>Total reviews</i>
2010/11	48
2011/12	43
2012/13	35
2013/14	32
2014/15	30
2015/16	22*
* Core reviews, not including additional reviews identified further below.	

This is an efficient approach, which minimises the impact on service areas being reviewed and maximises the value the council receives from its investment in the service – this will continue into 2016/17. It also reflects the reducing size of the council and its scale of activities. The reduction in the number of audits has directly led to a decrease in the internal audit fee, helping the council in its aim regarding cost reduction.

Comparison of planned and actual activity

<i>Audit Unit</i>	<i>Review Undertaken</i>	<i>Suspended Review</i>	<i>Additional Review</i>	<i>Comments</i>
Adult Safeguarding	■			This review was not finalised by 31 March 2016.
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	■			

<i>Audit Unit</i>	<i>Review Undertaken</i>	<i>Suspended Review</i>	<i>Additional Review</i>	<i>Comments</i>
Fraud & corruption arrangements	■			To add additional value for the council our co-sourced partner utilised a member of its national fraud prevention team to carry out this review. Due to the increased cost, associated with using a more senior team member, with the agreement of the council we suspended the scheduled review of Property Assets (see below), with the balance used to carry out an additional high level review of the Rural Broadband Project, as below.
Hampshire Strategic Partnership		■		As reported to the Audit Committee in February 2016 this review has been postponed until 2016/17, to enable it to 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.
Highways PFI	■			
IT application: Northgate	■			
IT application: SAP	■			
IT Network Security	■			
IT Strategy	■			
Key Financial Systems	■			
Local Taxation	■			
Pensions Governance	■			
Property Assets		■		As covered above this review has been postponed until 2016/17, to enable the use of a more senior member of our co-sourced provider's team to carry out the Fraud and Corruption review in 2015/16.

<i>Audit Unit</i>	<i>Review Undertaken</i>	<i>Suspended Review</i>	<i>Additional Review</i>	<i>Comments</i>
Schools' Audits	■			In 2015/16 we reviewed: <ul style="list-style-type: none"> • Brading CE Primary School • Brighstone CE Primary School • Nettlestone Primary School • Nine Acres Community Primary School • St Helens Primary School
Transformation Programme	■			
Value for Money	■			
Waste	■			
Rural Broadband			■	This was an additional, high level review, covering how 'speed' is specified in the Rural Broadband Contract and the assurance mechanisms in place to that this was delivered in line with the Contract. This review was funded through the balance left from postponing Property Assets, after meeting the additional costs incurred through using a more senior team member to carry out the Fraud and Corruption review.
Newport Primary			■	This was an additional review requested by the council.

Implications for management

The changes above evidence Internal Audit responding flexibly to the council's needs, as these evolve in year.

However the review of Audit Social Care was substantively delayed until quarter four and has not yet been finalised and the review of the relationship with Hampshire County Council was postponed until 2016/17.

Adult Social Care and Children's Services are both key areas of the council's responsibilities and the cumulative effect of delays and postponements in these areas impacts on the timeliness of any issues being identified, although alternative sources of assurance are available to senior management to appraise themselves of their respective performance – further delays in scheduled reviews in these areas should be avoided.

4. Follow up work conducted

Introduction

Time was allowed within the Internal Audit Risk Assessment and Plan for 2015/16 for follow-up work, using our co-sourced partner's TrAction online action tracking system. Our co-sourced partner enters findings onto TrAction at year end, with the responsibility for following up actions sitting with the council; follow-up work in each year being focussed on actions raised in the prior year. Alongside follow-up activity managed through TrAction during 2015/16 we have continued to follow-up prior year findings as part of the fieldwork for areas which we review annually.

The detailed status of actions raised in 2014/15 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
Adult Social Care Follow-Up	Medium Risk	3	2	-	1	-
Benefit Payments	Low Risk	3	2	-	1	-
Cash and Bank	Low Risk	3	3	-	-	-
Contact Centre	Medium Risk	4	-	-	4	-
Corporate Governance	Medium Risk	5	2	-	3	-
Creditors	Low Risk	3	2	-	1	-
Custody of funds	Medium Risk	3	-	-	3	-
Debtors	Medium Risk	4	4	-	-	-
Deputyships	Medium Risk	4	3	-	1	-
Development Control	Medium Risk	6	-	-	6	-
General Ledger	Low Risk	3	-	-	3	-
Grant Sourced Spend	Medium Risk	3	-	-	3	-
Hampshire Strategic Partnership	Medium Risk	3	-	-	3	-
Housing / Safe & Secure Homes	Medium Risk	6	-	-	6	-

Audit unit	Report classification	Number of agreed actions	Status of agreed actions			
			Implemented	Ongoing	Outstanding	Not yet due
Income Generation	Low Risk	4	1	-	3	
Information Management	Low Risk	3	-	-	3	-
ISMS	Low Risk	2	1	-	1	-
IT Change & Configuration Management	Low Risk	5	5	-	-	-
Licensing	Medium Risk	7	1	-	6	-
Local Taxation	Low Risk	3	3	-	-	-
Medina	Low Risk	4	-	-	4	-
Payroll	Medium Risk	5	3	-	2	-
Public Health	Medium Risk	3	1		2	-
Recruitment and retention	Medium Risk	5	4	-	1	-
Risk Management	Medium Risk	6	6	-	-	-
Schools' Audits	N/A	4	-	-	4	-
Sickness absence	Medium Risk	5	5	-	-	-
Software Development	Medium Risk	4	-	-	4	-
Waste Procurement	Medium Risk	3	3	-	-	-
WightNet (Intranet)	Medium Risk	3	-	-	3	-
TOTAL		119	51	-	68	-

Summary

Timely implementation of audit actions, supported by a robust follow-up process is a key element of an effective Internal Audit Service. As highlighted above the current pace of action implementation is disappointing. While steps are being taken to address this issue it is indicative of a number of issues identified through Internal Audit's wider programme of work, for example lack of capacity. Performance in this area should be carefully monitored, to both maximise the value the council receives from Internal Audit and as an indicator of issues in specific service areas.

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

Internal Audit's 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 Internal Audit's programme of work, were excluded from the scope of individual internal audit assignments or were not brought to Internal Audit's attention. As a consequence management and the Audit Committee should be aware that the opinion may have differed if the programme of work or scope for individual reviews was extended or other relevant matters were brought to Internal Audit's 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

Internal Audit's assessment of controls relating to the Isle of Wight Council is for the period 1st April 2015 to the 31st March 2016. 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 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 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 her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.





Type of opinion	Indication of when this type of opinion may be given
Satisfactory	<ul style="list-style-type: none"> • A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and • None of the individual assignment reports have an overall report classification of either high or critical risk.
Generally satisfactory with some improvements required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are <i>not significant in aggregate</i> to the system of internal control; and/or • High risk rated weaknesses identified in individual assignments that are <i>isolated</i> to specific systems or processes; and • None of the individual assignment reports have an overall classification of critical risk.
Major improvement required	<ul style="list-style-type: none"> • 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 • 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 • Critical risk rated weaknesses identified in individual assignments that are <i>not pervasive</i> to the system of internal control; and • A <i>minority</i> of the individual assignment reports may have an overall report classification of either high or critical risk.
Unsatisfactory	<ul style="list-style-type: none"> • High risk rated weaknesses identified in individual assignments that <i>in aggregate are pervasive</i> to the system of internal control; and/or • Critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or • <i>More than a minority</i> of the individual assignment reports have an overall report classification of either high or critical risk.
Disclaimer opinion	<ul style="list-style-type: none"> • 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"> ○ 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 ○ 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.

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>
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	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
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> <ul style="list-style-type: none"> All personal details compromised/ revealed 	<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> <ul style="list-style-type: none"> Many individual personal details compromised/ revealed 	<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.						

Appendix 4: Performance of internal audit

Key Performance Indicators

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

<i>KPI</i>	<i>Target</i>	<i>Performance</i>	<i>Comments</i>
Planning			
• % of audits with scope agreed prior to fieldwork commencing.	100%	100%	
Fieldwork			
• % of audits with an exit meeting.	100%	100%	
Reporting			
• % 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%	
Relationships			
• Average individual satisfaction score	8	9.5	Based on 12 returned customer satisfaction scores.
• Overall client satisfaction score	8	9.8	Feedback from Audit Committee Chair, average score.