Audit Committee Internal Audit Progress Report

PAPER E

Isle of Wight Council

FINAL

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ISLE of WIGHT COUNCIL

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Introduction and Internal Audit Overview

Introduction

This report presents a summary of the activities of Internal Audit for the period December 2017 to February 2018. It provides executive summaries for the four reports issued as final since the last meeting of the Audit Committee, two rated as medium risk, one as low risk and one, the follow-up review on Pan and the Highways PFI, not given a risk rating.

Fieldwork is now complete for our quarter one, two and three reviews, with reports not presented today in draft, pending finalisation. Fieldwork is either underway or due to start imminently for our quarter four programme of work.

Planning for 2018/19

Planning is ongoing for our 2018/19 programme of reviews. We have reviewed key Council documentation, including the Council's Corporate Plan and risk registers. In collaboration with the Council's Chief Internal Auditor we have also met or are planning to meet with all members of senior management and a number of other key stakeholders in order to obtain their input into the process. Subsequent to completing our programme of planning meetings the draft 2018/19 Internal Audit Plan will be presented to the Council's Corporate Management Team (CMT), prior to being presented to the next meeting of the Audit Committee. This final step will provide the Audit Committee with an opportunity to both comment on and challenge the coverage in the Plan. Key questions the Audit Committee will need to ask are:

- Is the Plan linked to the Council's risks and objectives?
- Is the Plan sufficient and prioritised correctly to give coverage of these key risks and objectives?
- Is the Audit Universe complete and the risk assessment aligned to your view?
- Are the proposed internal audit team and performance indicators satisfactory?

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 have received five completed customer surveys to date, awarding an average satisfaction score of 9/10.

Full details of performance against key performance indicators for 2017/18 can be found in Appendix C within this report.

Executive Summaries from Internal Audit Reports

In this Section we provide the executive summaries for the four reports issued as final since the Audit Committee last met in December 2017.

Executive summary – Adult Social Care Contracts

Classification	Trend
Medium Risk	***We have not previously carried out a review with an equivalent scope***

By type

	Control design	Operating effectiveness	**Total**
Critical	0	0	**0**
High	0	0	**0**
Medium	3	0	**3**
Low	2	0	**2**
Advisory	0	0	**0**

By scope area

	Critical	**High**	**Medium**	**Low**	**Advisory**
Framework	0	0	2	0	0
Processing	0	0	1	0	0
Oversight	0	0	0	2	0

Summary of findings

The purpose of this audit was to review the Council's management of its Adult Social Care contract portfolio. At a high level our review covered:

- *Framework*: confirming that services being provided are covered by current contracts; the Service has documented its expectations as to how contracts should be managed, for example covering performance reporting and oversight meetings.
- *Processing*: confirming that expected reports are being produced, oversight meetings are happening, underperformance is being identified and addressed and payments are being made as specified.
- *Oversight*: confirming that a regime of oversight meetings is in place at the portfolio level and issues are being identified, escalated and addressed; benchmarking is carried out and used to inform the service; and an up to date risk register, with appropriate mitigations is in place.

Historically this area of the Council has suffered from two main issues: high costs when compared to other authorities and weak governance. However, while work is at an early stage in some areas, considerable progress has been made during the last 12 months and there are grounds for optimism that further improvements will be made over the medium term. The Service are in the process of reviewing the portfolio, to ensure that contracts are current and fit for purpose and this will be supported by new software. A new Contract Management Officer is now in post, with further staffing in the commissioning team, including a secondment from an exemplar provider (who joined in December 2017) and a commissioner for the voluntary and community sector starting in January 2018 (a temporary one year post at present). Regarding quality audit and oversight of provision, Adult Social Care is also integrating its small QA (Quality Assurance) unit with the CCG (Clinical Commissioning Group), with a standardised approach to inspections and reporting scheduled to be in place during early 2018. A range of additional initiatives, supported by comprehensive benchmarking, are in progress to better control costs.

For clarity our first finding below is potentially a high risk issue – specifically that the service does not currently have an accurate listing of the contracts it holds. However, due to the progress the Service has made in the last 12 months and the robust plans it has in place to fully address this issue over the next six months, we have assessed this area as constituting a medium risk. During the course of our fieldwork we were also made aware of an issue, regarding a number of contracts which have not been market tested for several years. While this is peripheral to the scope of this review, the need to schedule audit work over this area

will be revisited as part of our planning for 2018/19.

We have grouped our fieldwork into four findings, summarised immediately below:

Contract administration and storage: Adult Social Care has recently taken full ownership of all of the contracts within its area, including securely holding the original copies of the contracts. There are 327 documents, contracts, variations, extensions and other agreements, set out on the listing provided to us for review. Our review of the listing identified a number of issues, for example 24 documents which cannot be found and 87 documents which are over 10 years old and are unlikely to relate to current, live services. Obviously this position needs to be normalised, however many of the documents are likely to be redundant.

The Service has already taken a number of steps to improve and normalise the position, for example creating a new Contract Management Officer position. The Contract Management Officer will substantively be responsible for addressing the current issues above. The end point needs to be having a fit for purpose record of all agreements, covering current live services delivered by third parties, in an easily queryable format to support good contract management. To achieve this, a number of actions are necessary, including 1) thoroughly reviewing the detailed contracts, to extract key information, for example expiry date and to identify those contracts which are redundant; and 2) ensuring that the Council's key expectations, for example safeguarding and insurance, are addressed. Other issues to address include formalising the local storage of contracts, through a waiver to the Council's Contract Standing Orders; and either sourcing replacement copies for any contracts relating to 'live' services which cannot be located or putting replacement agreements in place. The Service is already working on each of these issues and intend to use the contract management module of the Council's e-tendering system to support this process; we were informed that this has already been discussed with the Council Procurement Team. In the short term, now that the Contract Management Officer is in post, a detailed action plan will be developed, and this needs to be robustly overseen until a fit for purpose contract management system is in place.

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

Contract Management Framework: beyond the expectations set out in the Council's standard contract terms (which include expectations to support contract management, for example producing reports as required) there are not any specific corporate expectations or requirements as to how contracts should be managed. In line with the corporate approach, third party management in Adult Social Care is set at the individual 'contract' level. While there is a level of oversight specified in all the contracts we reviewed (see further below) this is inconsistent and does not provide a full picture of how providers are performing and complying with key expectations, for example ensuring that appropriate insurance is in place.

The benefit of implementing a consistent framework has been recognised by Adult Social Care and we were informed that one of the key tasks of the new Contract Management Officer will be to define a framework, setting out the key expectations. This is sensible and should continue as planned. The key areas which need to be addressed as part of this process are: consulting with the corporate team and those already involved in oversight activity, for example to identify and use existing good practice to inform the development of the framework; setting out overarching expectations regarding performance indicators, reporting and oversight meetings; and formalising the annual review of open ended contracts (commonly used for residential care), to ensure that any variations to expectations of providers are contractually documented.

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

Sample Testing: We carried out sample testing of Adult Services Contract Portfolio. The portfolio is best considered as comprising two types of contract: larger/bespoke contracts, covering specific services and the wider portfolio of 'standard' providers, covering nursing, residential and learning disability provision for individuals. For the larger/bespoke contracts, while oversight arrangements would benefit from being made more consistent (as above), generally this is in excess of that specified in contracts and we did not identify any areas where contract oversight terms are not being complied with. We did also identify one larger agreement which is pending return from the NHS and one where the Service hold a copy, not the original, signed agreement.

The position with the wider portfolio is more mixed. We identified two expired contracts, two providers who had not been visited in the last 12 months (both nursing homes, overseen by the CCG) and three agreements which do not specify reporting requirements – for clarity all providers are providing services,

accepting payment for so doing and receiving standard oversight, whether this is specified in their contracts or not. We also identified four providers who had either not had a CQC inspection or submitted a required self-assessment questionnaire in the last 12 months.

In the short term these anomalies do need to be normalised; specifically continued effort needs to be made to locate the missing contract, chase the NHS to return the signed agreement and implement current contracts/agree variations as necessary. However this does need to be seen in the context of the significant improvements the Service is planning, most importantly the enhancements to reporting and oversight covered above and below.

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

Oversight and Risk Management: a range of evidence was provided for our review regarding the oversight arrangements which are in place over Adult Services' contracts, including: agendas and minutes of the main oversight meetings (Team, Service Board and QSG (Quality Surveillance Group)), relevant reporting and a copy of the current Adult Services' risk register; from a purely compliance perspective we did not identify any issues, an appropriate regime of oversight meetings and a current risk register are in place.

The main issues are the consistency of inspections and the associated reporting. The Service has recognised this and has a number of planned initiatives to enhance arrangements; in summary: an integrated Quality Assurance (QA) Team, to sit organisationally under the CCG (Clinical Commissioning Group), standardised inspections and reporting, a training package for providers (for example to promote a more consistent approach to safeguarding) and a secondment into the Team from an exemplar provider, to promote closer working and share good practice. All of these are sensible developments and should continue as planned.

We have raised this as a **low risk** finding.

Benchmarking and Finance: we were provided with cost benchmarking carried out by the Service against mainland providers and a copy of the presentation made by the Director of Adult Services to providers, showing how the benchmarking has been used to inform the fee setting process.

Despite the Island having relatively low wages, it is clear from the benchmarking that the Council is paying some of the highest costs in the Council's comparator group for residential and nursing care. Adult Social Care is in the process of putting in place a range of initiatives to help reduce costs and its historical over-reliance on residential and nursing care, the Care Close to Home Strategy (to manage demand), rolling out the individual pricing element of DPS (Dynamic Purchasing System), initially for learning disability and implementing an open book approach to contracted services, to help control costs. All of these are sensible and should continue as planned, sourcing expertise from corporate teams and good practice from mainland authorities where possible.

We have raised this as a **low risk** finding.

Management Response

Subsequent to the completion of this review we are pleased to report:

- The new Contract Management Officer is now in post.
- All expired contracts have been identified; these will be scanned, the originals securely disposed of and electronic copies retained.
- All out of date contracts, where service delivery is continuing, have been identified; these will be reviewed and together with the CCG proposals will be developed for replacement contracts to be issued to providers.
- The new Contract Management Officer has met with the central Procurement Team to progress implementing use of the corporate e-tendering system, with access/implementation pending.
- Current contracts are in the process of being reviewed, to identify performance indications, reporting requirements and any penalties contained within the contract; information extracted is being collated and will be entered onto the e-tendering system once access has been granted.

- The new Contract Management Officer is engaging with neighbouring local authorities and the CCG, to identify good practice which can be used to inform a consistent, robust and documented approach to contract management on the Island, based on the National Audit Office 'Good Practice Contract Management Framework' guidance.
- The new Contract Management Officer is liaising with Legal Services, to source contracts which still cannot be located.

Executive summary – Business Continuity

Classification	Trend
Medium Risk	***Last reviewed in 2015/16; rated as high risk.***

By type

	Control design	Operating effectiveness	Total
Critical	0	0	**0**
High	0	0	**0**
Medium	4	0	**4**
Low	1	0	**1**
Advisory	0	0	**0**

By scope area

	Critical	High	Medium	Low	Advisory
Framework	0	0	1	0	0
Delivery	0	0	4	0	0
Communication/Oversight	0	0	0	1	0

Summary of findings

This review focussed on the Council's business continuity arrangements, covering:

- *Framework*: confirming the Council has defined its high level approach to business continuity, supported by detailed guidance setting out the expectations of service areas, training and appropriate template documents.
- *Delivery*: confirming that the Council's senior management have confidence that the most critical Council services have been correctly identified, and these have continuity plans in place which have been recently tested. Progress regarding any corrective actions identified through testing are on track and sufficient progress is being made regarding updating continuity plans for the wider Council.
- *Communication/Oversight*: confirming an appropriate governance and risk management framework is in place over business continuity, specifically overview/exception information is escalated, to ensure that the Council's senior management has an up to date understanding of the Council's current position regarding business continuity.

Our previous review in this area in 2015/16 was rated as high risk, primarily due to out of date business continuity plans being in place within Adult Social Care, in relation to this specific issue we are pleased to confirm that business continuity plans for Adult Social Care have been revised since our last review. We also note that progress has been made enhancing wider business continuity arrangements, for example rolling out use of corporate standard service continuity plans (with embedded guidance), including place holders for services to carry out Business Impact Analysis (BIA, the process through which the most critical services are identified).

The main issue we have identified through this review is that Service Level Agreement (SLAs) for the systems underpinning service delivery in Adult Social Care and Children's Services are not clear regarding time to recover and how data will be backed up; both of these areas need to be clarified and SLAs updated accordingly – following consultation with the Council's senior management these areas have been identified as out of scope for this review, as such these areas have not been taken into account when assessing risk levels within this report. We also identified that testing of arrangements, to ensure they would be fit for purpose in the event of a continuity incident, within the last 12 months has been limited to two desktop exercises. Once the issues with service business continuity plans have been addressed, the key action which needs to be taken is carrying out detailed testing at the service level, to confirm that plans are fit for purpose.

We have raised five detailed findings, summarised below:

Arrangements in Service Areas: while plans in the three service areas we reviewed (Children's and Adult Services and Financial Services) have all been recently reviewed and updated, our review did identify gaps. The most significant is in relation to the IT systems the services rely on. While this audit did not cover overarching IT Disaster Recovery arrangements we did identify that the Service Level Agreements (SLAs) with the third parties responsible for hosting the systems used by Adult and Children's Services (Paris and ICS respectively) state 'best endeavours' for recovery times and are ambiguous regarding the frequency of backups.

While, as above, this has not been taken into account when assessing the risk level for this finding the SLAs may not be in line with the needs of the services. The services' needs do need to be clarified and the SLAs updated to ensure they are correctly aligned with service need – we will revisit this area when planning our programme of work for 2018/19.

We have rated this area as **medium risk.**

Arrangements at specific Premises: as an action stemming from testing exercises carried out in the last 12 months, the Business Continuity Team carried out a check of arrangements in place at the 66 premises for which the Council is responsible. In addition to checking that each site had a nominated lead for business continuity and business continuity plans in place, confirmation was also sought that bomb threats were covered in plans and that warning notices were posted regarding the process to follow if suspicious packages are identified.

All sites have nominated business continuity leads in place. While 22 sites do not currently have specific continuity plans in place, the majority of these are covered by service level plans, for example care establishments are covered in the Adult Social Care Plan or are quite discrete sites, for example the Crematorium. While sites which do not have specific plans in place are likely to have implicit, undocumented arrangements, for clarity, to ensure that no gaps exist and to address any over reliance on the knowledge of specific individuals, current arrangements should be documented, with plans returned to the Business Continuity Team for quality checking.

Specific to the bomb threat and the posting of suspicious package notices, this is likely to be most applicable to sites used by members of the public – for context 32 sites do not have specific documented arrangements regarding the response to bomb threats and only one site, the Crematorium, currently has suspicious package notices in place. For larger/higher risk sites this should be addressed as soon as possible, with all sites addressed as part of the Continuity Plan review and update cycle. For clarity as this area is the responsibility of the Premises Team, outside of the direct control of Emergency Management, it has not been taken into account when risk assessing this finding.

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

Testing: the Emergency Management Team carries out a number of exercises annually to confirm that plans would be effective in the event of a continuity incident. Documentation regarding the two exercises carried out in the last 12 months, one focussed specifically on IT and one on winter preparedness, was provided for our review. Both of these exercises were attended by key service areas, for example Adult Social Care, IT and Shared Services. Both exercises resulted in improvement plans, with the majority of actions set out in these having now been completed.

One action, on arrangements at specific premises, is covered in detail further below. The other actions, fully implementing the new template for Service Business Continuity plans and updating the IT Disaster Recovery Plan are in progress and should continue to be addressed as planned. The Emergency Management Team has already recognised that continuity arrangements would benefit from more detailed testing in service areas. This is planned for later in 2017 and should continue, specifically ensuring that IT services could be restored in line with service areas' expectations and that alternative processing, to cover the downtime, is realistic for critical areas.

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

Framework: the overarching Business Continuity Management Policy has been explicitly approved by the Head of Emergency Management and implicitly approved by the Chief Executive, through one to one meetings between the Head of Emergency Management and the Chief Executive. To ensure that there is sufficient corporate visibility, specifically by the Corporate Management Team (CMT), the Policy should be circulated to CMT members and an overview of

business continuity arrangements scheduled for a future meeting of the CMT. This will help to ensure that any gaps are identified and that senior management understand how plans in their areas fit in with wider business continuity arrangements.

We also identified a minor issue with the Service Continuity Plan Template not current including a specific placeholder for services to identify their critical processing periods, for example specific times of the year when more timely recovery would be necessary. For context, the plan for Financial Services, provided for our review, does identify processing periods for payroll in the narrative but adding a specific placeholder should ensure that all services consider this area and plan accordingly.

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

Risk Management and Oversight: Emergency Management approach to risk management is driven by the Community Risk Register, collectively owned by the Local Resilience Forum (LRF). While this is not in line with the corporate approach to risk management, the approach is robust, the LRF being a joint initiative between the Isle of Wight Council, Hampshire County Council and a range of further stakeholders, for example representative from the police, fire and the NHS. We were provided with comprehensive plans regarding how risks are mitigated and we have also confirmed with the corporate lead for risk management that he is satisfied with the robustness of the Team's approach to risk management.

We did note that, linked to the direct reporting line from the Team to the Chief Executive, there has not been the same formal reporting line to the Council CMT historically as is in place for other areas of the Council. However we were provided with a briefing note regarding Emergency Management's work, which has recently been presented to the CMT and were informed that it is intended to present similar notes in future, on a quarterly basis; subsequent to the completion of our fieldwork we were informed that this has been progressed.

Regarding day to day management of the Team's work, we were informed that while weekly team meetings are held, these are not currently minuted. Introducing a simple action tracker for these meetings would help to ensure that matters arising and any actions identified are formally managed and do no 'drop off the radar'.

We have raised this area as a **low risk** finding.

Executive summary – Benefit Payments

Classification	Trend
Low Risk	Last reviewed in 2016/17; rated as Low risk

By type

	Control design	Operating effectiveness	Total
Critical	0	0	0
High	0	0	0
Medium	0	1	1
Low	1	2	3
Advisory	0	1	1

By scope area

	Critical	High	Medium	Low	Advisory
Documentation	0	0	0	0	0
Processing	0	0	1	3	1
Financial Control & Budgeting/Fees	0	0	0	0	0

Summary of findings

In accordance with the Terms of Reference (Appendix B), we have undertaken a review of benefits controls at the Council, specifically focusing on testing Housing Benefits (HB) and the Local Council Tax Subsidy (LCTS). These are processed by the Benefits team who are based at the Sandown office.

The processing of new benefit claims is well managed, with controls in place to ensure that benefits are only paid once the corresponding paperwork has been supplied. Our testing of 25 new Housing Benefit and Local Council Tax Subsidy claims confirmed that all applications had been signed and dated and all relevant information was received prior to processing the claim. Additional claimant information is often requested by the team and only once this has been received and documented are the claims either processed or cancelled. We have been informed that there have been no changes to the Risk Based Verification Criteria (RBV) Policy since our review in 2016/17; at the time of our review the content of the Policy appeared reasonable.

Prior to authorisation, benefit payment runs are reviewed, with exception parameters run against the population to identify any unusual items which are subsequently investigated.

Our review of system changes did not identify any issues. On an annual basis, changes to benefit rates (annual up-ratings) are downloaded onto the Northgate system through a software patch, with the rates being reviewed internally for accuracy against DWP circulars. Tax credit changes are transferred to the Council through the ATLAS system and are imported into Northgate once information is approved by the changes team.

As administered by the Department for Work and Pensions (DWP) a benefit cap is applied to claimants in the year. A lone claimant is restricted to £13,400 and a couple or lone parent is restricted to £20,000 per year. Testing was performed over 25 claimants to ensure processing of the benefit cap has been completed accurately, effectively and in a timely manner. No issues were noted in the testing performed, with all benefit caps being applied appropriately.

The Discretionary Housing Payment (DHP) scheme, covers shortfalls between rental liability and payment of Housing Benefit or the Housing element of Universal Credit. Every claimant who is entitled to the minimum amount of Housing Benefit or Universal Credit which includes Housing cost element and who has a shortfall is entitled to make a claim for further financial help. Our testing of 25 DHPs did not identify any issues.

Approved housing benefit backdated claims allow payments to be made to claimants, for a maximum period of one month, prior to the new claim. Backdated payments are awarded if the claimant position falls within the 'good cause' category. We tested a sample of 20 backdated payments to ensure compliance with required procedures and that processing occurred within a one month time period. No issues were identified.

Alongside these areas of good practice, we identified the following issues:

Extended payments and Overpayments -

Extended payments (EP) help long term unemployed transition into work by providing an extra four weeks Housing Benefit. Our test of 25 extended payments identified that a payment of £466.64 was made to an individual who was moving into employment on a zero hour contract. The requirement for a payment of EP is that the claimant is guaranteed at least 16 hours a week of work. For a claimant on a zero hours contract a level of judgement is required as to whether there is sufficient evidence that they will be working the minimum amount of time. We have raised as an **advisory** finding in relation to this, recommending that the judgements in this area remain under review, especially in the event that clearer guidance is issued.

We tested 25 overpayments to ensure that the Council was following its policy, with action being taken within a reasonable timeframe to ensure the greatest possibility of recovery. For one case action has been suspended for a debt totalling £1,560. The debtor had an agreed repayment plan put in place in July 2017, however minimal payments have been made. The Council have recently been made aware that the claimant is now in receipt of DWP benefit payments. The Council are awaiting the implementation of the DWP payment deduction programme to enable them to recover the debt from the claimant's DWP benefit payments. Further to this on five occasions debt recovery action was not taken by the Council within one month of the overpayment being identified. The value of this is £56,400. The largest of these, with the value of £45,281.36, relates to an ongoing DWP case where the claimant is challenging a decision that income support (and therefore the linked housing benefit) from 2006 should be removed. In this case, a delay on processing is an appropriate reflection of the context. Similarly, another of the identified debts (£5,750) relates to a case currently with the DWP and therefore in both these cases the delays are reasonable and outside of the Council's control. Further to this, on one occasion the delay was caused due to a system issue with the Northgate debtors system, while the remaining two occurred due to installation of the new Northgate debtors system. These issues have been amended and further delays are not expected. Taking these delays into account, a **medium** risk issue has been raised in this area.

Dual Housing Payments - Dual housing payments are awarded to claimants in certain circumstances where payment on two homes is unavoidable. Due to the highly competitive housing market, claimants can be required to make rent payments for a new home while still in the notice of their previous property.

The process is set up such that all benefit officers are 'decision makers', they therefore have the authority to apply Council guidance and polices to award dual housing payments. There is an annual check of awards made, however, due to the complexity of these adjustments, the review of these should be completed on a more regular basis. A quarterly review would allow the Council to identify and mitigate errors earlier, as well as start the recovery of overpaid relief if applicable. A new staff member is set to join the Subsidy team in 2018, giving the Council enhanced ability to review dual housing payments on a regular basis.

A sample of five claims was tested to establish that appropriate evidence has been obtained prior to awarding the relief. In one case the relief awarded of £228.34 was £60 lower than the amount the supporting documentation provided suggested should have been awarded. This has been raised as a **low** risk issue. In addition to this, while the Council have produced a documented dual homes payment how to document, it does not set out the owner, date of revision or reason for revision. This has been raised as a **low** risk issue.

Benefit Reconciliations - Monthly reconciliations between Northgate, the benefits system, and SAP, the finance system, are performed by the Finance and Reconciliation Officer and are signed off by the Benefits Manager. Two months (June 2017 and August 2017) of the benefits reconciliation were obtained and reviewed. In both cases the reconciliations were not prepared or reviewed within one month of the month end. We were informed that this occurred due to the delayed receipt of information from the banking team as a result of the Council changing their bank accounts during this period as part of the wider bank project. This has been raised as a **low** risk issue.

Executive summary – Pan and PFI Follow-up

Follow-up results

	Highways PFI					Pan					Total
	Agreed action completed	Agreed action underway	Agreed action not commenced	Agreed action judged n/a by management	Agreed action evidenced as n/a	Agreed action completed	Agreed action underway	Agreed action not commenced	Agreed action judged n/a by management	Agreed action evidenced as n/a	
Critical	0	0	0	0	0	0	0	0	0	0	**0**
High	0	1	0	1	0	0	0	1	0	0	**3**
Medium	1	1	0	0	0	1	1	0	0	1	**5**
Low	0	0	0	0	0	0	1	0	0	0	**1**

Summary of findings

This review evaluated the progress which has been made to address the issues identified in our 2016/17 reviews of the Highways PFI contract and Pan Meadows development. Both of these are significant and high profile initiatives for the Council. Under the Highways PFI the Island's highways are now primarily the responsibility of a separate entity, Island Roads (IR), with the Council's role primarily to ensure that the service is delivered in line with the PFI agreement. The Pan Meadows development is a complex land agreement aimed at increasing the number of housing units in Newport, including a significant proportion of social housing and projected to achieve wider benefits for the Island's population, for example enhanced training and employment opportunities. Both prior internal audit reviews identified high risk issues, the addressing of which are imperative. Each of the key actions had a completion date of November 2017 and therefore evidence should be available to validate that implementation has been achieved. In summary the actions stemming from our 2016/17 reviews were:

- *PFI*: formalising the approach taken to overseeing the work of Island Roads, both in relation to the 'core' contract and additional schemes commissioned under the Local Transport Plan (LTP). Specifically documenting processes, for example through checklists of actions to be carried out as part of inspections and agreeing how the results of oversight work will be recorded, evidenced, actioned and reported, to ensure that there is robust oversight of the work carried out by Island Roads (IR).
- *Pan*: normalising the initiative, to ensure that the terms of the original agreement are being complied with, for example regarding providing skills and training opportunities and addressing emerging issues, such as supporting the Pan ManCo (Management Company) to become financially sustainable and prevent any financial liabilities falling to the Council.

Our 2016/17 reports also highlighted issues which were applicable to both initiatives and more widely, across the Council's arrangements with third parties:

- *Staffing and access to specialist expertise*: ensuring that staff have up to date job descriptions, reflective of their current responsibilities, there are appropriate arrangements to source specialist skills, for example call off contracts for legal and technical services and that there is sufficient succession planning and cross skilling, to prevent the Council being over reliant on a small number of staff.

- *Succession Planning and Record Keeping*: beyond the early years of the Pan Development, there was minimal record keeping, for example minutes of meetings, reporting and oversight generally. Responsibility for the Pan Development has also been passed through a variety of senior officers with little if any handover arrangements. Organisationally the Council needed to learn lessons from Pan, to ensure that appropriate arrangements are in place to provide a management trail of reporting/performance management and that there are sufficient handover arrangements when overall senior officer responsibility changes.

Overall the conclusion of our follow up review is mixed, with work at an early stage in some areas. This is most applicable to PFI, which is largely still at the 'investigatory/initial discussion' stage, to identify the work which is necessary to ensure that the Team is sufficiently and consistently overseeing the work of Island Roads, alongside evidencing their oversight appropriately.

Regarding Pan, one action is no longer necessary due to changes in legislation and one action is fully implemented. Other actions, as with PFI, remain at an early stage. Regarding the finding raised in our Pan report with wider applicability, ensuring that lessons are learned, appropriate evidence is retained and succession planning implemented as necessary for significant agreements with third parties, no substantive progress has been made.

A recent review of another high profile infrastructure project raised similar issues regarding the effectiveness of the Council's project management and monitoring arrangements, specifically regarding the level of senior management input and challenge.

A number of recommendations were made. At an organisational level substantively the same issues were identified as with the Council's approach to Pan - putting in place robust senior oversight and challenge for all significant projects and ensuring that documentation is consistently filed will address the issues we identified regarding the Council's management of Pan.

More specifically regarding PFI there are indications that progress addressing most of the long standing issues in our 2016/17 reports may accelerate over the next few months. Most importantly a project management resource has recently been recruited, who will be working fulltime with the PFI Team, to assist them in documenting their processes and implementing a consistent approach to filing and evidencing their oversight of Island Roads. As part of the evidence to inform our assessment of progress we were provided with the job description for the new project management post. Further context was provided regarding the focus of this post for the next 12 months. Specifically this identifies:

- *Initial investigatory work*: this will run up to the end of March 2018 and will focus on identifying key gaps in the current approach taken by the PFI Team.
- *Planning*: this will run up to the end of May 2018 and will focus on documenting a delivery programme with agreed implementation dates for each action.
- *Delivery*: running from May 2018 addressing how all outstanding issues with how the PFI is managed/overseen will be addressed over an indicative 12 month timeframe.

Key to maintaining momentum will be the robust oversight of progress planned by the Head of Place – as soon as any issues are identified they should be escalated to the Head of Place, to ensure they are addressed in a timely manner. Across all areas it is essential that progress continues at pace, to ensure that the risks exposed by the issues identified in this report are addressed in a timely manner.

Appendix A: Basis of our classifications

	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	A finding that could result in a: • Major loss of service, including several important areas of service and /or protracted period. Service Disruption 5+ Days	A finding that could result in: • 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	A finding that could results in: • Death of an individual or several people	A finding that could result in: All personal details compromised/ revealed	A finding that could result in: • Litigation/claims/ fines from Department £250k + • Corporate £500k +	A finding that could result in: • Costs over £500,000	A finding that could result in: • Complete failure of project/ extreme delay – 3 months or more
High	A finding that could result in a: • 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	A finding that could result in: • Adverse publicity in professional/municipal press, affecting perception/standing in professional/local government community • Adverse local publicity of a major and persistent nature	A finding that could result in: • Major injury to an individual or several people	A finding that could result in: Many individual personal details compromised/ revealed	A finding that could result in: • Litigation/claims/fines from • Department£50k to £125k • Corporate £100k to £250k	A finding that could result in: • Costs between £50,000 and £500,000	A finding that could result in: • Significant impact on project or most of expected benefits fail/ major delay – 2-3 months

	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	A finding that could result in a: • 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	A finding that could result in: • Adverse local publicity /local public opinion aware • Statutory prosecution of a non-serious nature	A finding that could result in: • Severe injury to an individual or several people	A finding that could result in: • Some individual personal details compromised/ revealed	A finding that could result in: • Litigation/claims/fines from Department £25k to £50k • Corporate £50k to £100k	A finding that could result in: • Costs between £5,000 and £50,000	A finding that could result in: • Adverse effect on project/ significant slippage – 3 weeks–2 months
Low	A finding that could result in a: • Brief disruption of important service area • Significant effect to non-crucial service area Service Disruption 1 Day	A finding that could result in: • Contained within section/Unit or Directorate • Complaint from individual/small group, of arguable merit	A finding that could result in: • Minor injury or discomfort to an individual or several people	A finding that could result in: • Isolated individual personal detail compromised/ revealed	A finding that could result in: • Litigation/claims/fines from Department £12k to £25k • Corporate £25k to £50k	A finding that could result in: • Costs less than £5,000	A finding that could result in: • 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

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

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	6 points or less
Medium	7– 15 points
High	16– 39 points
Critical	40 points and over

Appendix B: Progress on the 2017/18 internal audit plan

Audit name	Fee	Current Status	Report classification for those audits completed
Adult Social Care Contracts	£7,550	Final Report	Medium Risk
Application System: SAP	£5,450	Fieldwork	-
Beaulieu House and Riboleau House	£5,450	Planning	-
Benefit Payments	£5,450	Final Report	Low Risk
Contracts/Grant Sourced Spend	£7,550	Fieldwork	-
Corporate Governance/Service Planning	£7,550	Fieldwork	-
Cowes Floating Bridge *	£5,450	Suspended	-
Development Control	£5,450	Final Report	Low Risk
Emergency Management: Business Continuity	£7,550	Final Report	Medium Risk
Environmental Health	£5,450	Planning	-
Fraud and Corruption	£7,550	Planning	-
Housing / Safe & Secure Homes	£5,450	Draft Report	-

Audit name	Fee	Current Status	Report classification for those audits completed
Information Management/IG Toolkit	£7,550	Draft Report	-
IT Governance and Asset Management	£7,550	Final Report	Medium Risk
IT: Alignment with Business Need	£7,550	Draft Report	-
Key Financial Systems	£12,800	Draft Report	-
Local Taxation (Council Tax and NDR)	£5,450	Draft Report	-
Public Health	£7,550	Pending	-
PFI and Pan Follow-up *	£5,450	Final Report	N/A
Recruitment	£5,450	Final Report	Low Risk
Regeneration/Strategic Support	£7,550	Fieldwork	-
Schools' Audits	£5,450	Draft Report	-
Trading Standards	£5,450	Planning	-
Treasury Management	£5,450	Pending	-
Vanguard	£10,522	Draft Report	-

* Our scheduled review of the Cowes Floating Bridge has been directly substituted with a follow-up review, to assess progress implementing the actions stemming from our 2016/17 reviews of the Highways PFI and Pan reviews.

Appendix C: Internal audit performance against key performance indicators 2017/18

	Adult Social Care Contracts	Application System: SAP	Beaulieu House and Riboleau House	Benefit Payments	Contracts/Grant Sourced Spend	Corporate Governance/Service Planning	PFI and Pan Follow-up	Development Control	Emergency Management: Business Continuity	Environmental Health	Fraud and Corruption	Housing / Safe & Secure Homes	Information Management/IG Toolkit	IT Governance and Asset Management	IT: Alignment with Business Need	Key Financial Systems	Local Taxation (Council Tax and NDR)	Public Health	Recruitment	Regeneration/Strategic Support	Schools' Audits	Trading Standards	Treasury Management	Vanguard
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	-	-	-
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	-	-	-
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	-	-	-
Management response received?	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	-	-	-	-	-
Client satisfaction survey score (if received)?	10	-	-	-	-	-	-	9	7.5	-	-	-	-	9.6	-	-	-	-	9.2	-	-	-	-	-