



# *Internal Audit Report 2017/18*

Beaulieu House

**17-18-02**

**APPENDIX B**

Isle of Wight Council

**FINAL**  
June 2018



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- Executive summary
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- Appendix A: Basis of our Classifications
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## ***Distribution List***

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### ***For action***

Barry Downer, Finance Partner  
Mark Dawkins, Beaulieu House Manager

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### ***For information***

Amber James, Interim Head of County Services  
John Metcalfe, Chief Executive  
Elizabeth Goodwin, Chief Internal Auditor



The document has been prepared solely for the use of the Audit Committee of the Isle of Wight Council in accordance with the agreement between the Isle of Wight Council and PwC dated 27<sup>th</sup> November 2015. The work was performed in accordance with the Isle of Wight Council's internal audit methodology and the findings reported to the Chief Internal Auditor, who remains responsible for the final conclusions and ratings assigned therein. PwC accepts no liability (including for negligence) to anyone else in connection with its work or this document, and it may not be provided to anyone else.

# Executive summary (1 of 2)

Classification	Trend	By type	By scope area																						
			Critical	High	Medium	Low	Advisory																		
 We have not previously carried out a review with an equivalent scope. 		<table border="1"> <thead> <tr> <th>Control design</th> <th>Operating effectiveness</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>2</td> <td>3</td> <td>5</td> </tr> <tr> <td>3</td> <td>0</td> <td>3</td> </tr> <tr> <td>0</td> <td>0</td> <td>0</td> </tr> </tbody> </table>	Control design	Operating effectiveness	Total	0	0	0	0	0	0	2	3	5	3	0	3	0	0	0	0	0	0	0	0
			Control design	Operating effectiveness	Total																				
			0	0	0																				
			0	0	0																				
			2	3	5																				
3	0	3																							
0	0	0																							
Budgeting	0	0	0	0	0																				
Procure to pay Framework	0	0	2	3	0																				
Procure to Pay Processing	0	0	2	0	0																				
Governance	0	0	0	0	0																				
<b>Total</b>			<b>0</b>	<b>0</b>	<b>5</b>	<b>3</b>	<b>0</b>																		

## Total findings: 8

### Summary of findings

This review focussed on Beaulieu House a Council run residential service providing social care services to children, covering in summary:

- *Budgeting*: checking whether a realistic, approved budget is in place, which is correctly informed, managed and overseen.
- *Purchasing Framework*: ensuring a clearly documented framework of documentation is in place, setting out how the procure to pay process will be managed, informed by corporate expectations and understood by staff.
- *Procure to Pay Processing*: ensuring that procure to pay processing is carried out in an effective and efficient manner.
- *Governance*: appropriate governance structures are in place, to ensure appropriate, informed and transparent decisions are made and discussion and actions agreed appropriately evidenced.

Our review confirmed that there is an approved budget in place for Beaulieu House which details the current budget, the actual spend to date and the year-end forecast position. The overall 2017/18 Council budget, which included Beaulieu House, was approved by Members in February 2017.

Beaulieu House is also reviewed on an annual basis by Ofsted. The latest inspection was undertaken in August 2017 when the services was rated as good.

We considered the approach to the identification and progression of potential revenue streams through discussions with management and review of supporting documentation e.g. bed occupancy management information. On the residential side Beaulieu House operates at full capacity while on the respite side Beaulieu House operates at near full capacity. As such opportunities to generate greater revenue through increased occupancy are limited without further capital investment by the Council.

Beyond ensuring full occupancy, we have seen limited evidence of evaluating and increasing value for money. While management meet with representatives of other children's homes, there is no formal assessment of value for money. Furthermore, our findings have indicated that there is limited operational financial awareness, in particular ensuring strong controls are operating. This has potentially allowed purchases to have been made which do not provide the greatest value.

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Beaulieu House has a Statement of Purpose in place which documents the interface between the establishment and stakeholders. The Statement of Purpose details amongst other things the aims, ethos and philosophy of Beaulieu House, a description of the location of the home, how accommodation has been adapted to the needs of children supported by Beaulieu House, who can access Beaulieu House, quality standards, how to make a complaint and the organisational structure.

Our review identified four medium and three low risk rated issues and these are:

*Value for money:* A formal benchmarking exercise of how well Beaulieu House compares against other children's homes has not been undertaken by Beaulieu House Management including whether the house is providing value for money to both the children and the IoW Council. We have raised this area as a **medium risk** finding.

*Local procedures:* There are no local documented financial procedures operating for Beaulieu House specifically covering procurement processes for purchase orders, procurement cards, petty cash and managing children's money. These would be expected to clearly identify roles/responsibilities for each process step, incorporate adequate segregation of duties and include arrangements to ensure resilience if key staff are unavailable. We have raised this area as a **medium risk** finding.

*Clarity of purchasing processes:* There is no clearly documented processes setting out which goods or services should be ordered through each of the three purchasing processes, purchase orders, procurement cards and petty cash from a corporate or local perspective. As a result some goods and services were ordered interchangeably through the different methods. Orders raised via the purchase order process require approval by a second person if the purchase order is £200.00 and above. However this can be circumvented by incurring expenditure through procurement cards or through the use of petty cash where no second authorisation is required before expenditure can be incurred. Our testing identified 12 purchases made through procurement cards that exceeded £200.00 per transaction worth a total value of £5,787.80. We have raised this area as a **medium risk** finding.

*Petty cash receipts:* Beaulieu House also use petty cash as one of the three means of procuring goods and services and receipts are maintained to support the expenditure. However, the receipts were not maintained in a manner in which it was possible to tie through to the transactions within the timeframe of our fieldwork. The value of the petty cash transactions selected for sample testing ranged from £24.15 to £439.85. Our review of the headings that petty cash expenditure was coded to showed that this was reasonable and aligned to Beaulieu House business. We have raised this area as a **medium risk** finding.

*Purchase orders:* Purchases made through the purchase order process require that a purchase order is raised first. However, we identified 14 cases from a sample of 30 purchases made through the purchase order process where the purchase orders were raised after the invoice had been received. For goods or services that are ordered on the day, e.g. daily groceries, there is a facility (which is recommended by the central Finance Team) for staff to estimate the annual spend and raise an order in advance and the invoices can then be drawn from that order. This process is not being utilised. We have raised this area as a **medium risk** finding.

*Training:* Confirmation was provided by staff at Beaulieu House that they have not received any finance related training recently, this was last provided around eight years ago. The Corporate Finance Team informed us that finance related training is available on the Corporate intranet site and staff have to book themselves onto the training if they feel that there is a development opportunity as this is not mandatory training. We have raised this area as a **low risk** finding.

*IoW Council Finance Procedures:* The IoW Council Procedures relating to procurement cards, petty cash and purchase orders have either not been reviewed recently and/or are not easily accessible to staff. For instance, the IoW Council Government Procurement Card guide is dated November 2011 and still has a 'Draft' watermark. We have raised this area as a **low risk** finding.

*Terms of Reference:* There are no Terms of Reference for the monthly budget committee meeting. The monthly budget meetings are attended by Children & Families department managers (senior service managers and individual team managers) and amongst other things consider current month budget forecast position. We have raised this area as a **low risk** finding.

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We would like to take this opportunity to thank Isle of Wight Council staff for their help and assistance with this review.

## *Executive summary (2 of 2)*

### **Key Messages**

#### **Framework**

The main issues identified related lack of local documented procedures in place at Beaulieu House covering procurement processes which clearly identify roles/responsibilities for each process step, incorporating adequate segregation of duties and include arrangements to ensure resilience to cover staff absence. We identified that the IoW Council procedures relating to procurement processes are either not up to date and/or staff did not know where such procedures were maintained should they need to refer to them.

#### **Delivery**

There were issues noted in respect of procurement processes that management need to address to ensure the procurement processes are more robust. The issues included petty cash receipts which are not maintained in a way that easily supports the expenditure incurred. Also, purchase orders are being raised after receipt of an invoice thereby committing the Council to pay the expenditure as the goods or services will have been provided. Whereas if a purchase order was raised first this will allow management the opportunity to provide appropriate oversight and challenge, if it is above £200.00, before the Council is committed to the expenditure.

#### **Oversight**

We did not identify any significant issues with oversight over Beaulieu House. There is an approved budget in place for Beaulieu House which details the current budget, the actual spend and the forecast position. Benchmarking of Beaulieu House against other services on the mainland is undertaken through various means including the quarterly meetings held by the Beaulieu House Manager with other managers from Hampshire County Council offering similar services and annual reviews by Ofsted as well as monthly independent quality assurance reviews conducted by Hampshire County Council - Children's Services Department. We raised a finding for management to consider documenting and formalising the terms of reference for the monthly budget meetings.

# Current year findings (1 of 8)

## Local procedures

### Control design

1

Medium

### Finding and root cause

There are no local documented financial procedures in place for Beaulieu House. Although there are documented Council procedures, these are not sufficiently detailed to provide guidance on the process that should be followed locally at Beaulieu House including staff responsibilities and segregation of duties.

The local procedures should cover the three procurement routes in place, these being:

- a) Purchase orders;
- b) Procurement cards;
- c) Petty cash;

They should also cover holding and managing residents' money.

During discussions with the Beaulieu House Manager and the Team Administrator, we were informed that they were not aware where the Council's Policies / Procedures relating to procurement were located. These were subsequently provided after staff had consulted colleagues within the corporate finance team.

### Implications

Absence of documented local procedures that have been appropriately approved, including by the corporate teams (Finance and Accounts Payable), may result in incorrect or inefficient purchasing increasing the risk of inappropriate, poor value or fraudulent expenditure.

### Action plan

Beaulieu House management will develop local procedures for Purchase Orders, Procurement Cards, Petty Cash and managing residents' money and these will clearly identify roles/responsibilities for each process step, incorporating adequate segregation of duties and include arrangements to ensure resilience if key staff are unavailable.

The Beaulieu House procedures will be shared with the Corporate finance team to ensure that the processes are aligned to the overall IoW Council Policies and Procedures.

### Responsible person/title

Mark Dawkins, Beaulieu House Manager

### Target date

30 June 2018

### Reference number

17-18-02-01

Staff will ensure that they familiarise themselves with the IoW Council's policies and procedures relating to procurement and finance processes to ensure compliance as well as make themselves aware of the locations of the policies and procedures should they need to refer to them.

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# Current year findings (2 of 8)

## Clarity of purchasing processes

### Control design

2

Medium

### Finding and root cause

Beaulieu House procures goods and services through three different processes; purchase orders, procurement cards and petty cash. From our testing of a range of purchases, it was noted that the procurement routes were used interchangeably. Transactions that we identified being procured in more than one way included travel, catering, general materials and client expenses. It was also noted that there is no clearly documented processes setting out which goods or services should be ordered through each of the three purchasing processes from a corporate or local perspective. As a result some goods and services were ordered interchangeably through the different ordering methods.

Orders raised via the purchase order process require approval by a second person if the purchase order is over £200. However, this control can be circumvented by incurring expenditure through procurement cards or petty cash where no second authorisation is required before expenditure can be incurred. A review of the Beaulieu House expenditure incurred via procurement cards that was provided at the time of audit showed that there were 12 transactions worth a value that ranged from £204.45 to £1,305.26. The purchases included vehicle maintenance costs, professional subscriptions (these related to Ofsted registration and Ofsted CRB checks which are allowed corporately), general materials and catering.

### Implications

If it is not clear, when the differing purchasing methods should be used and by who then the risk of inappropriate, poor value or fraudulent expenditure is increased. If expenditure limits and secondary approval controls are not consistent then purchases may not be subject to the required scrutiny.

### Action plan

In documenting the local purchasing procedures, management will ensure that guidance is provided to staff on which methods should be followed for procuring different types of goods and services. This will include when procurement cards and petty cash should be used and not used to ensure appropriate approvals are obtained before incurring expenditure.

#### Responsible person/title

Mark Dawkins, Beaulieu House Manager

#### Target date

30 June 2018

#### Reference number

17-18-02-02



# Current year findings (3 of 8)

## Petty cash receipts

### Operating effectiveness

3

Medium

#### Finding and root cause

Beaulieu House maintains petty cash which is replenished through the use of two debit cards held by staff. The debit cards are used when receipts are submitted, the value of the receipts are expected to tally with the amount being requested for top up.

We selected a sample of 15 petty cash transaction from a report provided by Finance of Beaulieu House petty cash expenditure for the current financial year (each transaction having multiple receipts that total the transaction amount) to verify that the receipts retained tallied with the transaction. While receipts were retained, they were not stored in a manner in which it was possible to tie through to the transactions within the timeframe of our fieldwork. The value of the 15 petty cash transactions selected for testing ranged from £24.15 to £439.85. The £439.85 could have been made up of multiple transactions but we were not able to validate this in the absence of supporting receipts or provide assurance on the appropriateness of the expenditure

It was also noted that there are no local processes to undertake reconciliations and ensure that the amounts being claimed tally with the receipts on hand. The total amount of petty cash used by Beaulieu House between the 4<sup>th</sup> of April 2017 and the 7<sup>th</sup> of February 2018 was £2,690.96.

#### Implications

If receipts are not properly maintained to support petty cash expenditure then the Council could suffer financial loss through inappropriate, poor value or fraudulent expenditure by staff.

#### Action plan

Beaulieu House management will ensure that receipts for petty cash are retained and stapled together to support each individual petty cash top up. Regular reconciliations will also be undertaken by local management to ensure that the petty cash receipts tally with the amounts. In addition, staff should be reminded that petty cash should be used for low value transactions where the purchase order system cannot be used.

#### Responsible person/title

Mark Dawkins, Beaulieu House Manager

#### Target date

30 June 2018

#### Reference number

17-18-02-03

# Current year findings (4 of 8)

## Purchase orders

### Operating effectiveness

4

Medium

#### Finding and root cause

Purchases made through the purchase order process require that a purchase order is raised first and approved by another member of staff (with appropriate delegated authority) if the order is for £200 or more. From a sample of 30 purchases made through the purchase order process 15 of the purchase orders, worth a total of £12,995.63, were raised after the invoice had been received.

In 11 cases the reasons provided by local management were reasonable, for instance the orders related to daily orders of food or staff agency costs where the timeframe / unknown costs do not allow for a purchase order to be raised first. However, the central finance team policy is that in such cases Beaulieu House management should raise an advance order based on the estimated annual spend and the daily invoices be drawn down from that order. This ensures appropriate approval is sought prior to the expenditure incurred. The remaining four invoices, worth £381.56, related to tyre purchases and general cleaning materials and a purchase order should have been raised and approved in advance.

#### Implications

If the purchase order process is not followed then the expenditure is not approved prior to commitment contrary to Council procedures and increasing the risks of inappropriate, poor value and / or fraudulent transactions.

#### Action plan

Beaulieu House management will ensure that all procurement is supported by a purchase order that is raised prior to the goods or services being provided to ensure compliance with Council procedures. For goods like catering purchases which need to be made on a daily basis then Beaulieu House management will raise an advance order based on the estimated annual spend and the daily invoices will be drawn down from that order.

#### Responsible person/title

Mark Dawkins, Beaulieu House Manager

#### Target date

30 June 2018

#### Reference number

17-18-02-04

# Current year findings (5 of 8)

## Benchmarking

### Operating effectiveness

5

Medium

#### Finding and root cause

Beaulieu House Management liaise with other registered managers for children's homes in Hampshire and more widely with other registered managers from the South East of England. Lessons learned and experiences covering various topics including Ofsted inspections and regulations are discussed and shared at these meetings. However, a formal benchmarking exercise of how well Beaulieu House compares against other children's homes has not been undertaken by Beaulieu House Management including whether the house is providing value for money to both the children and the Council. It is our understanding that Beaulieu House is unique in that it provides both residential care and respite care to disabled children and other homes in Hampshire (and Dorset) only offer residential care or respite care. Whilst, this may present some limitations, there is an opportunity to undertake a formal analysis of how well Beaulieu House compares with other children's homes offering elements that may be compared to those being offered by Beaulieu House in order for management to be able to make informed decisions.

It is noted that undertaking benchmarking may not be straightforward, given that a significant proportion of the spend will rest on factors outside of the control of management such as the complexity of the residents, the scarcity of skilled staff locally or the costs of the estate. At a minimum, however, management should be able to undertake an exercise to ensure they understand the full costs of providing the various services (including overheads) and whether their approach to recovery of these via appropriate fees and charges is comparable to other providers.

We also noted that Beaulieu House do not market their services to the wider population and the focus has been in providing care for IoW children and children open to social services (i.e. no fees attached). However, it should be noted that our review of bed occupancy showed that this was at 100% for residential care and would have been at near full capacity for respite care, had it not been for a late cancellation. With this in mind management should assess the costs versus the benefits of undertaking any marketing which should also help determine which marketing channels would be most effective and cost efficient for Beaulieu House.

#### Implications

Without a formal analysis of how well Beaulieu House compares against other children's homes in the region management will not know whether Beaulieu House offers value for money and if there any aspects that need to be changed.

#### Action plan

A formal benchmarking exercise will be undertaken by Beaulieu House management using comparable children's homes and this should cover various aspects including financial and non-financial aspects. As part of this review management should

#### Responsible person/title

Mark Dawkins, Beaulieu House Manager

assess whether other children's homes have undertaken any marketing activities and whether there will be any benefit in Beaulieu House also undertaking marketing activities and how this will be undertaken.

<i>Target date</i>
31 January 2019
<i>Reference number</i>
17-18-02-05

# Current year findings (6 of 8)

## Financial Training

### Control design

6

Low

#### Finding and root cause

During interviews with the Beaulieu House Manager and the Team Administrator it was identified that staff have not undergone any finance training over the past few years. The Team Administrator stated that they have not received any formal finance related training in the past eight years. The use of the SAP finance system was also highlighted to be complex and, as a result, this was rarely used to view current and update budgetary information, with staff finding it easier to request budgetary information via e-mail from other colleagues.

During discussions with the Senior Finance Business Partner we were informed that a finance training programme is in the process of being designed and will be rolled out to staff shortly. Confirmation was provided by the Corporate Finance Team that finance related training is available on the Corporate intranet site, staff have to book themselves onto the training if they feel that there is a development opportunity as this is not mandatory training.

#### Implications

Absence of regular training for staff may lead to incorrect or inefficient processes being adopted by staff resulting in financial loss by the Council.

#### Action plan

Management will ensure that an appropriate finance training and refresher training course covering procurement processes, VAT processing and the finance system will be designed and delivered to staff.

Beaulieu House management will ensure that staff are booking themselves onto the finance training that is available on the corporate intranet site where development needs have been identified or where there have been long gaps between the training.

#### Responsible person/title

Barry Downer, Finance Business Partner

#### Target date

30 June 2018

#### Reference number

17-18-02-06

# Current year findings (7 of 8)

## IoW Council procedures

### Control design

7

Low

### Finding and root cause

We obtained the Council procedures relating to procurement processes to validate that they are reviewed on a regular basis, are reflective of actual controls and processes in operation and are easily accessible to staff. We noted:

- a) The IoW Council Government Procurement Card guide is dated November 2011 and still has a 'Draft' watermark. Whilst the IoW Council Government Procurement Card guide has some information relating to the treatment of VAT this is not as detailed as that documented in VAT Guidance. The Government Procurement Card guide should provide a reference to that document so that staff can read further if they are in doubt of VAT requirements.
- b) The IoW Council Petty Cash procedure are not dated or detail the policy owner is in case staff have any questions. The Petty Cash procedures do not mention how VAT should be treated by staff when they are processing the receipts for goods and services purchased through petty cash. Also, the Council's Petty Cash procedure state that 'Petty cash must only be used for small items of expenditure where it is not possible to obtain an invoice or use a Government Procurement Card'. This needs to be corrected as invoices / receipts should be obtained in all instances and exceptions e.g. lost receipts approved by the respective line manager.
- c) The IoW Council Procurement procedures – we could not verify whether these were reviewed recently due to the format that the procedures were provided to audit i.e. as screen shots in an email. Beaulieu House staff interviewed did not know where to find them and had to ask colleagues for these to be provided.

### Implications

If key purchasing policies and procedures are not up to date and easily accessible across the Council then incorrect, processes and controls may be followed increasing the risk of inaccurate, inappropriate and / or fraudulent transactions. In the absence of key staff there may be uncertainty over required processes and controls.

### Action plan

Management will ensure that:

- a) The IoW Council Government Procurement Card guide is reviewed and updated and regular reviews undertaken. Once the IoW Council Government Procurement Card guide has been updated this will be formally communicated to all the relevant teams.
- b) IoW Council Petty Cash procedures will be reviewed and updated with the procedure owner, review date and date of next review. Once the IoW Council Petty Cash procedures has been updated this will be formally communicated to all the relevant teams.

#### Responsible person/title

Barry Downer, Finance Business Partner

#### Target date

30 June 2018

#### Reference number

17-18-02-07

- c) The IoW Council Procurement procedures will be made easily accessible to staff and all relevant staff will be informed of the location of the policies and procedures.
-

# Current year findings (8 of 8)

## Terms of Reference

### Control design

8

Low

### Finding and root cause

Monthly budget meetings are held. These are attended by Children and Families department managers (senior service managers and individual team managers). We were informed that the meetings always consider the current month budget forecast position, associated looked after children activity and savings monitor update.

Other areas reviewed, but not on a monthly basis, include petty cash expenditure, GPC procurement card expenditure and any service issues that may have financial implications.

During discussions with the Finance Business Partner, we were informed that there is no formal documented terms of reference that details the purpose of the meetings, the composition of the meetings as well as the quorum for any decisions that the meeting needs to make. It is good practice to have a clear purpose and remit for key meetings.

### Implications

If the purpose and remit of key meetings is not documented then the value of the meeting may not be understood and / or the objectives of the meeting not achieved.

### Action plan

Management will assess whether a Terms of Reference for the monthly budget meetings should be documented and include the purposes of the meetings, the composition of the members as well as the quorum for any decisions that the meeting needs to make.

#### Responsible person/title

Barry Downer, Finance Business Partner

#### Target date

30 June 2018

#### Reference number

17-18-02-08



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

**Critical**

**High**

<i>Effect on Service</i>	<i>Embarrassment/ reputation</i>	<i>Personal Safety</i>	<i>Personal privacy infringement</i>	<i>Failure to provide statutory duties/meet legal obligations</i>	<i>Financial</i>	<i>Effect on Project Objectives/ Schedule Deadlines</i>
<p>A finding that could result in a:</p> <ul style="list-style-type: none"> <li>• Major effect to an important service area for a short period</li> <li>• Adverse effect to services in one or more areas for a period of weeks Service Disruption 2-3 Days</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Adverse local publicity /local public opinion aware</li> <li>• Statutory prosecution of a non-serious nature</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Severe injury to an individual or several people</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Some individual personal details compromised/ revealed</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Litigation/claims/ fines from Department £25k to £50k</li> <li>• Corporate £50k to £100k</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Costs between £5,000 and £50,000</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Adverse effect on project/ significant slippage – 3 weeks–2 months</li> </ul>
<p>A finding that could result in a:</p> <ul style="list-style-type: none"> <li>• Brief disruption of important service area</li> <li>• Significant effect to non-crucial service area Service Disruption 1 Day</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Contained within section/Unit or Directorate</li> <li>• Complaint from individual/small group, of arguable merit</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Minor injury or discomfort to an individual or several people</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Isolated individual personal detail compromised/ revealed</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Litigation/claims/ fines from Department £12k to £25k</li> <li>• Corporate £25k to £50k</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Costs less than £5,000</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Minimal impact to project/ slight delay less than 2 weeks</li> </ul>

**Medium**





**Low**

**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.

<i>Findings rating</i>	<i>Points</i>	<i>Report classification</i>	<i>Points</i>
<b>Critical</b>	40 points per finding	 <b>Low</b>	6 points or less
<b>High</b>	10 points per finding	 <b>Medium</b>	7– 15 points
<b>Medium</b>	3 points per finding	 <b>High</b>	16– 39 points
<b>Low</b>	1 point per finding	 <b>Critical</b>	40 points and over

# Appendix B: Terms of reference

## Background and Scope

This review was originally scheduled to cover both Beaulieu House and Riboleau House, establishments providing social care services to children and adults respectively. Following consultation with the Chief Internal Auditor and management at the Council this review has been re-scoped, to focus solely on budgeting, governance and procure to pay arrangements in place at Beaulieu House.

Beaulieu House is a children’s residential and respite service for children and young people with varying complexity of needs such as autism, severe learning difficulties, cerebral palsy, ADHD (Attention Deficit, Hyperactivity Disorder) and behaviours which challenge society. In overview this review will cover:

- *Budgeting*: a realistic, approved budget is in place, which is correctly informed, managed and overseen.
- *Purchasing Framework*: ensuring a clearly documented framework of documentation is in place, setting out how the procure to pay process will be managed, informed by corporate expectations and understood by staff.
- *Procure to Pay Processing*: ensuring that procure to pay processing is carried out in an effective and efficient manner.
- *Governance*: appropriate governance structures are in place, to ensure appropriate, informed and transparent decisions are made and discussion and actions agreed appropriately evidenced.

The control objectives and potential related risks included in this review are:

### Sub-process

#### Objectives

#### Budgeting

An approved budget is in place, profiled over the course of the year and linked to specific activities.

Appropriate steps have been taken to maximise VfM, for example:

- Benchmarking against similar establishments on the mainland.
- Identification and replication of sector good practice.
- Identification and progression of potential revenue streams.

#### Risks

If an approved budget, which is correctly managed, is not in place then:

- There may not be sufficient ‘budget’ to cover known activities during the year.

- Issues/overspends may not be identified and escalated for corrective action at the earliest opportunity.

- An excessive budget may be assigned, leading to unnecessary expenditure by the Council.

- Revenue streams may not be progressed, leading to the Council missing out on potential revenue and necessitating additional expenditure.

#### Procure to pay Framework

Local procure to pay processes and controls are in place and documented, compliant with Council financial regulations; processes/documentation:

- Are up to date, with regular review and approval as necessary by an appropriate source of authority.
- Clearly identify roles/responsibilities for each process step and are mindful of alternative arrangements, to ensure resilience if key staff are unavailable.

If the approach to local purchasing is not appropriately documented in current processing notes or equivalent then:

- Corporate expectations may not be complied with.
- The approach may not be up to date or not in line with Council and/or service need.
- Gaps or overlap may exist, leading to inconsistent and potentially inadequate, inefficient or fraudulent purchasing.

- Incorporates adequate segregation of duty between the ordering and receiving of goods/services and the processing of invoices.
  - Are understood by staff responsible.
- The establishment has engaged with corporate teams, for example the finance and Accounts Payable (AP) teams, to confirm the adequacy of local arrangements and identify and progress enhancements in a timely manner.
- Where there are significant differences between local and Council policies/procedures, these have been identified and authorised as appropriate.
- Appropriately designed controls to minimise the potential for fraud and help ensure timely and effective processing may not be in place.
  - Roles/responsibilities may be unclear.
  - If staff do not understand expectations then it is unlikely that they will be consistently complying with them.
- Ultimately absence of sufficient documentation, which is understood by staff, will introduce the opportunity for fraud and increase the likelihood that processing is neither effective nor efficient.
- If the expertise of corporate teams has not been appropriately leveraged then opportunities to increase the efficiency and effectiveness of local processing will have been missed.

### **Procure to Pay Processing**

- The service notifies the SAP vendor team promptly of any changes necessary to vendor master data, e.g. liquidations, bank details, suppliers etc.
  - Orders are raised in accordance with policy and procedures, and are appropriately documented, coded and properly authorised, within an agreed time limit.
  - Invoices relate to goods/services actually received, from bona fide suppliers. Invoices are correctly priced and are checked, authorised and recorded in a timely manner.
  - Invoices are checked to purchase orders.
  - Invoices are processed, authorised and paid to the correct supplier for the correct amount and on a timely basis. Payment runs are appropriately authorised.
- If a good practice approach to processing is not in place then incorrect and/or late payments will be more likely.
- If appropriate matching of orders to the delivered good/service and order does not occur, or there is insufficient checking of supplier payment, there is a greater chance that fraud would go undetected.

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**Governance**

An appropriate regime of corporate oversight is in place; specifically:

- Production of regular financial reports covering for example expenditure to date.
- Consideration of reports at team meetings, escalating to Service Board specifically identifying any issues/overspend and how they will be addressed.
- Attendance by a member of the corporate finance team as appropriate at oversight meetings.

If an appropriate regime of corporate governance is not in place then:

- Issues will be less likely to be identified and addressed at the earliest opportunity.

- Corporate teams may have an out of date/inaccurate view of how the establishment is performing.

If a sound framework of local governance is not in place then poor and potentially wrong decisions will be more likely; specifically:

- Roles, responsibilities and authorities regarding governance may be unclear, including regarding the roles/authorities of third parties.
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# Appendix C: Limitations and responsibilities

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

We have undertaken this review subject to the limitations outlined below

### *Internal control*

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

### *Future periods*

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not 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 changes; or
- The degree of compliance with policies and procedures may deteriorate.

## *Responsibilities of management and internal auditors*

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

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we 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.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.



# *Internal Audit Report 2017/18*

## Information Management

**17-18-19**

Isle of Wight Council

**FINAL**  
July 2018





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- Detailed Current Year Findings
- Appendix A: Basis of our Classifications
- Appendix B: Terms of Reference
- Appendix C: Limitations & Responsibilities

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## ***Distribution List***

### ***For action***

- Helen Miles, Head of Legal and Monitoring Officer
- Justin Thorne, Principal Lawyer and Deputy Monitoring Officer
- Vanda Niemiec, Senior Information Officer
- Hayley Holden, Team Leader - Procurement & Contract Monitoring
- Kevin Apps, Workforce Development Manager (Premises and Resources)

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### ***For information***

- Elizabeth Goodwin, Chief Internal Auditor



The document has been prepared solely for the use of the Audit Committee of the Isle of Wight Council in accordance with the agreement between the Isle of Wight Council and PwC dated 27<sup>th</sup> November 2015. The work was performed in accordance with the Isle of Wight Council's internal audit methodology and the findings reported to the Chief Internal Auditor, who remains responsible for the final conclusions and ratings assigned therein. PwC accepts no liability (including for negligence) to anyone else in connection with its work or this document, and it may not be provided to anyone else.

# Executive summary (1 of 2)

Classification	Trend	By type	By scope area
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Last reviewed in 2014/15; rated as low risk

	Critical	High	Medium	Low	Advisory
Information Governance Management	0	1	1	0	0
Confidentiality and Data Protection Assurance	0	1	1	0	0

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

## Total findings: 4

### Summary of findings

This review covered the Council's approach to Information Management, specifically that appropriate steps are being taken to meet the 'Information Governance Management' and 'Confidentiality and Data Protection Assurance' elements of the NHS Information Governance Toolkit; in overview:

- *Overarching policies and governance oversight:* confirming that there is an appropriate policy set, covering information management requirements, with clear roles and responsibilities, led by an oversight forum with a clear remit and appropriate membership.
- *Skills and training:* confirming that the Council has taken steps to ensure that all of its staff have received basic information management training, with more focussed training provided where required, informed by a training needs assessment.
- *Contracts and data sharing:* confirming that contracts with third parties include appropriate clauses covering information management, employee contracts identify information management expectations and, where personal information is routinely shared, appropriate agreements are in place governing the terms under which it is shared and its use.

The conclusion of our review is mixed. At a high level appropriate 'core' central structures are in place, for example documenting roles/responsibilities, policies, governance groups and the provision of training. However, while we identified that elements of the central structures do need to be reviewed and updated, the main issues we identified relate to the level of compliance by service areas with information management expectations; specifically:

- All Data Exchange Agreements (DEAs) we reviewed are a number of years out of date.
- Three contracts we selected for sample testing could not be located, including two over £250,000 in value – for clarity all contracts we were able to locate contained appropriate information management clauses.
- The completion rates for mandatory information management training is lower than desirable; to date 24% of new in-year joiners to the Council have completed Information Management and 30% have completed Data Protection online training, with a correspondingly low completion rate for the training needs assessment, carried out in part to identify if there is any unmet information management training need at the Council.

For context the Council's inability to locate contracts, particularly high value contracts, is potentially a high risk issue. However this is a contract management failing, rather than specifically an information management failing so has not been taken into account when risk rating the associated finding within this report. We will revisit this area as part of our scheduled quarter four review of contract management.

We have grouped our observations as four detailed findings, summarised below:

*Contracts and Information Sharing:* to help ensure that information the Council manages, including personal information, is treated correctly and securely, appropriate clauses should be included in employee contracts and contracts with third parties, with any routine sharing of personal data managed in line with agreed protocols. To ensure these requirements are satisfied the Council has implemented standard clauses for inclusion in employee contracts and contracts with third parties and has made available a template Data Exchange Agreement (DEA), for use by service areas, where personal information is routinely shared.

Our sample testing of employee contracts (25 out of 2,749 staff listed in SAP (the core HR system)) identified one casual employee where we were unable to locate a contracts or equivalent highlighting information management expectations. While the member of staff would be unlikely to have any access to sensitive information, line managers should be reminded of the importance of ensuring this is covered for all employees, including casuals. All sampled contracts with third parties the Council was able to locate contained appropriate information management clauses. However the Council was unable to locate three contracts, including two over £250,000 in value. Specific to the contracts where we were unable to locate copies, these should be requested from the providers and stored securely. While peripheral to the scope of this review the requirement to ensure that contracts are stored securely needs to be reiterated to service leads and the Council needs to improve the visibility of contracts centrally, for example by keeping a central register of all contracts, not just those over £25,000, as is currently the case.

None of DEAs we sampled (five out of 33) were current, the most recent having expired in 2013. This is known to the CIU (Corporate Information Unit, the central team responsible for information management) but they have had limited success getting engagement from service areas to address the issue. In the short term this issue needs to be escalated to the Corporate Management Team, with expired DEAs either refreshed, or retired if no longer needed. Longer term, this should be addressed, as planned, through rolling out Privacy Impact Assessments (PIAs), as part of wider work to prepare the Council for GDPR (General Data Protection Regulation) – for clarity PIAs will identify where DEAs may be required.

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

*Training:* the overarching requirement is to ensure that Council staff have the skills necessary to manage the information they handle, for example that personal information is appropriately safeguarded, in line with the expectation of the Data Protection Act (DPA). The Council's approach is to require all staff to complete a range of online training modules (three modules on aspects of information management, with a further specific module on the DPA), assessing the need for any further training (for specialist areas, with elevated training needs) primarily through an annual survey and provide further specialist training, for example through face to face training sessions.

Our findings are mixed. The content of the training courses is appropriate and feedback shared with us for face to face training provided is positive. However the completion rates for the mandatory online training are not as high as desirable; as of the 2<sup>nd</sup> October 2017 24% of new joiners to the Council since 1<sup>st</sup> April 2017 have completed Information Management and 30% have completed Data Protection online training. The response rate to the annual survey to identify training needs (including Information Management) is also low; for 2017/18, only 84 surveys were completed for the whole Council.

In the short term, line managers who have not yet requested logins (managers for 46 out of 108 new in year joiners) to the system for their staff should be reminded of the requirement to do so – until new joiners have logins they are unable to complete training. Following this, reports should be produced for service leads, highlighting both managers who have not requested logins and staff who have not completed training, to be followed up. Following on from this, the need to document all information management training completed within SAP, at the mid or end of year review, needs to be highlighted to line managers; a report can then be run from SAP to give a more accurate view of all of the information management training completed by staff. To identify any unmet need, the annual survey should be highlighted and strongly recommended to all line managers

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through Managers' Brief (the in house newsletter). This could also be supplemented by using the planned training to support GDPR in 2018 to provide a further opportunity for line managers and staff to identify any unmet training need.

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

*Roles and Responsibilities:* roles and responsibilities regarding information management are primarily documented in the Information Governance Policy. While this Policy documents the key areas of information management we did note that it is dated 2012 and our review identified a number of errors regarding roles which no longer exist at the Council, for example the 'Transformation Manager' and job titles/forums which are now known by different names, for example the most senior management forum at the Council is now termed the 'Corporate Management Team'. The Policy needs to be reviewed, updated and reapproved, to reflect current requirements and roles.

Our review also identified that, while responsibilities are covered, in some cases this is either implicit or would benefit from being documented in more detail. For example departmental information governance leads are responsible for 'leading' information governance in their areas, what this constitutes could be made clearer, for example by explicitly identifying their role in ensuring contractual and information sharing adequately cover information management related requirements.

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

*High Level Documentation:* the Council has a range of high level policies/guidance in place, setting out key expectations and supporting staff in complying with information management expectations. For example policies covering Data Protection, Corporate Retention and Information Security were provided for our review.

While the majority of content is likely to still be correct, all high level documentation provided for our review, with the exception of the Information Security Policy which was last reviewed in July 2017, is overdue review. Two policies, those covering Corporate Retention and Access to Information, have not been reviewed for over five years, although the actual retention schedules are reviewed annually.

Our review of policy content only identified minor errors, for example dead web links and reference to job roles/forums which no longer exist. However it is good practice to review documentation regularly, both to address out of date information and to identify changes necessary, for example to respond to new legislative requirements. All high level documentation should be reviewed and updated, with future periodic review scheduled. We also note that the Corporate Retention Policy runs to over 200 pages. This is unlikely to have been read and understood by staff, represents an unrealistic maintenance overhead and is highly unlikely to be consistently complied with across the Council. The need for such a verbose document should be revisited and either a more manageable replacement progressed, or a slimmed down version produced, which would meet the majority of service areas' needs.

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

Our initial report contained a further finding, regarding the terms of reference for the Information Governance Group (IGG) being out of date and not reflective of current arrangements. Subsequent to the completion of our fieldwork we were informed that the version provided for our review was incorrect, with the current version provided for our re-review; not issues were identified with the replacement document provided.

### **Management Response**

It is important to note that, in line with the approach taken by other corporate services, there are minimal resources available centrally to support Information Management. The level of resourcing is sufficient to support maintaining overarching policy and some support/training, however the expectation is that service areas will take ownership of their own Information Management, for example ensuring that corporate expectations regarding completing training are met and putting appropriate agreements in place where information is shared by service areas; these are the primary issues identified in the report resulting in the high risk rating.

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That said the Council is part way through a major initiative to support GDPR compliance. In addition to comprehensively reviewing corporate information governance policies (addressing the minor issues identified in the report) this will also encompass rolling out a new programme of mandatory training, which has already been provided to senior leaders across the Council and replacing Information Sharing Agreements with an approach informed by Privacy Impact Assessments; work will have commenced reviewing existing Information Sharing Agreements by the end of May and it is intended that Privacy Impact Assessments will be completed for any new Information Sharing Agreements.

While we like to thank Internal Audit for this review, which has both summarised key issues in a single document and highlighted these and their potential impact to senior management, we would like to assure the Committee that by the time they meet in September all issues identified in the report will have been fully addressed.

We would like to take this opportunity to thank Isle of Wight Council staff for their help and assistance with this review.

# Executive summary (2 of 2)

## Key Messages

### **Information Governance Management**

Comprehensive high level structures and documentation are in place. For example a range of policy documents, covering the key areas of information management such as data protection and information classification; and an oversight forum, with agreed terms of reference, appropriate senior membership which meets regularly, with formally managed meetings. We did identify a number of issues linked to the need to update much of the documentation, some of which has not been reviewed for a number of years. However, all of these errors are relatively minor and the Council is already planning to thoroughly review all of its 'framework' documentation, to ensure that it is fit for purpose when GDPR comes into force in May 2018.

At the operational level, all bar one of the employment contracts we reviewed contained a specific clause covering information management responsibilities and all of the contracts with third parties the Council was able to locate contained appropriate clauses, covering how information should be managed; the Council also has a comprehensive programme of information management training in place, with more specialist training provided in areas such as Adult Social Care. We did identify issues regarding inconsistent completion rates for training and the annual training needs survey and issues with a number of contracts which could not be located. While not having contracts in place for all services is a serious issue, it is peripheral to this review, which is focussed on information management; we will revisit how contracts are managed in a focussed review, scheduled for quarter four. Regarding completion rates for training and the training need survey, completion reports should be produced and passed to service leads to be followed up.

### **Confidentiality and Data Protection Assurance**

Most of the elements within this sub process are addressed by the overarching arrangements the Council has in place; our main observation is that, where this is the case, this could be made more explicit, for example referencing the role the CIU and IGG have in supporting the Caldicott agenda. Specific to Adult Social Care we were provided with comprehensive guidance provided to staff regarding ensuring that permission is gained, prior to any sharing of information for 'non care' purposes. More generally we note that a range of information is available on the Council's website and key forms, for example to claim benefits or pay council tax, are available in alternative formats, such as braille.

The main issue we identified are in relation to the Data Exchange Agreements (DEAs). All of the agreements we reviewed have expired, most recently in 2013. DEAs should be in place wherever there is 'routine' sharing of personal information. This area needs to be escalated to service leads, highlighting the need for them to ensure that appropriate agreements are in place for their areas, wherever routine sharing of information takes place.

# Current year findings (1 of 5)

## Contracts and Information Sharing

### Control design

1

High

### Finding and root cause

In summary there are three areas of information governance applicable to contracts and information sharing:

- *Contracts with third parties*: the Council needs to know the contracts it has with third parties where the third party has access to Council data and ensure that appropriate clauses are included covering use of information, for example covering data protection and freedom of information.
- *Employment Contracts*: all employment contracts should include appropriate clauses covering information management; for example covering data protection.
- *Protocols for sharing of personal information*: where this is routine, appropriate protocols should be agreed between the Council and the third party.

### Contracts

The Corporate Information Unit (CIU) has shared guidance with the Procurement Team regarding information management content which should be included in contracts, specifically covering data protection and freedom of information. This has been incorporated into the Council's standard contract terms, used wherever possible for all Council contracts with third parties.

The guidance was produced a number of years ago and we were informed that the CIU is planning to review and update it in 2018, as part of a wider initiative to ensure the Council is ready for GDPR (General Data Protection Regulation). This is sensible and should continue as planned, ensuring that revised guidance is informed by consultation with an appropriate source of legal expertise.

The Council maintains two contract registers, one on the intranet (historic) and one within its procurement system (contracts entered more recently). These registers only cover contracts over £25,000 in value. Below this level, while limited central advice and support is available from the Procurement Team, there is no central register, rather service areas are responsible for implementing their own contract storage and management arrangements.

While lower value, there may well be contracts in place under £25,000 involving third party access to information. In the short term, following the existing devolved model, guidance regarding how information management should be covered in contracts should be recirculated to service leads, highlighting that all contracts which involve third party access to information must include appropriate contract clauses. Longer term putting in place greater central visibility of all contracts should be investigated, potentially linked to an enhanced Contract Register, covering all Council contractual agreements.

There are 105 live contracts on the central register. We selected ten of these to confirm that information management is appropriately referenced, using either the wording in the standard contract terms, or equivalent. For context the Council's Contract Standing Orders

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(set out in the Council's Constitution) only require contracts over £250,000 in value to be sealed, with original copies stored in the Contract Store. Where selected contracts fell under this value enquires were made to try to locate original copies held by service areas.

All the contracts we were able to locate contained appropriate wording, covering information management expectations (either standard wording or equivalent). However we were unable to locate two contracts.

While peripheral to the scope of this review, the Council does need to improve its approach to ensuring that all contracts are stored securely; we will revisit this area as part of our scheduled quarter four review on contract management. For the issues we identified in our sample all service areas with contracts need to be contacted and asked to confirm that they have appropriate local storage arrangements in place and have the original, signed contracts in their possession. Where they are unable to do this, copies should be requested from the providers and stored securely by the Council.

While outside of the scope of this review, compliance with information governance requirements within contracts by third parties is essential to ensure information is secure. The Council should ensure that it is satisfied that third parties are in compliance with requirements and keep under consideration the need for compliance reviews of third party providers.

#### **Employment Contracts**

For employment contracts standard wording has been agreed with HR and is used in all contracts. We checked 25 employment contracts, out of 2,749 staff listed in SAP (the core HR system) to confirm the standard wording is used. Our testing identified one casual employee where we were unable to confirm that information management responsibilities are documented in a contract or equivalent. While this is relatively minor (due to the nature of their job role would be unlikely to have access to any sensitive information), line managers should be reminded of the importance of ensuring that information management expectations are documented and agreed to for all employees, including casual staff.

#### **Protocols for sharing of personal information (DEAs, Data Exchange Agreements)**

These were introduced by the Council a number of years ago and were initially centrally supported. Responsibility for ensuring these are in place now sits with service areas, although there is some central support available from the CIU, for example a template DEA. All signed DEAs are meant to be uploaded to the Intranet.

Of the 33 DEAs listed on the Intranet we selected a sample of five, to ensure they are current; all five selected have expired, the most recent in 2013. For clarity the CIU is aware of the need to refresh the current DEAs and has highlighted this requirement with service areas.

In the short term, following the established devolved model, the CIU should reiterate the requirement to have DEAs in place, where personal information is routinely shared. To help ensure action is taken where service areas fail to engage this should be escalated to the Monitoring Officer/Corporate Management Team (CMT). Longer term this should be addressed as part of rolling out Privacy Impact Assessments (PIAs), planned as part of the GDPR initiative – these will help to identify where personal information is shared and where DEAs may be required.



## Implications

There may be contracts under £25,000 in value, which entail information access by third parties, without appropriate contract clauses being in place. If this is the case, information may not be managed in line with the Council's expectations, potentially increasing the potential for data leaks, reputational damage and regulatory fines.

If original signed, binding contracts cannot be located there may be uncertainty regarding whether information management is appropriately covered. This will increase the potential for data leaks, reputational damage and regulatory fines.

Without Data Exchange Agreements (DEAs) in place there is a risk that personal information is being inappropriately shared, increasing the potential for data leaks, reputational damage and regulatory fines.

If personal information is not managed correctly then it is less likely to be safeguarded, specifically personal information may be compromised/inappropriately shared.

Individuals may not be appropriately informed regarding how their information is used.

Expectations as to how information will be used may be unclear, and requirements to safeguard information will be less likely to be complied with.

## Action plan

The Senior Information Officer will:

- Revise information management guidance regarding contract clause coverage, as planned and reissue to the Procurement Team.
- Roll out PIAs as planned, as part of the GDPR initiative, through Information Governance Leads (IGLs).

The Senior Information Officer in collaboration with the Team Leader - Procurement & Contract Monitoring will:

- Recirculate guidance to service areas, highlighting that they should have appropriate arrangements in place to store their contracts securely and ensure that appropriate clauses covering information management are always included in contracts.

### **Responsible person/title**

Helen Miles, Head of Legal and Monitoring Officer  
Vanda Niemiec, Senior Information Officer  
Hayley Holden, Team Leader - Procurement & Contract Monitoring

### **Target date**

September 2018

### **Reference number**

17-18-19-01

- Where current contracts cannot be located copies should be requested from the providers and suitable arrangements put in place to store them securely.

The Head of Legal and Monitoring Officer will:

Consider how current arrangements can best be enhanced, to ensure that all contracts are stored securely.

Highlight the need through CMT for expired DEAs to either be refreshed or retired, where no longer required.

The Senior Information Officer in collaboration with the Strategic Manager for Human Resources will highlight the importance of ensuring that information management is documented appropriately in contractual terms for casual staff.

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# Current year findings (2 of 5)

## Training

### Control design

# 2

## High

### Finding and root cause

Information governance training is provided to all staff as part of induction. There are four online modules to be completed, as below:

- Information Security \*
- Protective Marking \*
- ICT Policies \*
- Data Protection Act

We were provided with a report extracted from the online training module for all new starters, from the 1<sup>st</sup> April up to the 2<sup>nd</sup> October 2017 (the three modules marked with an asterisk above (\*) are grouped under 'Information Security') as below:

	Total	Login Issued	Information Security	Data Protection
Casual	50	9	4	6
Fixed term	26	14	7	10
Permanent	112	39	15	17
<b>Sub Total</b>	<b>188</b>			
<b>TOTAL</b>	<b>108**</b>	<b>62</b>	<b>26</b>	<b>33</b>

\*\* 80 staff, for example care workers, who do not have Council email addresses and are not required to complete online training excluded from total.

As per the table above 24% of new joiners have completed Information Security training and 30% have completed Data Protection training. While less than desirable, this does need to be seen in the context of 46 (42%) staff members having not yet been issued with their login details – these are meant to be requested by line managers. When staff without logins are excluded 57% of staff who have access have completed Information Security and 53% have completed Data Protection training; the primary issue which needs to be addressed is ensuring that line managers request access to the online system in a timely manner.

The online training is supplemented by face to face training, as part of corporate induction. The next scheduled induction session is scheduled to be carried out in November 2017, when new starters, covered by the report above (including those without corporate email addresses, who do not complete the online training), will be addressed. We were also informed that further information management training is provided, as below:

- Specialised training completed by staff within Adult and Children's Social Care.
- A series of focussed face to face training has been provided by the CIU to specific groups, for example Revenues and Benefits and Special Education Needs (SEN) teams. Evaluation returns provided for our review identify that face to face training has been very well received.
- Attendance by the CIU at team and service board meetings where a need is identified, for example where a data breach has occurred.

Further training is planned to be delivered as part of the Council's wider initiative to support GDPR coming in during 2018.

The main mechanism in place at the Council to identify the need for additional/more in depth Information Management training is identified through the annual Personal Development Review (PDR) process. As part of this process an annual online survey (using Survey Monkey software) is run to identify if there are training needs, including for Information Management. Completion rates for this survey were low during 2017/18, with 84 responses completed for the whole Council.

Regarding logins not being requested in a timely manner, in the short term line managers need to be reminded of the requirement to do this. It would also be helpful, after a short grace period, for line managers who have failed to request logins to be highlighted to service leads, to enable them to take further action, if necessary. Likewise, to ensure once logins are available to ensure training has been completed, exception reports should be routinely produced and shared with service leads (this is possible from the training system but these are currently only produced on request). Beyond this the two overarching issues are:

1. Lack of full corporate visibility regarding the training which is being completed and its coverage.
2. Lack of an effective mechanism to identify any gaps which may exist in the training currently being completed.

The best way for 1. to be addressed would be for the information in SAP, regarding all information management training completed, to be updated through the PDR process at the mid or end of year review points. Once SAP has a full listing of information management training quarterly reports could be produced, which would give improved visibility of all information management training completed by staff.

Regarding 2. the best way to proceed would be to highlight the survey monkey survey and 'strongly recommend' it through Managers' Brief, the in-house newsletters for managers at the Council. This could also be supplemented by using the training planned as part of GDPR to identify any areas where further additional training would be of benefit.

### ***Implications***

If mandatory Information Management training is not completed then staff may not have sufficient knowledge of requirements or the skills necessary to ensure information is managed correctly. Ultimately this will increase the likelihood of poor practice, for example personal information not being adequately safeguarded and the Council suffering data leaks, reputational damage and regulatory fines.

If the Council's workforce, the information it handles and the level of associated information management training need is not

sufficiently understood then gaps in training provided are likely to exist. Ultimately this will increase the potential for inconsistent, potentially poor practice and the likelihood of the Council suffering data leaks, reputational damage and regulatory fines.

If personal information is not managed correctly then it is less likely to be safeguarded, specifically personal information may be compromised/inappropriately shared.

### **Action plan**

The Senior Information Officer will:

- Reiterate the requirement for line managers to request logins for information management training in a timely manner, for starters.
- Use training delivered to support GDPR compliance to help identify any unmet training need.

In collaboration with the Workforce Development Manager:

- Share lists of line managers who are not requesting logins in a timely manner and staff who have not completed mandatory training with service leads.
- Highlight the need to capture all information management training in the training module within SAP.
- Run reports from SAP to provide a full picture of all information management training carried out.
- Include content within Managers' Brief strongly recommending completion of the annual needs survey.

### **Responsible person/title**

Vanda Niemiec, Senior Information Officer  
Kevin Apps, Workforce Development Manager (Premises and Resources)

### **Target date**

September 2018

### **Reference number**

17-18-19-02

# Current year findings (3 of 5)

## Roles and Responsibilities

### Control design

3

Medium

### Finding and root cause

Roles and responsibilities are primarily documented in the Council's overarching Information Governance Policy. This clearly identifies where responsibilities sit, the key roles/groups identified being:

- *Senior Information Risk Owner (SIRO)*: the most senior officer responsible for information management.
- *Caldicott Guardian*: with specific responsibility for safeguarding personal, health and care related information.
- *Information Governance Group (IGG)*: representatives from across the Council, reporting to the SIRO and meeting regularly to lead/coordinate information management across the Council.
- *Corporate Information Unit (CIU)*: a small dedicated team within Legal Services, responsible for supporting information management across the Council, for example drafting policies, providing advice and training and processing Subject Access Requests.
- *Information Security Manager*: at a high level responsible for the 'technical' elements of information security.
- *Information Governance Leads (IGLs)*: representatives from across the Council, responsible for leading information management in their areas.
- *Departmental Information Guardians (DIGs)*: responsible for responding to information requests, for example regarding Freedom of Information (FOI).

High level information management responsibilities are also defined for more general individual/groups, for example senior and line management and ultimately all staff. While most of the content is still correct, given that this document is dated July 2012, there are a number of elements which need to be updated, to reflect the current structures and organisation of the Council:

- *The Senior Information Risk Owner (SIRO)*: this is identified as the 'Deputy Director of Resources'; the post is currently held by the 'Head of Legal and Monitoring Officer'.
- *The Policy refers to the 'directors' team'*; this no longer exists, the most senior forum at the Council is now referred to as the 'Corporate Management Team' (CMT).
- *Risk Officer*: the Council no longer has a dedicated Risk Officer, responsibility for risk corporately now sits within the Organisational Change Team.
- *Transformation Manager*: the Council no longer has a dedicated Transformation Manager, responsibility for transformation corporately now sits within the Organisational Change Team.
- *The Information Governance Group (IGG)*: this forum has essentially been superseded by two groups, the 'core' IGG' and a supplementary forum, the 'Information Security Group', focussed on more technical elements; this needs to be made clear in the Policy.

The Policy needs to be reviewed, updated and reapproved by CMT, with ongoing annual review scheduled, to address the issues identified above.

Our review also identified a number of areas where responsibilities could be made clearer/more explicit, to avoid any ambiguity as to where responsibilities sit:

- *Contractual arrangements* (this area, including our sample testing, is covered by a more detailed finding elsewhere in this report): implicitly ensuring contracts cover ‘compliance with information governance requirements’ sits with the departmental IGLs. This would benefit from being made more explicit, with potentially a role for the core Contract Management Team in supporting the process.
- *Caldicott Guardian*: responsibility for this role is identified within the Policy and we also note that the correct post holder is identified on the national Caldicott Guardian Register. However, while implicitly covered by the IGG and CIU, what constitutes the ‘Caldicott function’ and supporting mechanisms would benefit from being made explicit.
- *Information Sharing* (this area, including our sample testing, is covered by a more detailed finding elsewhere in this report): implicitly putting in place ‘protocols governing the routine sharing of personal information . . . with other organisations’ sits with the departmental IGLs. This would benefit from being made more explicit, potentially linked to information asset registers.
- *New Process/systems etc.*: implicitly ensuring ‘all new processes, services, information systems, and other relevant information assets are developed and implemented in a secure and structured manner’ sits with departmental IGLs, with implicit roles for the Information Security Manager, Transformation Manager and Risk Officer. This would benefit from being made more explicit, specifically regarding how the process should be carried out and evidenced.

### Implications

If roles and responsibilities are not up to date and defined with sufficient clarity it may be unclear who is responsible for doing what. Ultimately this will make it more likely that staff will not understand their responsibilities and cannot be held accountable for ensuring satisfactory arrangements are in place. Gaps in the Council’s arrangement regarding information management will also be more likely.

### Action plan

The Senior Information Officer will:

- Review and update the Information Governance Policy, ensuring that current errors are corrected. As part of this process enhance wording to ensure that responsibilities are absolutely explicit regarding: Contractual arrangements, Caldicott Guardian, Information Sharing and New Processes/systems.

#### *Responsible person/title*

Vanda Niemiec, Senior Information Officer

#### *Target date*

December 2018

#### *Reference number*

17-18-19-03

# Current year findings (4 of 5)

**High Level  
Documentation**

**Control design**

**4**

**Medium**

## **Finding and root cause**

A range of policies were provided for our review, as below:

- Data Protection Policy, dated March 2016
- Corporate Retention Policy, dated September 2011 (core Policy only; schedules are reviewed annually)
- Information Security Policy, dated July 2017
- Protective Marking Policy, dated January 2016
- Access to Information Policy, dated 2008

All of the policies above, barring the Information Security Policy are overdue review. All should be reviewed, revised and reapproved, with ongoing review scheduled annually. Our review also identified a number of minor errors, which should be corrected as part of this process:

- Data Protection Policy – has a dead link to Freedom of Information on the Council’s website.
- Corporate Retention Policy – references the Director of Corporate Governance post and Information Governance Board, neither of which still exists at the Council.
- Access to Information Policy - references the Director of Corporate Governance post, which no longer exists and has a dead link to Freedom of Information on the Council’s website.

We also note that the Corporate Retention Policy runs to over 200 pages. While much of the content may well be of value, it is unlikely that it is all up to date and also unlikely that staff across the Council have read and are complying with this Policy. As part of the review process the content should be rationalised, to a reasonable requirement set, then promoted as necessary to staff.

## **Implications**

If policies are not regularly reviewed they may no longer be fit for purpose, for example they may include out of date information and/or necessary changes may not have been identified and progressed.

If documentation/guidance is overly long, the overhead of maintaining may be excessive; it will be more likely to become out of date and staff will be less likely to read, understand and comply with its expectations.



## Action plan

The Senior Information Officer will:

- Review and update overarching Information Management policies/guidance, ensuring that it reviewed when scheduled in future and is fit for purpose to ensure GDPR compliance by May 2018.
- Revisit the Corporate Retention Policy, to confirm that the full document is still required; following review either reduce to a more manageable size or consider producing a summary document, for use by the majority of staff.

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**Responsible person/title**

Vanda Niemiec, Senior Information Officer

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**Target date**

September 2018

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**Reference number**

17-18-19-04

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

**Critical**





**High**

<i>Effect on Service</i>	<i>Embarrassment/ reputation</i>	<i>Personal Safety</i>	<i>Personal privacy infringement</i>	<i>Failure to provide statutory duties/meet legal obligations</i>	<i>Financial</i>	<i>Effect on Project Objectives/ Schedule Deadlines</i>
<p>A finding that could result in a:</p> <ul style="list-style-type: none"> <li>• Major effect to an important service area for a short period</li> <li>• Adverse effect to services in one or more areas for a period of weeks Service Disruption 2-3 Days</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Adverse local publicity /local public opinion aware</li> <li>• Statutory prosecution of a non-serious nature</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Severe injury to an individual or several people</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Some individual personal details compromised/ revealed</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Litigation/claims/ fines from Department £25k to £50k</li> <li>• Corporate £50k to £100k</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Costs between £5,000 and £50,000</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Adverse effect on project/ significant slippage – 3 weeks–2 months</li> </ul>
<b>Medium</b>						
<p>A finding that could result in a:</p> <ul style="list-style-type: none"> <li>• Brief disruption of important service area</li> <li>• Significant effect to non-crucial service area Service Disruption 1 Day</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Contained within section/Unit or Directorate</li> <li>• Complaint from individual/small group, of arguable merit</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Minor injury or discomfort to an individual or several people</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Isolated individual personal detail compromised/ revealed</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Litigation/claims/ fines from Department £12k to £25k</li> <li>• Corporate £25k to £50k</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Costs less than £5,000</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Minimal impact to project/ slight delay less than 2 weeks</li> </ul>
<b>Low</b>						
<b>Advisory</b>						

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

## Report classifications

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

<i>Findings rating</i>	<i>Points</i>	<i>Report classification</i>	<i>Points</i>
<b>Critical</b>	40 points per finding	 <b>Low</b>	6 points or less
<b>High</b>	10 points per finding	 <b>Medium</b>	7– 15 points
<b>Medium</b>	3 points per finding	 <b>High</b>	16– 39 points
<b>Low</b>	1 point per finding	 <b>Critical</b>	40 points and over

# Appendix B: Terms of reference

## Background and Scope

Following consultation with the sponsor this review will focus on 'Information Governance Management' and 'Confidentiality and Data Protection Assurance', to ensure this review is of most value to the Council. Our fieldwork will be informed primarily by discussions with and supporting evidence provided by key contacts, to assess progress made towards fully aligning with the standard to date and to help ensure that necessary actions have been identified to address any gaps in current arrangements. We will also carry out substantive sample testing on a subset of areas agreed with the review sponsor, as below:

- *Employment contracts*: that contracts contain an appropriate clause covering responsibilities with regard to data protection, confidentiality and information security.
- *Training*: training has been provided to staff where this has been identified as necessary through a training needs analysis.
- *Information Sharing Protocols*: these are in place for organisations with whom information is shared, as required by the Council's Information Security Policy.

The sub-processes, control objectives and potential related risks included in this review are:

### Sub-process

### Objectives

### Risks

#### Information Governance Management

There is an adequate Information Governance Management Framework to support the current and evolving Information Governance agenda.

There are approved and comprehensive Information Governance Policies with associated strategies and/or improvement plans.

Formal contractual arrangements that include compliance with information governance requirements are in place with all contractors and support organisations.

Employment contracts which include compliance with information governance standards are in place for all individuals carrying out work on behalf of the organisation.

The training needs of all staff are assessed in relation to Information Governance requirements and staff are all appropriately trained.

If an adequate framework is not in place then gaps will be more likely and the Council will be less well equipped to respond appropriately to any new requirements.

If appropriate policies/improvement plans are not in place then gaps may continue to exist, leading to the Council's information governance arrangement not meeting the IG Toolkit standard, potentially impacting on the Council's ability to continue accessing NHS information and providing related services.

If employment contracts are not explicit regarding expectations these may be unclear and will be less likely to be complied with.

If staff have not been provided with suitable training they may misunderstand requirements and consequently not comply with requirements.

The Information Governance agenda is supported by adequate confidentiality and data protection skills, knowledge and experience which meet the organisation's assessed needs.

If staff responsible do not have the requisite skills then they will be unable to support the Council's Information Governance agenda appropriately.

#### Confidentiality and Data Protection Assurance

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Staff are provided with clear guidance on keeping personal information secure and on respecting the confidentiality of service users.

Personal information is shared for care, but is only used in ways that directly contribute to the delivery of care services where there is a lawful basis to do so. Objections to the disclosure of confidential personal information are appropriately respected.

Individuals are informed about the proposed uses of their personal information.

Where required, protocols governing the routine sharing of personal information have been agreed with other organisations.

All new processes, services, information systems, and other relevant information assets are developed and implemented in a secure and structured manner, and comply with IG security accreditation, information quality and confidentiality and data protection requirements.

If sufficient guidance is not provided then staff may be unclear of expectations and less likely to respond to these appropriately.

If personal information is not managed correctly then it is less likely to be safeguarded, specifically personal information may be compromised/inappropriately shared.

Individuals may not be appropriately informed regarding how their information is used.

Expectations as to how information will be used may be unclear, and requirements to safeguard information will be less likely to be complied with.

If process, services and information systems are changed/developed in a way which is not mindful of IG requirements then the potential for appropriate security not to be maintained will be increased, potentially jeopardising the Council's ongoing compliance.

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## Appendix C: Limitations and responsibilities

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

We have undertaken this review subject to the limitations outlined below

#### *Internal control*

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

#### *Future periods*

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not 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 changes; or
- The degree of compliance with policies and procedures may deteriorate.

### *Responsibilities of management and internal auditors*

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

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we 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.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.



# *Internal Audit Report 2017/18*

## **Key Financial Systems**

Continuous Audit Model – Quarter 1 and Quarter 2

D 172

**17-18-13**

Isle of Wight Council

**FINAL**  
July 2018





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- Executive summary
- Detailed Current Quarter 1 & 2 Findings
- Appendix A: Basis of our Classifications
- Appendix B: Terms of Reference
- Appendix C: Limitations & Responsibilities

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## **Distribution List**

### **For action**

- Vicki Guilford (Revenues Manager)
- Andrew Carpenter (Principal Accountant – Corporate)
- Louise Brading (Payments Manager)
- Matthew Collier (Pension/ Payroll Lead)
- Raymond Strong (Income and Reconciliation Supervisor)

### **For information**

- Elizabeth Goodwin, Chief Internal Auditor
- Chris Ward (Section 151 Officer)



The document has been prepared solely for the use of the Audit Committee of the Isle of Wight Council in accordance with the agreement between the Isle of Wight Council and PwC dated 27<sup>th</sup> November 2015. The work was performed in accordance with the Isle of Wight Council's internal audit methodology and the findings reported to the Chief Internal Auditor, who remains responsible for the final conclusions and ratings assigned therein. PwC accepts no liability (including for negligence) to anyone else in connection with its work or this document, and it may not be provided to anyone else.

# Executive summary (1 of 1)

## Introduction

We have undertaken our Key Financial Systems review implementing the Continuous Auditing Model (CAM). The approach evaluates the operating effectiveness of the key financial controls, as agreed with management, on a quarterly basis. This approach enables the effectiveness of key controls to be assessed over the course of the financial year and any issues promptly reported. This report covers controls in operation between April and September 2017.

Scope area	Controls tested	Number of items tested	Items with control operating exceptions	Items with control design exceptions	Total number of exceptions	Q1 and Q2 risk	Trend
Cash and Bank	2	40	1	0	1	Low	n/a – This is the first CAM report.
General Ledger	4	30	14	1	15	Low	
Payroll	6	92	41	1	42	High	
Creditors	4	52	3	0	3	Medium	
Debtors	4	52	12	0	12	Medium	

## **Conclusion**

This review is designed to test key financial controls and identify failures, enabling Council management and the Audit Committee to evaluate the reliability of financial controls and control effectiveness over time. We have not sought to document the underlying root cause of control failures reported as given the nature of these controls full compliance should be the target. However, we will highlight any control design weaknesses or issues should these be identified and agree an action with management to address these.

Concerning the control failures reported we will be seeking to see an improvement in compliance in future audits. Should this not be observed actions will be agreed with management to improve control compliance going forward. It is likely that this will include reminding / training staff of the proper operation of the control or reviewing the design of the control to ensure it is fit for purpose / required.

The report is formatted by financial cycle / process, stating the controls in place, the associated risks with the controls and the testing completed on these controls. The testing indicates the number of individual items that were tested, the number of exceptions, the detail of the exceptions and the risk rating applied to these. From this, an overall rating for the financial cycle / process is determined.

We would like to take this opportunity to thank Isle of Wight Council staff for their help and assistance with this review.

## Current year findings (1 of 5)

### Cash and Bank

#### Risk Rating: Low Risk

Control reference	Control in place	Key risk	Testing performed	Items tested	Exceptions noted	Exceptions Detail	Risk Rating
1.1	Bank Reconciliations	Income is not correctly, completely or appropriately accounted for resulting in incomplete or erroneous recognition of cash received.	Reviewed one month (August 2017) of all bank reconciliations	8	1	One out of eight reconciliations could not be obtained:  17092728 - NatWest Amey Waste Euro Account Reconciliation of this account commenced in December 2017 and now should be prepared and reviewed on a regular basis.	Low
1.2	Suspense Account Review	Income is not correctly, completely or appropriately accounted for resulting in incomplete or erroneous recognition of cash received.	Reviewed one month (August 2017) of all suspense accounts reconciliations	32	0	No issues have been found in the testing of suspense account reconciliations.	n/a – no findings identified.

# Current year findings (2 of 5)

## General Ledger

### Risk Rating: Low Risk

Control reference	Control in place	Key Risk	Testing performed	Items tested	Exceptions noted	Exceptions Detail	Risk Rating
2.1	Budget Change Approvals	Inappropriate or unauthorised budget changes, virements or adjustments made.	Tested a sample of budget changes/ virements to ensure appropriate authorisation prior to processing.	13	6	<p>Six out of 13 virements did not have documented authorisation. Authorisation via emails has been seen, but the virements form has not been updated to show this approval. The form should reflect the email authorisation obtained in order to demonstrate a full audit trail.</p> <p>The total value of the virements was £174,100</p>	Advisory
2.2	Budget Change Reconciliations	Inaccurate changes are made to budgets due to input error or lack of staff knowledge when entering the changes.	Reviewed budget reconciliations for one month (August 2017) to ensure completion and review in a timely manner.	1	2 (1 control design, 1 operating effectiveness issue)	<p>The preparer and authoriser of the August 2017 budget reconciliation were not documented. As such, confirmation of the timeliness of the review of the reconciliation could not be determined.</p> <p>In addition, the reconciliation requires limited explanation with only references to budget variation documents. Clear explanation of these changes should be added to the budget to be documented. This is key to the process in order that budget amendments can be verified.</p>	Low
2.3	New SAP Code authorisation	Inaccurate / inappropriate financial reporting due to poor	Tested a sample of new SAP codes to ensure appropriate authorisation was	3	3	All three SAP codes were not authorised prior to adding to the ledger. Two of these codes related to two new revenue GLs required to comply with government legislation, approval was obtained but	Low

2.4	Restricted access to raise journals and authorisation of high value journals	Inappropriate / unauthorised, inaccurate or incomplete journal entries posted to the ledger undermining the integrity of financial reporting and decision-making.	obtained prior to processing.	13	4	not documented within the supporting documentation. The other code was a statistical code and thus the same level of scrutiny is not applied.  Three journals were posted in excess of 6 weeks from being raised as follows:  100005422 - PEN-17010-JEC May17 unrealised - £8,977,775, raised on 31 <sup>st</sup> May 2017 and posted on 26 <sup>th</sup> July 2017.  100005424 -May17 Majedie Accrued Income unrealised - £11,548,210, raised on 31 <sup>st</sup> May 2017 and posted on 28 <sup>th</sup> July 2017.  100005421 - PEN-17011-JEC May17 Purchases - £6,041,381, raised on 31 <sup>st</sup> May 2017 and posted on 27 <sup>th</sup> July 2017.  Their delay did not adversely impact on any quarterly reporting requirements.  One journal did not specify the general ledger code the total of the journal was debited to. The journal no was 100000366. The GL code "939130" and the Journal amount "£61,351.22" is missing. The missing entry is a system generated posting which represents the net difference between transactions on company 1000 and 3000. The entries on the journal sheet PS-001-SJR balance to zero as required and system generated postings are not included as part of this.	Low
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## Agreed action in relation to control design issue

Control reference	Control design issue identified (from above)	Agreed action	Action owner	Due by date
2.2	Budget change reconciliations do not require explanations for the changes to the budget to be documented. This is key to the process in order that budget amendments can be verified and matched back to supporting documentation.	All movements in budgets will be documented with the description of the change and the reference number of the change document to enable further examination of the supporting documentation	Andrew Carpenter	01 July 2018

## Current year findings (3 of 5)

### Payroll

#### Risk Rating: High Risk

Control reference	Control in place	Key Risk	Testing performed	Items tested	Exceptions noted	Exceptions Detail	Rating
3.1	Payroll exception reports	Errors are processed in the payroll run which could lead to overpayments / underpayments or inappropriate payments being made. This will result in financial loss to the Council and / or employee dissatisfaction.	Tested a sample of exceptions identified from one monthly report to ensure that anomalies have been identified and resolved prior to the payroll run.	13	13	While all 13 exceptions tested were for valid reasons, there is no evidence of secondary/independent review.	Medium
3.2	Authorisation of urgent payments	Urgent payments are processed without the required rigour and/or appropriate approval obtained.	Tested a sample of urgent payments to ensure that an appropriate form has been completed and approved prior to payment.	13	0	No exception noted.	N/a – No risk, no issues noted.
3.3	Payroll reconciliations	Erroneous or fraudulent payments, due to differences between the payroll report and BACS run, are not identified.	Reviewed the payroll to payment reconciliation for one month to ensure completion and	1	1	The payroll reconciliation for the selected month (September 2017) has not been reviewed. The preparer and date of preparation as well as the authoriser and the date of authorisation was not documented.	High

3-4	Recruitment budget approval	Inappropriate expenditure / commitment of budget for recruitment.	review in a timely manner. Tested a sample of recruitments to ensure that the budget was approved prior to advertising.	13	6	For five out of 13 authorisation was not provided for new advertised job roles.  One position was authorised by an HR assistant, which is not permitted by the scheme of delegation.	Medium
3-5	Payment authorisation	Overpayments due to unauthorised new joiner / leaver not processed in time / unauthorised changes made to employee record.	Tested samples of joiners, leavers and changes to ensure that these were approved by the appropriate individual prior to the HR/payroll deadline.	39	13 (Made up of: 5 exceptions - starters 5 exceptions - leavers 3 exceptions - amendments)	<p><u>Starters</u></p> <ul style="list-style-type: none"> <li>For five out of thirteen new joiners, a signed contract had not been returned by the employee (note this has not been categorised as an exception as the Council view attendance as acceptance of the contract).</li> <li>For one joiner the new starter form was received seven days after the start date.</li> <li>One contract was not provided to the new joiner within two months, as per the Council procedures.</li> <li>For three starters the sample information was not provided for us to review. As such controls could not be validated. These all related to casual employees.</li> </ul> <p><u>Leavers</u></p> <ul style="list-style-type: none"> <li>Five out of eight leavers were processed after the HR input date/ payroll deadline. This led to one overpayment with the value of £1,553.08 (one month's pay). The key cause of this was slow processing of the leaver's forms by the line manager.</li> <li>For four of the five above, the line manager's authorisation was after the</li> </ul>	Medium



						<p>leaving date. The first leaver's last day was 31<sup>st</sup> May, the leaver form was signed off on 20<sup>th</sup> June. The second leaver's last day was 26<sup>th</sup> May, the leavers form was not signed off until the 11<sup>th</sup> July. The third leaver's last day was on 8<sup>th</sup> April, with the form being completed on 11<sup>th</sup> April. The last leaver left on 30<sup>th</sup> April, with the leaver's form being completed on 24<sup>th</sup> May.</p> <p><u>Amendments</u></p> <ul style="list-style-type: none"> <li>• One change form had not been completed for an amendment. The line manager sent an email setting out the change.</li> <li>• For two amendments the HR input was after the HR deadline for the following payroll leading to one underpayment. Additional payments were made the following month to cover this shortfall.</li> </ul>	
3.6	Timesheet approval	Timesheet entries are invalid or inappropriate. Inaccurate and / or fraudulent payments.	Test a sample of timesheets to ensure approved prior to submission.	13	9 (8 operating effectiveness exceptions and 1 control design exception).	<ul style="list-style-type: none"> <li>• On six occasions there was no timesheets provided for time that was paid. The value of this is £135.50.</li> <li>• On one occasion the preparer was not stated per the timesheet form, as such segregation of duties between payroll and the individual line manager can not be tested. The value of this is £89.</li> <li>• On one occasion authorisation from the individual line manager was not stated per the timesheet form. The value of this is £22.50.</li> <li>• On one occasion authorisation of the timesheet was not timely. The time</li> </ul>	High

								related to July 2017 and was reviewed in October 2017.	
								<ul style="list-style-type: none"> <li>For all timesheet the authoriser and the preparer is not clearly stated on the timesheet, as such it is not clear who has approved and processed the timesheet.</li> </ul>	

## Current year findings (4 of 5)

### Creditors

#### Risk Rating: Medium Risk

Control reference	Control in place	Key Risk	Testing performed	Items tested	Exceptions noted	Exceptions Detail	Rating
4.1	Budget monitoring of department spend	Budgets and actuals are not reviewed leading to inappropriate spend / orders being raised leading to financial loss to the Council and / or inefficient use of resources.	Test a sample of budgets for one month to ensure they were produced and reviewed in a timely manner.	13	0	No exceptions noted.	N/a – no issues have been noted.
4.2	Three way matching – purchases and invoice coding	Goods receipting is not accurate or appropriate (i.e. wrong number of items confirmed on system as received). Incorrect coding of invoices leading to poor monitoring of financial performance - this could lead to ineffective management decision making.	Test a sample of purchases to ensure that an authorised purchase order was in place; the goods/service confirmed as received; and the invoice matched and correctly coded prior to payment.	13	1	On one occasion a GL code was not recorded on the purchase order. This relates to Supply door closer 123994	Low
4.3	High value payment check	Large payments are not subject to appropriate checks resulting in significant financial loss to the Council.	Test a sample of large payments to ensure they were authorised prior to payment.	13	2	<ul style="list-style-type: none"> <li>For one out of 13 payments, the requisitioner and date could not be determined. Therefore segregation of duties could not be verified or the timeliness in processing the payment. The value of the exceptions is £163,619.</li> </ul>	High

				13	0	<ul style="list-style-type: none"> <li>For one out of 13 payments, the reason for the large payment is not specified on the supporting documentation. The value of these payments is £142,686. For one out of 13 payments while the gross value of the payment was £102,959 (therefore above the authoriser's limit of up to £99,000), the net value was below this and thus the authorisation received on the initial order was within the approver thresholds. This is being raised as, where VAT is not recoverable, this should be included in the amount to be authorised as the value inclusive of VAT is the cost to the Council.</li> </ul>	
4-4	Authorisation of one off payments	One off payments are not appropriate, valid or accurate and do not comply with procurement rules.	Test a sample of one off payments to ensure an appropriate, authorised Wightnet form was in place prior to payment.			No issues have been found in the testing of the authorisation of one off payments.	n/a – no findings identified.

## Current year findings (5 of 5)

### Debtors

#### Risk Rating: Medium Risk

Control reference	Control in place	Key Risk	Testing performed	Items tested	Exceptions noted	Exceptions Detail	Rating
5.1	Centralised customer set up	Delays in payment which lead to poor financial management and cashflow at the Council.	Tested a sample of new customers to ensure that they were set up centrally and a check was undertaken that they are unique.	13	1	One out of 13 new customers tested already existed on SAP. The older account had not been used since 2014, a new procedure will be put in place to ensure that the legal entity is checked before using same customer account reference.	Low
5.2	Actions resulting from aged debt reports	Debt is not collected in a timely, efficient or complete manner.	Tested a sample of aged debts to ensure appropriate action has been taken.	13	5	<ul style="list-style-type: none"> <li>For two out of 13 aged debts, a reminder letter in accordance with procedure was not generated and sent. It has been noted that due to the automated dunning process with SAP, reminder letters can not be obtained by the Council.</li> <li>For five of these the reason for the debtor balance was not documented. The value of these balances is £6,353.</li> <li>One debtor balance was due to a Council error in which the individual was charged twice. This was for the value of £42.</li> <li>For two out of 13 aged debts tested recovery action was not in accordance with Policy: <ul style="list-style-type: none"> <li>8015587 - £30 – debt related to 1<sup>st</sup> November 2013. A reminder letter of 2014 was issued. No further action.</li> </ul> </li> </ul>	Medium

5.3	Approval of credit notes	Credit notes are raised inappropriately or without having followed relevant debt collection processes. This could lead to financial loss to the Council.	Tested a sample of credit notes to ensure that they were in line with Council regulations and appropriately authorised.	13	0	<ul style="list-style-type: none"> <li>o 8020030 - £184 – debt related to 23<sup>rd</sup> September 2014. The last reminder letter was sent on 5<sup>th</sup> January 2015. A debt relief order has since been submitted and thus the debt has been written offer.</li> </ul> <p>No exceptions noted.</p>	N/a – no issues have been noted.
5.4	Approval of write offs	Debt is written off inappropriately or without having followed relevant debt collection processes. This could lead to financial loss to the Council. More specifically the collection process has not been followed, risking financial loss to the Council.	Tested a sample of write offs to ensure that appropriate authorisation was in place prior to processing.	13	6	Six out of 13 approved debt write offs were not processed within one month contrary to Council procedures. The value of the write offs is £16,052.	Medium

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

**Critical**

**High**





<i>Effect on Service</i>	<i>Embarrassment/ reputation</i>	<i>Personal Safety</i>	<i>Personal privacy infringement</i>	<i>Failure to provide statutory duties/meet legal obligations</i>	<i>Financial</i>	<i>Effect on Project Objectives/ Schedule Deadlines</i>
<p>A finding that could result in a:</p> <ul style="list-style-type: none"> <li>• Major effect to an important service area for a short period</li> <li>• Adverse effect to services in one or more areas for a period of weeks Service Disruption 2-3 Days</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Adverse local publicity /local public opinion aware</li> <li>• Statutory prosecution of a non-serious nature</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Severe injury to an individual or several people</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Some individual personal details compromised/ revealed</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Litigation/claims/ fines from Department £25k to £50k</li> <li>• Corporate £50k to £100k</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Costs between £5,000 and £50,000</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Adverse effect on project/ significant slippage – 3 weeks–2 months</li> </ul>
<p><b>Medium</b></p>						
<p>A finding that could result in a:</p> <ul style="list-style-type: none"> <li>• Brief disruption of important service area</li> <li>• Significant effect to non-crucial service area Service Disruption 1 Day</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Contained within section/Unit or Directorate</li> <li>• Complaint from individual/small group, of arguable merit</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Minor injury or discomfort to an individual or several people</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Isolated individual personal detail compromised/ revealed</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Litigation/claims/ fines from Department £12k to £25k</li> <li>• Corporate £25k to £50k</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Costs less than £5,000</li> </ul>	<p>A finding that could result in:</p> <ul style="list-style-type: none"> <li>• Minimal impact to project/ slight delay less than 2 weeks</li> </ul>
<p><b>Low</b></p>						
<p><b>Advisory</b></p>						

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.

<i>Findings rating</i>	<i>Points</i>	<i>Report classification</i>	<i>Points</i>
<b>Critical</b>	40 points per finding	 <b>Low</b>	6 points or less
<b>High</b>	10 points per finding	 <b>Medium</b>	7– 15 points
<b>Medium</b>	3 points per finding	 <b>High</b>	16– 39 points
<b>Low</b>	1 point per finding	 <b>Critical</b>	40 points and over

# Appendix B: Terms of reference

## Background and Scope

To make best use of available audit resource we have combined key financial systems into a single, cross cutting review, covering:

- *Cash and Bank*: cash collection, banking and adequacy of the cash/bank reconciliations
- *General Ledger*: financial reporting and budgetary control arrangements.
- *Payroll*: payments are genuine, properly recorded and accounted for.
- *Creditors*: orders for goods and services are properly authorised and placed and correctly accounted for.
- *Debtors*: income due is properly identified, collected and accounted for.

We will implement our continuous auditing approach in 2017/18. This innovative system involves the testing of key controls on a quarterly basis, reporting trends during 2017/18 and into subsequent years. The result is increased real time reporting to the Council. This is achieved through selecting samples from set reports on a quarterly basis, testing the effectiveness of the control and reporting the level of exceptions noted.

In order to develop a robust scope for the work, time was spent during quarters 1 and 2 constructing process maps and controls matrices. These have allowed the identification of the key risks within each process and therefore the fundamental controls to be tested and reported.

The processes, key risks and controls to be tested are listed below, along with the specific reports samples will be selected from and the test to be undertaken.

Process	Key risk	Control activity title	Control activity description	Listing/Report for sample selection	Control test
Cash and Bank	Income is not correctly, completely or appropriately accounted for resulting in incomplete or erroneous recognition of cash received.	Bank reconciliations	Monthly detailed bank reconciliation are prepared and authorised with appropriate segregation of duties.	Listing of Council bank accounts.	Review of bank reconciliations for one month to ensure completion and review in a timely manner.
		Suspense account review	The cash suspense account(s) is reviewed and reconciled on a monthly basis.	Listing of cash suspense accounts.	Review of cash suspense reconciliations for one month to ensure completion and review in a timely manner.
General Ledger	Inappropriate or unauthorised budget changes, virements or adjustments made.	Budget changes approval	Segregation of duties is in place between those identifying, processing and approving budget changes. This is in line with the Council's approval hierarchy as loaded onto SAP and will be dependent on the value and nature of the change as to what approval level is required.	System report of budget changes/virements.	Test of a sample of changes/virements to ensure appropriate authorisation was obtained prior to processing.
		Inaccurate changes are made to budgets due to input error or lack of staff knowledge when entering the changes.	Budget change reconciliation	Budget change reconciliations are undertaken and reviewed to ensure that all adjustments have been accurately processed.	Listing of budget change reconciliations.

Process	Key risk	Control activity title	Control activity description	Listing/Report for sample selection	Control test
	Inaccurate / inappropriate financial reporting due to poor data / lack of sufficient information.	New SAP code authorisation	There is a process in place to ensure appropriate setting up of new codes within SAP to enable useful and accurate financial reporting. A standard form template is used to make these requests, while approval is required (in line with system hierarchy controls) to allow new codes to be set up.	Listing of new codes set up within SAP.	Test of a sample of new SAP codes to ensure appropriate authorisation was obtained prior to processing.
	Inappropriate / unauthorised, inaccurate or incomplete journal entries posted to the ledger undermining the integrity of financial reporting and decision-making.	Restricted access to raise journals  Authorisation of high value journals	Journal entry access is restricted only to finance staff and there is a process in place to ensure only appropriate staff is granted this level of access on the system. Approval is required to obtain this access.  Journals in excess of £1m require authorisation by one individual, over £5m by two individuals and over £10m by the Strategic Manager - Finance or the S151 officer.	Listing of journals raised.	Test a sample of journals, with at least 50% over the high value threshold, to ensure that they have been raised by a finance staff member and authorised appropriately.
Payroll	Errors are processed in the payroll run which could lead to overpayments / underpayments or inappropriate payments being made. This will result in financial loss to the Council and / or employee dissatisfaction.	Exception reports	Monthly exception reports, with set tolerance thresholds, are worked through with a process in place to ensure that anomalies are addressed.	Payroll exception reports.	Test a sample of exceptions identified from one monthly report to ensure that anomalies have been identified and resolved prior to the payroll run.
	Urgent payments are processed without the required rigour and/or appropriate approval obtained.  Inaccurate payslips are produced. Overpayments / underpayments or inappropriate payments are made as the planned payroll value are not agreed to the payroll balance.	Authorisation of urgent payments  Payroll reconciliation	Urgent payments are either made via AP payment by completion of a Wightnet payment request form or a CHAPs payment. The forms have to be appropriately authorised.  Reconciliation of payslips to payroll payment.	Listing of all urgent payroll payments.  Reconciliation of payslips and payroll payment.	Test a sample of urgent payments to ensure that an appropriate form has been completed and reviewed prior to payment.  Review of the payroll to payment reconciliation for one month to ensure completion and review in a timely manner.

Process	Key risk	Control activity title	Control activity description	Listing/Report for sample selection	Control test
	Inappropriate expenditure / commitment of budget for recruitment.	Recruitment budget approval	Budget for recruitment spend is approved prior to advertising role.	Listing of job vacancies that have been advertised.	Test a sample of recruitments to ensure budget was approved prior to advertising.
	Overpayments due to unauthorised new joiner / leaver not processed in time / unauthorised changes made to employee record.	Payment authorisation	New Joiners Form / Leavers Form / Change Form (including allowances) are subject to adequate, timely, authorisation (they can only be completed by the employee's line manager).	Listing of new joiners, leaver and changes (including allowances).	Test samples of joiners, leavers and changes to ensure that these were approved by the appropriate individual prior to the HR/payroll deadline.
Creditors	Timesheet entries are invalid or inappropriate. Inaccurate and / or fraudulent payments.	Timesheet approval	Line Manager approval for all timesheet entries is required.	Listing of all individuals who submit timesheets.	Test a sample of timesheets to ensure that they were approved prior to submission.
	Budgets and actuals are not reviewed leading to inappropriate spend / orders being raised leading to financial loss to the Council and / or inefficient use of resources.	Monitoring of departmental spend	Departmental budgets are monitored within the department on a monthly basis to identify inappropriate spend.	Listing of departmental budgets.	Test a sample of budgets for one month to ensure that they were compiled and monitored.
	Goods receipting is not accurate or appropriate (i.e. wrong number of items confirmed on system as received).	Three way matching	The invoice will not be paid without the correct three way match.	Report of goods/services purchased (including within Adult Social Care).	Test a sample of purchases to ensure that a purchase order was in place; the goods/service confirmed as received; and the invoice matched and correctly coded prior to payment.
	Incorrect coding of invoices leading to poor monitoring of financial performance - this could lead to ineffective management decision making.	Invoice coding	The member of staff raising the invoice must select appropriate coding for the order - there are a clear set of codes available on the system which supports this process.		
	Large payments are not subject to appropriate checks resulting in significant financial loss to the Council.	High value payment check	Prior to each payment run, specific checks on payments over £100k are conducted.	Report of all payments over £100k.	Test a sample of large payments to ensure they were authorised prior to payment.

<b>Process</b>	<b>Key risk</b>	<b>Control activity title</b>	<b>Control activity description</b>	<b>Listing/Report for sample selection</b>	<b>Control test</b>
	One off payments are not appropriate, valid or accurate and do not comply with procurement rules.	Authorisation of one off payments	Approval for one off payments on the Wightnet form must be obtained before processing.	Listing of one off payments.	Test a sample of payments to ensure an appropriate, authorised Wightnet form was in place prior to payment.
Debtors	Delays in payment which lead to poor financial management and cashflow at the Council.	Centralised customer set up	Customer masters set-up centrally to ensure they are set up with a legally liable party (in case legal action is required) also to prevent duplicate customers being set-up.	Report of new customers.	Test a sample of new customers to ensure that they were set up centrally and a check was undertaken that they are unique.
	Debt is not collected in a timely, efficient or complete manner.	Actions resulting from aged debt reports	Aged debt reports per each sales office (each department) are run, monitored and actions undertaken to ensure debts are collected in a timely manner and all monies due are collected (completeness).	Aged debt reports.	Test a sample of aged debts to ensure appropriate action has been taken.
	Credit notes are raised inappropriately or without having followed relevant debt collection processes. This could lead to financial loss to the Council.	Approval of credit notes	There is an approval process in place to ensure only appropriate credit notes are raised and approved in line with the Council's financial regulations.	Report of credit notes raised.	Test a sample of credit notes to ensure that they were in line with Council regulations and appropriately authorised.
	Debt is written off inappropriately or without having followed relevant debt collection processes. This could lead to financial loss to the Council.	Approval of write offs	Only the central team is able to process a write off once sufficient authorisation has been obtained.	Report of all debt written off.	Test a sample of write offs to ensure that appropriate authorisation was in place prior to processing.

# Appendix C: Limitations and responsibilities

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

We have undertaken this review subject to the limitations outlined below

### *Internal control*

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

### *Future periods*

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not 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 changes; or
- The degree of compliance with policies and procedures may deteriorate.

## *Responsibilities of management and internal auditors*

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

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we 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.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.



# Internal Audit Report 2017/18

## Public Health 17-18-14



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- Detailed Current Year Findings
- Appendix A: Basis of our Classifications
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## Distribution List

### For action

- Sallie Bacon, Director of Public Health
- Simon Bryant, Associate Director of Public Health
- Simon Gerfin, Finance Partner
- Bryan Hurley, Public Health Principal
- Sharon Kingsman, Public Health Principal

### For information

- Elizabeth Goodwin, Chief Internal Auditor



The document has been prepared solely for the use of the Audit Committee of the Isle of Wight Council in accordance with the agreement with the Isle of Wight Council and PwC dated 27<sup>th</sup> November 2015. The work was performed in accordance with the Isle of Wight Council's internal audit methodology and the findings reported to the Chief Internal Auditor, who remains responsible for the final conclusions and ratings assigned therein. PwC accepts no liability (including for negligence) to anyone else in connection with its work or this document, and it may not be provided to anyone else.



# Executive summary (1 of 1)

Classification	Trend	By type	By scope area
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We have not previously carried out a review with an equivalent scope

	Critical	High	Medium	Low	Advisory
Contracts	0	0	1	0	0
Saving Plan	0	1	0	0	0
Reporting and Oversight	0	1	0	0	1

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

## Total findings: 4

Upper tier and unitary local authorities have, since April 2013, been the local leaders for Public Health with responsibility for taking such steps that they consider appropriate for improving the health of their population and reducing health inequalities. The Health and Social Care Act 2012 sets out the detailed public health responsibilities that include both mandated and non-mandated functions.

To deliver their Public Health responsibilities, local authorities receive an annual ring fenced grant, which has been reduced in value since responsibility has transferred to local authorities. The core condition of the grant is that it should only be used for the purposes of the Public Health functions of local authorities. There are some non-mandated functions that are 'conditions of the grant'. These are ensuring that there are services aimed at reducing substance misuse and the five universal health reviews that are delivered by health visiting services.

### Summary of findings

This audit focussed on Public Health, specifically to confirm that planned savings for 2017/18 have been achieved, were correctly managed and overseen. In overview our review covered:

- **Contracts:** confirming that Public Health hold signed versions of current contracts and, where necessary, have engaged with the Procurement Team to initiate appropriate procurement exercises.
- **Savings Plan:** confirming that an appropriately researched and informed savings plan, to minimise the impact of savings, was produced at the start of 2017/18, with clear timelines and responsibilities for individual savings.
- **Reporting and Oversight:** confirming that the savings plan was correctly managed during 2017/18, with regular progress reports, oversight meetings and escalation regarding any issues encountered; where the ring-fenced Public Health Grant was used to fund services provided by the wider Council this was appropriate and contributed to the achievement of Public Health outcomes.

While Public Health has achieved the planned saving of £397,000 during 2017/18 our review has identified a number of significant issues regarding the process used to achieve these savings, how funding from the Public Health Grant has been used to fund services provided by the wider Council and the current status of the contracts in place to provide commissioned services. Due

to these issues we have raised three **high risk** findings and this report is rated high risk overall. A partnership is now in place with Hampshire County Council, with senior, clinically experienced staff from Hampshire carrying out their own investigations, beyond the scope of this review, to identify if there are further issues with the Service that need to be addressed. We have grouped our findings in four detailed findings, summarised below:

*Savings Plan: (high risk)* the expectation that £397,000 of savings would be made from retendered contracts is identified in the Public Health Service Plan, approved by the Director of Public Health. While savings have been achieved there are significant issues with the process used to manage savings. Specifically a formal process, informed by needs assessment, benchmarking, review against statutory requirements and prioritisation was not formally followed, although we were provided with an email trail showing that at least some of these areas were considered informally by the then Director of Public Health. It is not possible with the information available to understand the impact that savings have had on public health outcomes and service safety, nor to confirm that the services in place are meeting the Council's legal requirements.

The immediate need is to revisit the savings made in 2017/18 to confirm that the statutory level of public health service is being provided. Following this, further work is necessary to understand the impact that savings made are having on public health outcomes on the Island and identify and implement remedial services, where necessary. A formal, good practice approach regarding future saving plans should then be adopted, including assessing needs, prioritising services and risk assessing the impact of potential savings.

*Contracts: (medium risk)* we were unable to confirm that appropriate contracts are in place for all of the services commissioned by Public Health, for example for needle exchange and supervised consumption with pharmacies and we were not provided with current contracts covering services provided by GPs, although services are being provided and payment accepted. The 0-19 Public Health Nursing service is also due to expire in September 2018, with procurement unlikely to be completed in time for the expiry of the current contract. Other issues we identified included two services where procurements failed and direct awards had to be made; documents with incorrect dates; and a contract variation which is not signed by the Council.

The Public Health Contract Portfolio needs to be normalised, to ensure that current contracts are in place for all services, contracts are held by the Service and future procurements are initiated in a timely manner, with the support of the central Procurement and Contract Management Team. More widely the failed procurements and concerns at the Council's future savings plans indicate that either the Council's savings plans are unrealistic (which would be confirmed by taking a more formal approach to future savings, as covered above) or there are wider issues with the way Public Health Services are commissioned on the Island. This is currently the subject of investigatory work by the incoming Hampshire leadership team.

*Council Services: (high risk)* a total of £1.3m was used to fund wider Council services from the ring fenced Public Health Grant. While this can be appropriate and is common practice across the local government sector, the conditions of the Grant are that it must be used to meet public health outcomes. Our review has identified a number of anomalies with the Council's approach during 2017/18.

While the bulk of the spend (£897k) is covered by a Service Level Agreement (SLA) this is not signed by all signatories for which the document has placeholders and was only signed by a representative of Public Health and the Director of Finance in March 2018, after the services has been provided. There are other recharges (£230k) for corporate services and the salary of a Public Health analyst, sitting organisationally outside of the Service, which appear appropriate. However this leaves £220k of recharges with limited evidence to support the spend being allied to public health outcomes and we have not been provided with in-year reporting to demonstrate the impact the services have had on public health outcomes, with only limited information provided at year end.

Whether the spend has been wholly appropriate is a judgement initially for the incoming senior management of the Service (who are carrying out their own investigations) and ultimately for central government. Looking forward to 2018/19, future services must be covered by appropriate SLAs and have associated reporting/oversight, to evidence the impact they are having on public health outcomes during the year. Subsequent to the completion of fieldwork Internal Audit has been notified that investigatory work is now complete. Following reallocations and adjustments this has enabled the Chief Executive and Director to sign and return the assurance statement, setting out that expenditure has been properly incurred on Public Health outcomes for 2017/18.

*Reporting and Oversight: (advisory)* the corporate Finance Team produce monitoring reports for Public Health. Due to the savings being achieved from reducing contract costs these do not show savings being achieved incrementally, as would be the case from more transformational savings programmes; however they do show the contract savings and we have also confirmed that these show as savings achieved in SAP, the corporate finance system. For future saving programmes, particularly if these are more transformational, a more comprehensive approach to

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reporting should be taken, with the focus on monitoring the achievement of savings against projections, at the most granular level possible – this links to taking a more comprehensive approach to planning savings in advance, as covered further above.

Regarding oversight, while we were informed that Service Board meetings have not taken place in Public Health during 2017/18 we were provided with Senior Management Team (SMT) minutes, which cover broadly the same ground. Service Board meetings should be initiated as soon as possible. Corporate expectations leave much of the detail up to the needs of individual services, however the expectation is that these do happen and that they cover, finance, risk, performance and operational issues. It would also be sensible, due to the nature of services, these also cover serious incidents.

Specific to the SMT minutes content on savings is limited. Up to a point this is to be expected, due to the way the savings have been achieved, however there should be a standing item, focussed on the impact savings are having on public health outcomes, to ensure that this is not unacceptable.

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We would like to take this opportunity to thank Isle of Wight Council staff for their help and assistance with this review.

## Current year findings (1 of 4)

### Savings Plan

#### Control design

1

High

#### Finding and root cause

The Public Health Service Plan identifies that the required £397,000 of savings for 2017/18 would be achieved through reducing contract costs. Beyond the Service Plan a specific 'savings plan' was not produced. The time frame for 'delivery' of savings was effectively set by when existing contracts expired. The savings were approved by the Director of Public Health, as part of the Service Plan approval process with the final version published in the key documents section of the intranet. There are a number of specific risks associated with Public Health savings on the departmental Risk Register, maintained in JCAD Risk, the corporate risk management system.

At a minimum there should have been a formal process, to risk assess, minimise and understand the impact of cost savings on service outcomes. No formal needs assessment was carried out for any services for at least three years and benchmarking (to help understand if savings are realistic) was only carried out for one service, Substance Misuse and did not support the case that any savings could be made.

Ideally the service planning process should include needs assessment, reviewing and understanding minimum legally required service levels, prioritising services and sense checking, to ensure that a level of desirable discretionary services is maintained, led by clinically qualified and experienced staff. While we were provided with an email trail, showing that some of these areas were considered by the then Director of Public Health, no formal documentation was provided for our review.

Furthermore, due to the significant gaps, for example assessing savings against minimal legal requirements, it is vital that the savings made during 2017/18 are revisited as a matter of urgency. The initial focus of this activity needs to be on ensuring that legally required, minimum levels of service are in place. Following on further work is necessary to understand the impact cuts in service are having on public health outcomes.

For future savings plans, particularly if these involve more 'transformational' activity, standalone savings plans and potentially a standalone risk register, including risks regarding compliance with national required standards, service safety and quality, should be produced, to best support close monitoring of savings against projections and ensure public health outcomes are being met.

#### Implications

The immediate risk to the Council is that, following the savings made from contracts, the services in place on the island may not meet minimum legal requirements or deliver safe services. This may require additional, unplanned funding for remedial services, which will have an impact on the Council's wider financial position.

More widely, without a formal process being followed, there is a significant risk that there will be an unacceptable impact on public health outcomes and that this will not be 'understood', without the formal information which would be available if a formal process had been followed. Additionally making insufficiently informed cost savings may damage the Council's relationship with key providers and increase the likelihood of

future unsuccessful procurements.

### **Action plan**

Public Health will:

- Carry out investigatory work to confirm that the Public Health services on the Island meet minimum statutory requirements; implement remedial services as a matter of urgency if required.
- Carry out wider investigatory work, to understand the impact that savings made are having on public health outcomes and the safety of services on the Island.
- Implement a good practice approach to future savings, potentially modelled on the approach used in Hampshire.

**Responsible person/title**

Simon Bryant, Associate Director of Public Health

**Target date**

**Reference number**

17-18-14-01

## Current year findings (2 of 4)

### Contracts

#### Control design

# 2

### Medium

#### Finding and root cause

We were provided with copies of the following contracts:

- Supply of Azithromycin for treatment of Chlamydia; expires on 31<sup>st</sup> March 2020
- Supply of Levonorgestrel for emergency contraception; expires on 31<sup>st</sup> March 2020
- Supply of Ulipristal for emergency contraception; expires on 31<sup>st</sup> March 2020
- Supply of Varenicline to support smoking cessation; expires on 31<sup>st</sup> March 2020
- Provision of a 0-19 Public Health Nursing service; expires 1<sup>st</sup> September 2018
- Contract for the provision of an Integrated Sexual Health service; expires on 31<sup>st</sup> March 2019

Internal Audit requested a range of public health contracts for review. Six of these contracts were signed and current. Of these, we identified one issue with the Integrated Sexual Health service, where the dates given in clause 2.1 are incorrect, stating the contract runs up to March 2018. We were also informed that the Sexual Health and 0-19 Public Health Nursing service contracts were made by direct award, as procurement exercises failed. We were also informed that a number of services are being provided without contracts being in place, for example services provided by GPs.

Internal Audit were also provided with three further documents, a contract variation (Provision of Recovery Focused Integrated Substance Misuse Community Services) and two specifications for services to be procured (Workplace Health Improvement Programme and Health Checks).

The issues we have identified are:

- The 0-19 Public Health Nursing contract is due to expire in September 2018, with re-procurement at an early stage and unlikely to be completed for when the current contract expires.
- Internal Audit have not been provided with a current contract for GP services, although we were informed that these services are being provided and payment accepted.
- The Variation for Provision of Recovery Focused Integrated Substance Misuse Community Services is not signed by the Council.
- The specification for GP Health Check service states that the contract will run up to the 31st March 2015, however the title page identifies that it covers the 2016/17 period.

At a high level the Public Health contract portfolio needs to be normalised; specifically the Service needs to ensure that it has current contracts in place, for all services being provided, addressing the issues identified directly above as part of this process. For context we were also provided with a letter from the Chief Financial Officer at the IW NHS Trust identifying that there are concerns regarding the Council's intention to make a further £300,000 of savings from Sexual Health Services. While outside of the scope of this review this letter and the failed procurements indicate that there are not a sufficient range of providers on the Island to provide the services required by Public Health at the level of funding the Council is

willing to make available.

The Council's expectations may be unrealistic and a more formal approach to future cost savings (as covered elsewhere in this report) will help to confirm if this is the case. However there are other options which need to be investigated, for example the potential for greater partnership working/joint procurements and potentially 'shaping the market' activity, to encourage a greater range of providers to the Island. The leadership team are actively investigating options in these areas, this activity should continue as planned.

The Council is in the process of designing and implementing a corporate framework, setting out contract management requirements. This will include an electronic contract management system to support good contract management, which is likely to be of particular value to the Public Health Service. The Public Health Service should engage with the corporate Procurement and Contract Management Team, to ensure they comply with revised procurement and corporate contract management expectations.

### **Implications**

If current contracts are not in place then it may be unclear what services are being provided and what the cost for services being provided is. This will make it less likely that the Council will achieve VFM from its Public Health spend and that appropriate services are in place to have the desired impact on Public Health outcomes.

If appropriate procurement exercises are not initiated in a timely manner then there may be an interruption to services being provided, procurement exercises may be poorly informed, increasing the likelihood of the 'wrong' services being procured

### **Action plan**

Public Health will:

- Normalise the Public Health Contract Portfolio, ensuring that there are current contracts in place for all services provided, addressing incorrect dates and the unsigned variation, with the support of the corporate Procurement and Contract Management Team.
- Make every effort to locate missing contracts and ensure that in future electronic copies of these are held securely by the Public Health Service.
- Investigate options for greater partnership working/joint commissioning and potentially 'shaping the market' activity as planned.
- Engage with the corporate Procurement and Contract Management Team, to avail themselves of any central

#### **Responsible person/title**

Simon Bryant, Associate Director of Public Health

#### **Target date**

#### **Reference number**

17-18-14-02

support which is available, particularly the electronic Contract Management System and ensure that they comply with revised corporate Contract Management expectations, as these are finalised.

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## Current year findings (3 of 4)

### Council Services

#### Control design

3

High

#### Finding and root cause

We were provided with information from SAP (the corporate finance system) showing £1.3m of recharges against the Public Health Grant. For £897k of the recharge we were provided with an SLA signed by the Head of Public Health Strategy and Director of Finance but not by the Head of Place (where the grant was recharged to), although the SLA does have a placeholder for a signature from this officer. We also note that this SLA was not signed until March 2018, although the SLA runs from 1<sup>st</sup> April 2017, until terminated, with six months' notice.

We were also provided with the documentation below to support use of the Public Health Grant to fund services provided by the wider Council:

- IW Fire and Rescue Service Preventing Fires and Protecting Health: this paper is undated but sets out how the Fire Service could contribute to a variety of public health outcomes, for example fitness programmes in secondary schools and outreach in the community, to promote healthy lifestyles. The document is undated, although document properties identify this was created in February 2018, towards the end of the 2017/18 year.
- Reducing Environmental Risks which can impact on health and wellbeing SLA (cost £30,672): this document identifies that the service ended in March 2017.
- Night time Economy and Local Alcohol Action Areas SLA (cost £3,500): this document identifies that the service ended in March 2017.
- Reducing the impact of alcohol under the Local Alcohol Action Area programme SLA (cost £33,000 pa); potentially this refers to services provided under the overarching SLA with Place and Children's Services.

There are specific legislative requirements as to how the Public Health Grant should be used, at a high level the funding must be used to support the achievement of public health outcomes, over and above services already provided. For the purposes of this review this should have been evidenced, at a minimum, by SLAs being in place for all services, signed by the Director of Public Health, indicating that the Director of Public Health confirms that the proposed services satisfy this requirement. As stated above this was only in place for £897k of the £1.3m recharges. Additionally we note that this SLA was signed at the end of the financial year, rather than in advance of services being provided and that it was not signed by the Director of Public Health, rather by a member of the Public Health Team.

Further to this, the Public Health Grant should have been monitored during the year, to confirm the impact it was having on Public Health outcomes. While we were informed that meetings were held with some teams providing these services during the year, there is no record of discussions at these meetings nor has any reporting been provided for our review. Clearly, there are significant gaps in the Council recording, evaluation and management of services provided by the wider Council, funded from the ring fenced Public Health Grant.

The Public Health Service's senior management is now provided through a strategic partnership with Hampshire County Council and senior officers have undertaken their own investigatory work, to confirm that the use of the Public Health Grant is appropriate – ultimately whether the 2017/18 spend funded from the Grant has been appropriate will be a decision for the current senior management of the Public Health

Service; their investigatory work is ongoing.

Considering the lack of clear agreements and reporting our review has identified and the variable quality of the response received by senior officers to date that has been shared with us, there is a significant potential for at least some of the Council's use of the Public Health Grant not to have been appropriate.

### **Implications**

Unless the Council can demonstrate to the satisfaction of both the new senior management of Public Health on the Island and central government that their use of the Public Health Grant has been appropriate then a proportion of the Public Health Grant could be clawed back. More specifically if it cannot be demonstrated and evidenced that the Public Health Grant has been used appropriately then funding may have been better used to fund services directly commissioned by the Public Health Service, to have the greatest impact on public health outcomes on the Island.

### **Action plan**

Public Health will:

- Continue current investigations, to confirm that the Council's use of the Public Health Grant has been appropriate; complete the form regarding this spend in accordance with the findings of investigatory work.
- For future use of the Public Health Grant ensure that SLAs, clearly identifying what public health outcomes the services will address, how this will be measured at what reporting/oversight will be in place; at a minimum there should be quarterly oversight meetings and reporting.
- Ensure SLAs are signed off, both by the Director of Public Health and the Director for the service area receiving funding from the Public Health Grant.

#### **Responsible person/title**

Simon Bryant, Associate Director of Public Health

#### **Target date**

#### **Reference number**

17-18-14-03

## Current year findings (4 of 4)

### Reporting and Oversight

#### Control design

4

#### Advisory

#### *Finding and root cause*

We were provided with samples of the Finance Service Board reports, produced by Corporate Finance for Public Health. As savings were achieved from retendered contracts, rather than more granular, incremental savings, as would have been the case from more transformational savings, the reports do not show the savings being achieved over time.

Dependent on the nature of future savings a more comprehensive approach to reporting should be taken. For example if a future savings plan linking savings to granular deliverables is produced, this should be profiled over the year, with achievement reported against projections. This would enable savings to be closely monitored and any issues to be identified and addressed/escalated at the earliest opportunity.

Formal Service Board meetings have not been taking place in Public Health during 2017/18. While corporate policy is flexible, leaving the detail of how these are run up to individual services, they are expected to be held monthly and should cover finance, performance, risk and, in the context of this review, progress with saving initiatives. Now new leadership is in place over Public Health, Service Board meetings should be scheduled. In addition to the standard items above, serious incidents should also be a standing item.

We were provided with minutes for a sample of Public Health Senior Management Team (SMT) meetings. At a high level these cover similar ground to Service Board meetings including information regarding operational performance and risk status. Content regarding savings is very limited, although this is linked to the way the savings have been achieved from contract retendering during 2017/18. As above, for future savings, particularly if these are more transformational, a more comprehensive approach would be appropriate.

#### *Implications*

If there is insufficient reporting/oversight of savings then they will be less likely to be achieved in a timely manner, as planned; any issues which occur will be less likely to be identified and addressed/escalated at the earliest opportunity.

#### *Recommendation*

Initiate regular Service Board Meetings, adopting a format based on the approach used for the equivalent meetings in Hampshire.

For future saving initiatives implement an appropriate regime of report and oversight. Reporting should focus on achievement against projections, at the most granular level possible; at a minimum oversight should be covering through standing items at Service Board/SMT meetings and monitor the impact savings are having on public health outcomes.

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

<i>Effect on Service</i>	<i>Embarrassment/ reputation</i>	<i>Personal Safety</i>	<i>Personal privacy infringement</i>	<i>Failure to provide statutory duties/meet legal obligations</i>	<i>Financial</i>	<i>Effect on Project Objectives/ Schedule Deadlines</i>
<ul style="list-style-type: none"> <li>A finding that could result in a: <ul style="list-style-type: none"> <li>Major effect to an important service area for a short period</li> <li>Adverse effect to services in one or more areas for a period of weeks</li> <li>Service Disruption 2-3 Days</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>A finding that could result in: <ul style="list-style-type: none"> <li>Adverse local publicity /local public opinion aware</li> <li>Statutory prosecution of a non-serious nature</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>A finding that could result in: <ul style="list-style-type: none"> <li>Severe injury to an individual or several people</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>A finding that could result in: <ul style="list-style-type: none"> <li>Some individual personal details compromised/ revealed</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>A finding that could result in: <ul style="list-style-type: none"> <li>Litigation/claims/fin es from Department £25k to £50k</li> <li>Corporate £50k to £100k</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>A finding that could result in: <ul style="list-style-type: none"> <li>Costs between £5,000 and £50,000</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>A finding that could result in: <ul style="list-style-type: none"> <li>Adverse effect on project/ significant slippage – 3 weeks–2 months</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>A finding that could result in a: <ul style="list-style-type: none"> <li>Brief disruption of important service area</li> <li>Significant effect to non-crucial service area</li> <li>Service Disruption 1 Day</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>A finding that could result in: <ul style="list-style-type: none"> <li>Contained within section/Unit or Directorate</li> <li>Complaint from individual/small group, of arguable merit</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>A finding that could result in: <ul style="list-style-type: none"> <li>Minor injury or discomfort to an individual or several people</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>A finding that could result in: <ul style="list-style-type: none"> <li>Isolated individual personal detail compromised/ revealed</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>A finding that could result in: <ul style="list-style-type: none"> <li>Litigation/claims/fin es from Department £12k to £25k</li> <li>Corporate £25k to £50k</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>A finding that could result in: <ul style="list-style-type: none"> <li>Costs less than £5,000</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>A finding that could result in: <ul style="list-style-type: none"> <li>Minimal impact to project/ slight delay less than 2 weeks</li> </ul> </li> </ul>

**Medium**





**Low**

**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.

<i>Findings rating</i>	<i>Points</i>	<i>Report classification</i>	<i>Points</i>
<b>Critical</b>	40 points per finding	 <b>Low</b>	6 points or less
<b>High</b>	10 points per finding	 <b>Medium</b>	7– 15 points
<b>Medium</b>	3 points per finding	 <b>High</b>	16– 39 points
<b>Low</b>	1 point per finding	 <b>Critical</b>	40 points and over

## Appendix B: Terms of reference

### Background and Scope

Upper tier and unitary local authorities have, since April 2013, been the local leaders for Public Health with responsibility for taking such steps that they consider appropriate for improving the health of their population and reducing health inequalities. The Health and Social Care Act 2012 sets out the detailed public health responsibilities which include both mandated and non-mandated functions. The mandated functions are:

- NHS Health checks,
- National Child Measurement Programme,
- Comprehensive sexual health services,
- Public health advice service,
- Protecting the health of the population,
- Some mandated oral health functions.

To deliver their Public Health responsibilities, local authorities receive an annual ring fenced grant. The core condition of the grant is that it should only be used for the purposes of the Public Health functions of local authorities. There are some non-mandated functions that are 'conditions of the grant'. These are ensuring that there are services aimed at reducing substance misuse and the five universal health reviews that are delivered by health visiting services.

In addition there is a wide range of other areas of public health that public health teams are expected to address within the resources available to them. The responsibility of the Public Health team is to ensure that the local authority responsibilities are met – this can be either through in house provision or by commissioning services. In 2017/18 the Public Health team commissioned the following services and managed the following contracts:

- NHS Health checks (two contracts; GPs and Chamber Health),
- Sexual health services (including Tier 1, 2 and 3 and psychosexual services),
- Substance misuse services (two contracts; NHS Trust (including needle exchange) and Real World Trust),
- 0-19 Public Health Nursing – including the National Child Measurement Programme (NCMP),
- Pharmacy: contracts including Champix, needle exchange, Chlamydia treatment, supervised consumption,
- GP services: Health Checks, Long-acting reversible contraceptives (LARC).

For 2017/18 the Service had a challenging cost savings target of £397,000. This review will confirm that appropriate contractual arrangements are in place to source services for the areas identified above and that a robustly managed and overseen cost savings programme was delivered in-year, while ensuring that an effective Public Health service continued to be delivered.

The sub-processes, control objectives and potential related risks included in this review are:

### Sub-process

### Objectives

### Risks

### Contracts

Current contracts or equivalent agreements are in place for the following services: If current contracts are not in place then there may not be a clear understanding of what services are to be provided, at what cost. There may

- NHS Health checks
- Sexual health services
- Substance misuse services
- 0-19 Public Health Nursing
- Pharmacy
- GP services

Where contracts are nearing the end of their lifetime the Public Health Team has reviewed the population need to inform service redesign and worked with the corporate Procurement Team to re-procure services in a timely way.

be gaps in the service being provided and/or there may be services being provided which are not required by the Council; ultimately the Council is less likely to achieve VfM.

If appropriate procurement exercises are not initiated in a timely manner then there may be an interruption to services being provided, procurement exercises may be poorly informed, increasing the likelihood of the 'wrong' services being procured and ultimately the Council will be less likely to achieve VfM.

### **Saving Plan**

The overarching Public Health savings target set by the Council of £397,000 for 2017/18 was supported by a detailed cost savings programme; this:

- Was arrived at through a risk assessment process, to minimise and understand the impact of cost savings.
- Linked savings to specific deliverables, with assigned ownership and completion dates.
- Had an appropriate specific risk register/associated set of risks on the Service's wider risk register.
- Was approved by the Director of Public Health.

If an appropriate process was not followed to arrive at the required cost savings then there may be an unnecessary level of hardship caused to the Island population and the Council may have to make unplanned and potentially unnecessary cuts to its wider services.

If risk was not correctly managed then unplanned for risks may have materialised, leading to a reactive and potentially poor response, impacting adversely on the level of services provided and potentially leading to required cost savings not being achieved.

### **Reporting and Oversight**

- An appropriate regime of reports were produced during the year, monitoring the achievement of savings against profile.
- Progress reports were overseen by a regime of management meetings, including consideration of risks and attended by a representative of the corporate finance team.
- Where it did not prove possible to achieve savings as originally envisaged, alternative savings were identified and approved by the Director of Public Health.
- Overall progress towards the cost saving target and any issues were escalated and reported to the Corporate Management Team.
- Any ring fenced Public Health expenditure spent by another service was monitored and confirmed as delivering a specific public health benefit.

If an appropriate regime of oversight was not in place, to report and monitor the achievement of cost savings, then any issues will have been less likely to be identified, escalated and addressed at the earliest opportunity. Ultimately savings will have been less likely to be delivered, with minimum impact of services provided, as planned.

If appropriate arrangements are not in place to ensure that Public Health is not in line with expectations then the conditions of the ring fenced grant may not be complied with.



## Appendix C: Limitations and responsibilities

<p><b>Limitations inherent to the internal auditor's work</b></p> <p>We have undertaken this review subject to the limitations outlined below</p>	
<p><b>Internal control</b></p> <p>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.</p>	<p><b>Future periods</b></p> <p>Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:</p> <ul style="list-style-type: none"> <li>• The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or</li> <li>• The degree of compliance with policies and procedures may deteriorate.</li> </ul>

### Responsibilities of management and internal auditors

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

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we 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.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.