



# Audit Committee Internal Audit Progress Report



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## ***Introduction and Internal Audit Overview***

### **Introduction**

This report presents a summary of the activities of Internal Audit for the period May to July 2019, covering reviews in the 2018/19 programme of work. It provides the executive summary for one report, rated as medium risk or below and containing no findings individually rated as high risk, finalised since June.

### **2018/19 Update**

This is the final progress report for 2018/19; all 2018/19 reviews are now complete and have been presented to the Audit Committee.



Full details of performance against key performance indicators for 2018/19 can be found in Appendix C and Appendix D within this report.

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## ***Executive Summaries from Internal Audit Reports***

In this section we provide the executive summary for the one report rated as medium risk or lower and containing no high-risk findings, finalised since the last meeting of the Audit Committee in May 2019.

# Executive summary – Asset Management

Classification	Trend	By type		By scope area					
		Control design effectiveness	Operating effectiveness	Total	Critical	High	Medium	Low	Advisory
 <p><b>Medium Risk</b></p> <p></p> <p>We have not previously carried out a review with an equivalent scope.</p>		Critical	0	0	0	0	1	1	0
		High	0	0	0	0	2	1	0
		Medium	3	0	3	0	0	0	0
		Low	2	0	2	0	0	0	0
		Advisory	0	0	0	0	0	0	0
		Framework	0	0	0	0	1	1	0
		Delivery	0	0	0	0	2	1	0
		Oversight	0	0	0	0	0	0	0

## Summary of findings

In addition to properties occupied by the Council and those used directly to provide services, for example County Hall and children’s centres, the Council has a diverse portfolio of 866 properties let out to a variety of tenants. These include shared ownership houses retained by the Council when its housing stock was transferred to housing associations in the early 1990s, agricultural land, commercial properties, café concessions and a large number of beach huts across the Island. Managing the ‘let’ portfolio is split between two teams which, while located in different parts of the Council’s structure, work closely together and use the same software system, Technology Forge.

One team, in Neighbourhoods, manages properties in the ‘let’ portfolio deemed ‘commercial’, comprising of 484 separate ‘properties’, for example beach huts and various concessions. The second team, in Regeneration, manages 382 properties deemed ‘corporate’, for example shared ownership housing and agricultural land. This audit has reviewed the Council’s approach to managing its property portfolio, across both of these teams; in overview covering:

- **Framework:** confirming that a standardised approach is taken, for example a consistent approach to leases and that the Technology Forge system is configured to support efficient and effective property management.
- **Delivery:** confirming that the Council is managing its property portfolio effectively, with leases, rent reviews and asset valuations up to date and comprehensive information maintained in or linked to the Technology Forge system.
- **Oversight:** confirming that there is accurate and comprehensive corporate visibility of the Council’s property portfolio, including regular reports, with any issues escalated as necessary for resolution.

**Rent Reviews: (medium risk):** out of 20 records (10 for Commercial, 10 for Corporate) reviewed by Internal Audit rent reviews had not been carried out in line with contract terms in 13 instances (3 for Commercial, 10 for Corporate); regularly reviewing rents is an important mechanism to ensure that the Council is maximising its income from its property portfolio. However, this does need to be seen in the context that rents can go down as well as up as an output of rent reviews – due to the lack of capital investment in the Council’s property portfolio not carrying out rent reviews may have actually contributed to maintaining the Council’s level of property income.

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Carrying out rent reviews also incurs a cost, for example in terms of officer time, which may not be justified in the context of limited capital investment by the Council in its property portfolio.

This has been recognised by the Council as an issue, with a new staff member (Landlord and Tenant Surveyor) scheduled to join the property team this year. Ensuring rents are maximised will be one of their primary tasks and this is scheduled to be addressed by June 2019. Once normalised regular reports should be run and considered by senior management, to ensure that in future rent reviews are carried out in a timely manner or otherwise addressed. For context reports run from Technology Forge show that are 14 rent reviews overdue in total in the commercial portfolio, with a total rental value of £68,762, 105 rent reviews overdue in the corporate portfolio, with a total rental value of £213,146. Within the commercial portfolio the majority of rent reviews are overdue by less than 12 months and are in the process of being addressed, for example with rent reviews underway. However, on the corporate portfolio the majority of overdue rent reviews were last carried out in 2014 with no rent review activity underway, meaning the Council has potentially missed out on approximately £30,000 of rental income since 2014, assuming compound CPI of 1.8%.

*Oversight of Insurance Policies: (medium risk):* On one occasion, the council had failed to obtain a copy of the tenant's relevant insurance policy confirmation as stated in the lease. It is noted that this insurance was for pressurised gas cylinders as opposed to general buildings insurance. The council also accepts that there are cases where insurance recharges are not being requested in line with the most recent loW insurance premiums due to the administrative burden and timing difficulties as the yearly Council policy changes.

*Current Leases and Licences: (medium risk):* Internal Audit reviewed a sample of 20 properties (10 from commercial, 10 from corporate) to check for 'in-date' lease and licence agreements. We noted that, whilst commercial services were able to provide copies of all 10 leases and all were in-date and currently active, corporate services held five out of date leases where the property had been in 'holdover' since the end of the most recent agreement. Holdover is where the existing tenant can stay in the property under the terms of the most recent agreement even if this is not now in date. We also note that corporate services were unable to provide copies of a further two lease agreements. The remaining three lease agreements within our sample were long lease periods, dated 1953, 1995 and 1998. Whilst these are all within date, we note that these are for peppercorn rent values. We further note that one of these three leases, for 10 car parking spaces at Medina Avenue is due to expire at the end of March '19 and should therefore be renegotiated appropriately. The council should consider whether it wishes to enter a further long term lease with Marks and Spencer plc for peppercorn rent.

*Rent Collection: (low risk):* We are pleased to report that there is good communication with the team at the Westridge Centre from both corporate property and commercial services for the monitoring of rental payments. We noted, however, that rental payments are not being collected for three of these properties. Whilst two of these are for peppercorn rent (one being from M&S plc for the above), the other is for £700 pa. We understand that the Council wish to renegotiate rent with the tenant but that no payments have been collected for nearly three years.

*Monitoring and Oversight: (low risk):* The corporate property team acknowledge the need to update Technology Forge and ensure that it holds up to date lettable unit information. This information should include, but not be limited to; Unit status, rental amounts, rent period, how paid, leaseholder details and specific requirements of leaseholder such as insurance that must be held. Once this has been fully updated then the Council can begin a thorough regime of oversight, using the reporting tools, which Technology Forge can offer to monitor rent renewal dates, asset valuations and rent renewals. We have been informed that, with the addition of a new Landlord and Tenant Surveyor to the department, updating technology forge to reflect the most recent agreements is a priority.

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

**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: Progress on the 2018/19 internal audit plan

Audit name	Fee	Current Status	Report classification for those audits completed
Asset Management	£7,800	Final Report	Medium Risk
Commercial Strategy/Income Generation *	£7,800	Suspended	n/a
Contract Monitoring	£7,800	Final Report	Medium Risk
Cross Services Outcomes *	£7,800	Suspended	n/a
Domiciliary Care	£7,800	Final Report	Medium Risk
GDPR/Data Sharing	£7,800	Final Report	No Assurance
Home to School Transport	£7,800	Final Report	High Risk
Houses with Multiple Occupation	£7,800	Final Report	Medium Risk
Income Collection (Coves Bridge, Shanklin Lift, Crematorium)	£7,800	Draft Report	-
IT General Controls (ITGC)	£7,800	Final Report	High Risk
Key Financial Systems (KFS):	£11,600	-	-
• Accounts Payable	-	Final Report	Low Risk
• Journals & Reconciliations	-	Final Report	Low Risk

Audit name	Fee	Current Status	Report classification for those audits completed
• Payroll	-	Final Report	Low Risk
Local Care Plan (Support for Providers) **	£7,800	Final Report	Low Risk
Looked After Children	£7,800	Final Report	Medium Risk
Nicholson Road *	£7,800	Final Report	High Risk
Parking	£7,800	Final Report	High Risk
Project Management	£7,800	Final Report	Low Risk
Regulatory Compliance	£7,800	Final Report	No Assurance
Schools	£7,800	Final Report	n/a
Social Media/CCTV	£7,800	Final Report	High Risk
Special Educational Needs and Disability (SEND)	£7,800	Final Report	High Risk
Third Party Relationship Governance (Fire Service)	£7,800	Final Report	Low Risk

Audit name	Fee	Current Status	Report classification for those audits completed
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\* Two substitutions have taken place regarding our quarter four programme of work, as below:

- *Commercial Strategy/Income Generation*: development of the Council's revised Commercial Strategy is not as advanced as anticipated when the Internal Audit Plan was scoped. This review will now take place in 2019/20, being substituted in 2018/19 with a review of Nicholson Road, one of the initiatives of the Council's Regeneration Programme.
- *Cross Services Outcomes*: this review was to focus the Council's work to prevent domestic violence, supporting the 'Vulnerable people are supported and protected' outcome in the Corporate Plan. The Council is in the process of revising its arrangements in this area and this review will now take place in 2019/20; time released has been used to support Internal Audit planning for 2019/20.

\*\* The Local Care Plan review focussed on the Support for Providers strand of the overall Programme.

## Appendix C: Internal audit performance against key performance indicators 2018/19

	Asset Management	Nicholson Road	Contract Monitoring	Domiciliary Care	GDPR/Data Sharing	Home to School Transport	Houses with Multiple Occupation	Income Collection	IT General Controls (ITGC)	Key Financial Systems (KFS)	Local Care Plan (Support for Providers)	Looked After Children	Nicholson Road	Parking	Project Management	Regulatory Compliance	Schools	Social Media/CCTV	Special Educational Needs and Disability (SEND)	Third Party Relationship Governance (Fire Service)
Scope agreed prior to fieldwork commencing?	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Exit meeting held?	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Draft report issued within 10 working days of completion of exit meeting?	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Draft report issued within 10 working days of receiving documentation from auditee?	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Management response received?	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Final report issued within five working days of agreement of management response?	Y	Y	Y	Y	Y	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Client satisfaction survey score (if received)?	-	-	-	-	-	-	-	-	10	-	-	-	-	8.4	-	-	-	-	-	-