Isle of Wight Council Annual Internal Audit Report 2018/2019

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For action   The Audit Committee

For information   John Metcalfe, Chief Executive
                        Corporate Management Team

1. *Executive summary*

Introduction

This report summarises the internal audit work undertaken for the year ended 31st March 2019.

The Public Sector Internal Audit Standards require the Chief Internal Auditor to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The Council's internal audit service was largely provided by an external contractor during 2018/19. This engagement was tendered during July 2015 and our existing provider reappointed. Subsequent to this process, the external spend on internal audit was £184,222 for 2018/19. This does not include internal resources expended on the Chief Internal Auditor role, Grant Verification or investigative work carried out separately by Portsmouth City Council. The spend in this area for 2018/19 was £28,000.

Internal audit work was performed in accordance with the Council's Internal Audit methodology, which is in conformance with the Public Sector Internal Audit Standards.

Chief Internal Auditor Opinion

I am satisfied that the work undertaken has been in accordance with the agreed annual plan for 2018/19 and that this allows an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

It should also be noted that the audit coverage over the last three years has been limited by the resources available and that a number of high risk areas have not been audited for some time. As capacity decreases within the council it becoming increasingly more important to deploy greater audit scrutiny to aid the council in ensuring that its resources are used effectively to manage risk exposure and successfully deliver desired outcomes.

The annual internal audit plan is driven by statutory requirements, our risk assessment and discussions with the Audit Committee and CMT. In order to ensure coverage is aligned with the Council's internal audit budget audits are prioritised based on risk and / or length of time since last audited. This process is also dynamic and audits are reprioritised or focused during the audit year to reflect emerging or new risks. It is important the Audit Committee and CMT are satisfied that the level and scope of internal audit is appropriate for the Council's risk appetite and profile and this is kept under review, whilst noting the point raised in the above paragraph.

Opinion

My opinion is as follows:

Satisfactory	Generally satisfactory with some improvements required *	Major improvement required *	Unsatisfactory

* As contextualised directly below Internal Audit findings during 2018/19 identify that, the requirement to make savings necessary to fit in with budgetary constraints, is having an increased impact on the stability of the Internal Control Framework. As such the 'opinion' sits between the two judgements highlighted above. Governance, risk management and control in relation to business critical areas is generally satisfactory. However, there are three areas (see 'Basis of Opinion' section directly below) of weakness in the framework of governance, risk management and control, applicable across the Council, which potentially put the achievement of objectives at risk.

During 2018/19 there has also been a marked increase in the number of discrete areas attracting higher risk rankings (see 'Other weaknesses' in the 'Summary of Findings' section further below). While these do not have a wider impact across the Council the increase in higher risk rated reports is indicative of a declining trend in the strength of the general control environment during 2018/19.

Improvements are required in these areas to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Please see our Summary of Findings in Section 2.

An explanation of the types of opinion that may be given can be found in Appendix 2.

Basis of opinion

My opinion is based on:

- All audits undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.
- Any significant recommendations not accepted by management and the resulting risks.
- The effects of any significant changes in the Council's objectives or systems.
- Any limitations which may have been placed on the scope or resources of internal audit.
- What proportion of the Council's audit needs have been covered to date.
- Any investigations carried out during the year.

The commentary below provides the context for the opinion and together with the opinion should be read in its entirety.

Commentary

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

- *GDPR (General Data Protection Regulation):* this review assessed the Council's response to the GDPR, which became mandatory in May 2018, resulting in a '**no assurance'** risk rating. The key conclusions of the review were that the Council is not compliant with the GDPR, had not fully identified the work necessary to achieve compliance and did not have a credible plan to achieve compliance.
- *IT General Controls (ITGC):* assessing the Council's management of a subset of 'general' IT controls, those with wide ranging applicability across the Council, resulting in a '**high risk'** rated report. The most significant finding of the review is that the Council's IT disaster recovery arrangements have not been tested for a number of years, increasing the risk that they will not be fit for purpose in the event of a continuity incident.

In addition to the two reports summarised directly above Internal Audit has also observed weaknesses in the Council management of major projects during 2018/19. The overarching review of enhancements to the Council's approach during quarter four was generally positive, although a number of improvements were at an early stage at the point of fieldwork and it is too early to assess the degree to which they are operating effectively. Two further reviews carried out during 2018/19, Domiciliary Care and Nicholson Road, also covered elements of Project Management.

A number of weakness were observed in the Council's approach across all three reviews: clarity and accuracy of reporting; formality of change management; consistency of documentation. Change is inherently high risk and if it is not well managed the risks are that the Council may incur significant and potentially poorly understood costs and that the benefits, change aims to achieve, will not be fully realised in a timely manner.

It is my opinion that the issues summarised above are leading to an overall opinion that sits between the two opinion levels. It will therefore be key that the Council addresses the issues raised throughout the year promptly and effectively to ensure that there is no further decline in the effectiveness of the Internal Control Environment.

Acknowledgement

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

2. Summary of findings

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

Description	Detail
Overview Internal Audit completed 19 internal audit reviews. This resulted in the identification of 14 high, 38 medium and 34 low risk findings to improve weaknesses in the design of controls and/or operating effectiveness.	As in previous years, the Council had the majority of internal audit work delivered by our external partner. The external partner has continued to build upon their work carried out in previous years, using their knowledge of the Council and current and emerging risks to prepare and undertake the audit plan. During 2018/19 'change' and how it is managed, due to its inherent risk, has continued to be a key focus of Internal Audit: • *Project Management*: a wide-ranging review, looking at both the revised arrangements to oversee the Council strategic change programme and mechanisms to support change discrete to service area. • *Nicholson Road*: a specific review on one of the key priorities of the Council's Regeneration Programme. • *Local Care Plan*: reviewing the largely Council led initiatives to support improvement in the third-party care provider sector. Other reviews, where applicable, also cover more 'strategic' elements as part of their scope. For example, Domiciliary Care and Looked After Children. During 2018/19 the breadth of Internal Audit coverage has also increased, with a number of reviews scheduled over areas which have not bee previously review, or where prior reviews had been limited in scope: • *Home in Multiple Occupancy (HMOs)*: reviewing the Council's arrangement for monitoring, overseeing and licensing larger HMOs. • *Home to School Transport*: how the Council meets its responsibility to plan and provide an effective and efficient home to school transport service. • *Parking*: a wide-ranging review (previous reviews have focussed on income management), covering all areas of parking management. Increasingly Internal Audit reviews has also covered key legislative requirement; for example: • *GDPR*: reviewing the Council's response to the legislative requirements introduced in late 2018. • *Special Educational Needs and Disability (SEND)*: including reviewing the Council's performance against legislative deadlines for managing Education Health and Care (EHC) needs assessments, Education Health and Care (EHC) plans.

Description	Detail
	• *Social Media/CCTV*: reviewing the Council's management of social media use for investigatory purposes and CCTV, against the mandated code of practice. Internal Audit has met the performance indicators which are within its direct control and has provided regular reports during the course of the year to the Audit Committee detailing performance, helping to ensure that it has sufficient information to carry out its role effectively.
Good practice We identified a number of areas where few weaknesses were identified and areas of good practice.	A number of reviews have been rated low risk during 2018/19. As in previous years reviews of core finance functions, both those led from the Corporate Team and the transactional areas, managed from within the Business Centre, continue to be rated low risk: • *General Ledger*: fieldwork focussed on journals and reconciliations, including sample testing of reconciliations and preparation and review of journals. Low risk findings only were raised, regarding delayed reconciliation of suspense accounts, 13 out of 35 tested control and suspense accounts being prepared and reviewed by the same person and approvals for five out of 20 tested journals being captured in an editable format. • *Payroll:* fieldwork covered amendments, advance and timesheet payments. Removal of 13 out of 25 leavers from the payroll took in excess of 10 days, increasing the risk of erroneous payment and leading to a medium risk finding, while for two out of 20 starter joiner forms were not completed until after join dates, potentially delaying the point at which staff could access Council systems, leading to a low risk finding. • *Creditors:* fieldwork covering three-way matching, coding of orders and consistent processing. Issues were identified with consistent processing of orders over £100,000 in value and in one case, corrected during fieldwork, failure to carry out required checks in advance of payment; these led to one medium and one low risk finding being raised. Other areas Internal Audit reviews identified as low risk were: • *Local Care Plan (Support for Providers):* this review focussed on the work led by the Council to support providers of adult social care on the Island, supported by the Improved Better Care Fund (iBCF). Two medium risk findings were raised, regarding taking a more integrated approach to training provided to the sector and ensuring that change is more formally managed, specifically evaluating the impact of proposed changes on the anticipated benefits of the programme. • *Project Management:* this audit reviewed recently implemented changes to 'strategic' project management and the consistency of how project management techniques are applied across the Council's projects' portfolio. One medium risk finding was raised, regarding the importance of ensuring that change is formally managed, with approvals evidenced, two medium risk findings were

Description	Detail
	raised, regarding improving the consistency of wider project management and ensuring that the reporting to the strategic board is consistent across the strategic portfolio. • *Fire Service Governance:* while the Fire Service is managed under a strategic partnership with the Hampshire Fire and Rescue Service (HFRS) the Council remains the 'Fire Authority'. As such this review was scheduled to ensure that the relationship is being managed in line with the terms of the partnership agreement. While it has been a number of years since Internal Audit carried out a specific review of the Fire Service this audit continues the previous trend with only one minor issue, regarding the need to progress a variation to the original agreement to reflect changes which have been made to governance arrangements subsequent to the decision being made to progress a combined fire authority with Hampshire, being raised.
Internal Control Issues During the course of our work, we identified a number of weaknesses that we consider should be reported in the Annual Governance Statement.	*GDPR (General Data Protection Regulation)* The Council's GDPR arrangements were the subject of a specific review during 2018/19, rated as 'no assurance'. This review identified that, while the Council has carried out a programme of work towards achieving GDPR compliance during 2018/19, the Council has not fully quantified the scale of work required, for example enhancements necessary to IT systems and contracts requiring variations, nor has progress has been sufficiently timely. This is compounded by responsibilities being largely devolved to service areas, with minimal resources available centrally to support, advise and ensure that service areas are meeting their responsibilities. The report raised three high, three medium, three low and one advisory finding, being rated as '**no assurance**' overall. *Project Management* Project Management was covered in a number of reviews during 2018/19, for example elements of the Adult Social Care change programme under the Domiciliary Care review, a specific review of the Nicholson Road initiative, part of the Council's wider Regeneration Programme and a specific review of Project Management, covering both the strategic and wider project portfolios. Only one of these reviews, on Nicholson Road, was rated as '**high risk**' (Domiciliary Care was rated as 'medium risk', Project Management as 'low risk'). However there are common themes running through the findings of all three reviews: • The accuracy and, in some areas, the clarity of reporting, specifically accurate RAG (Red, Amber, Green) rating across the three dimensions of time, cost and quality. • The formality of change management, specifically considering the impact of proposed changes against the anticipated benefits of projects and ensuring that discussions, conclusions and approvals associated with changes are appropriately recorded. • The consistency of project documentation. For example, ensuring it is clear the progress which has or has not been made, how risks are being managed, with a clear escalation route from risks to issues and clear documentation of responsibilities/tolerances, escalations

Description	Detail
	and decisions.
	IT General Controls (ITGC) This review cover a subset of controls termed 'general', in that they have wide ranging applicability across the Council's IT portfolio. The specific controls in scope for this review were policies, automated controls and IT disaster recovery. The review resulted in a report rated '**high risk**' overall, with two specific findings rated high risk. High risk findings were raised regarding the high levels of mandatory IT training not completed and weaknesses in the Council's disaster recovery plans, most importantly the failure to test arrangements, to ensure they will be fit for purpose in the event of a continuity incident. Lower risk findings were raised regarding the formalising the response to automated controls (medium risk) and the need to update policies (low risk).
Other weaknesses Other minor weaknesses were identified within the organisation's governance, risk management and control, which relate to documentation being out of date, roles and responsibilities being unclear and processing errors.	In addition to the reports summarised directly above, one further review resulted in a 'no assurance' report and four reviews resulted in 'high risk' reports during 2018/19; these reports are summarised below. While this is a significant increase on 2017/18, when three reports were rated 'high risk' and no reports were rated 'no assurance', the issues identified are discrete to specific areas and are not indicative of a pervasive control failure. However, the increase in the number of higher risk rated reports is indicative of a generally deteriorating control environment. As part of its scheduled follow-up work Internal Audit will monitor progress addressing the issues identified through these reviews. Regular progress reports will be provided to Audit Committee and the Council needs to ensure that these are addressed in a timely manner, to prevent any further deterioration of the control environment. *Regulatory Compliance* Regulatory Compliance was the subject of a specific review, rated '**no assurance**'. This review focussed on the Council's management of buildings where the Council has 'landlord' responsibilities, specifically ensuring that appropriate fire, water, electrical and gas safety arrangements are in place. In addition to the core offices where the Council has these responsibilities, for example County Hall, the Council also holds these responsibilities for a range of premises used for social care and is ultimately accountable for ensuring schools have appropriate arrangements in place, although schools are individually responsible for putting their own mechanisms in place to carry out necessary inspections/works. This audit identified a number of issues, most importantly the absence of appropriate systems/reports to provide senior management with up to date information regarding the compliance status of each site, confirming that all sites are 'safe'. This is compounded by arrangements for sourcing services which are either not specified in a contract or equivalent (fire), documented in a contract which has expired (water) or sourced on an 'ad hoc' basis (electrical and gas). These issues led to three high risk findings being raised.

Description	Detail
	A further high risk finding was raised regarding the Council's management of follow-up, for example where how actions raised through fire and water risk assessments (FRAs and WRAs) are managed, to ensure that the underlying risks are responded to appropriately. Insufficient evidence was available for Internal Audit review to confirm that all actions stemming from inspections had been satisfactorily responded to.
	Home to School Transport
	The review covered the Council management of its responsibility to provide an efficient and effective Home to School transport service, resulting is a '**high risk**' rated report.
	A single high risk finding was raised regarding the Council's arrangements to validate that providers are complying with the terms of agreements, for example that appropriate insurance is held). A range of lower rated findings (medium and low) were also raised, collectively resulting in the overall 'high risk' rating.
	These related to the absence of an overall 'strategy' for home to school transport (low risk); the absence of a sustainable modes of travel strategy (medium risk, a legal requirement); the absence of a delivery strategy, setting out the mechanisms used by the Council to satisfy its obligations (medium risk); failure to enforce specific requirements of the bus contract (medium risk); failure to enforce specific requirements of the taxi contract (low risk) and inconsistencies in how payments were processed (low risk).
	Parking
	This review covered the Council's management of parking services, with specific objectives aiming at ensuring the risks stemming from SIM cards in parking machines were being correctly managed. While no findings were individually rated as high risk the number of lower risk issues identified collectively led to the report being rated '**high risk**' overall.
	Lower risk findings were raised regarding: monitoring/oversight of income from parking machines (medium risk); discrepancies between the number of SIM cards identified on central registers and paid for by the Council and those actually used in parking machines (medium risk); lack of formality/consistency in how permits are managed (medium risk); enhancement to how persistent evaders are managed (medium risk); the need to better manage risks associated with parking (medium risk); better management of parking machine 'status', for example identifying machines which are not working correctly (low risk); ensuring PCN cancellations are correctly approved (low risk) and updating documentation (low risk).
	Social Media/CCTV
	This review covered how the Council authorises and manages social media use for investigatory purposes and its management of CCTV on the Island. The report was rated as '**high risk**' overall, with high risk findings raised regarding the failure to ensure the Council's policy on CCTV had been kept up to date as legislation has evolved and ensure that CCTV is being managed in line with Policy. Medium risk findings were raised regarding the clarity/completeness of the Council's Covert Surveillance Policy and issues identified regarding a failure to correctly follow policy in some areas, stemming from a lack of sufficient

Description	Detail
	promotion of its requirements.

Special Educational Needs and Disability (SEND)
This audit reviewed the Council's arrangements to manage/process Education Health and Care (EHC) needs assessments, Education Health and Care (EHC) plans and the 'local offer' detailing formal SEND support and signposting informal support available, both from the Council and third parties.

Two findings were individually rated as high risk, with the report being rated as '**high risk'** overall. The findings rated high risk are in relation to the Council failing to meet statutory deadlines for processing and assessing EHC needs assessments and plans. A low risk finding was also raised regarding the need to fully respond to the 2017 peer review.
Internal Audit identified 38 medium risk issues during the course of the internal audit work in 2018/19. Reports rated as medium risk and the main issues leading to the risk ranking are summarised below.

Reports rated as 'medium risk' are summarised below.

Contract Monitoring
This report covered the Council's approach to contract management. The majority of the responsibility for managing contracts is devolved to service areas and there have been long standing issues regarding both the software and the resources available centrally to 'support' service areas in meeting their responsibilities. While this review confirmed that there is now an appropriate software system available, with copies of contracts held centrally and a specific post in the central team how contracts are managed by service areas is still inconsistent.

Domiciliary Care
This review covered the Council's 'operational' approach to managing domiciliary care providers and the 'strategic' initiatives to improve practice. While this area has improved significantly since it was last reviewed (as part of the 2017/18 review of Adult Social Care Contracts) there are still issues which need to be addressed, particularly for areas which are not wholly within the control of the Council, for example how providers are 'overseen'. On the strategic side while the headline is that the key metrics in the Corporate Plan are being met or exceeded strategic documentation needs to be improved, as does the clarity/accuracy of how progress is reported.

Houses with Multiple Occupation (HMOs)
This review covered how larger homes in multiple occupancy are monitored, overseen and licensed by the Council; this area had not been previously reviewed by Internal Audit. While the review did not identify significant operational issues both the quality and consistency of documentation and record keeping need to improve. For example, the overall list of HMOs is in a spreadsheet, which is not completely accurate, evidence of gas certificates being held by landlords is not routinely requested by the Council and how actions from inspections are responded to by landlords is not clearly evidenced.

Looked After Children
The Service has recently been subject to an Ofsted review with a positive

Description	Detail
	conclusion. This review focussed on how more strategic areas are managed. Out of date information was identified on the Council's website, strategic documents were inconsistent and did not clearly identify the evidence base and reporting/oversight arrangements were not sufficiently clear. *Schools* Internal Audit's review of schools in 2018/19 focussed on the evidence provided by schools to support the accuracy of their School Financial Value Standard (SFVS) submissions. For three schools Internal Audit concluded that the evidence provided did not support the assertions made in the school SFVS submissions, leading to these schools being rated as medium risk.
Follow up During the year we have undertaken follow up work on previously agreed actions.	During 2018/19 follow-up activity was carried out as part of the scope of in-year reviews, where areas had been subject to prior Internal Audit review.

3. Internal Audit work conducted

Introduction

Internal audit work was conducted in accordance with the Council's agreement with our co-sourced partner, dated 27th November 2015, Public Sector Internal Audit Standards, and the 2018-19 Internal Audit Risk Assessment and Plan.

The table below sets out the results of internal audit work and implications for next year's plan. The control direction of travel is also analysed so management can consider whether any additional action is necessary.

All reviews cover controls effective from 1st April 2018, up to the fieldwork date of individual reviews, we also include a comparison between planned internal audit activity and actual activity, to assist with budgeting and forward planning.

Results of individual assignments

Review	Report classification	Number of findings			
		Critical	*High*	*Medium*	*Low*
Asset Management	Medium Risk	-	0	3	**2**
Contract Monitoring	Medium Risk	-	-	3	1
Domiciliary Care	Medium Risk	-	-	3	3
Fire Service Governance *	Low Risk	-	-	-	1
GDPR/Data Sharing	No Assurance	-	3	3	3
Home to School Transport	High Risk	-	1	3	3
Houses with Multiple Occupation	Medium Risk	-	-	3	3
Income Collection (Cowes Bridge, Shanklin Lift, Crematorium)	Report in Draft	-	-	-	-
IT General Controls (ITGC)	High Risk	-	2	1	1
Key Financial Systems					
• General Ledger	Low Risk	-	-	-	3
• Payroll	Low Risk	-	-	1	1
• Creditors	Low Risk	-	-	1	1
Support for Providers *	Low Risk	-	-	2	-
Looked After Children		-	-	4	2

Review	Report classification	Number of findings			
		Critical	High	Medium	Low
Nicholson Road *	High Risk	-	1	2	1
Parking	High Risk	-	-	5	3
Project Management	Low Risk	-	-	1	3
Regulatory Compliance	No Assurance	-	4	1	2
Social Media/CCTV	High Risk	-	2	2	0
Special Educational Needs and Disability (SEND)	High Risk	-	2	0	1
Schools' Audits **Individual ratings for each of four schools reviewed; one rated as high, three as medium risk**	Details are provided in a separate table below.	-	-	-	-
* Additional review	**Total**	**0**	**14**	**38**	**34**

School	
Arreton Primary	**Low Risk**
Barton Primary	**Medium Risk**
Binstead Primary	**Medium Risk**
Cowes Primary	**Low Risk**
Hunnyhill Primary	**Medium Risk**
St Mary's Primary	**Low Risk**
Medina House Primary	**Low Risk**
Medina College Primary	**Low Risk**
Newport Primary	**Low Risk**
St Helens Primary	**Low Risk**

Direction of control travel

During 2018/19 Internal Audit has observed a significant weakening in the internal control environment, with two reports being rated 'no assurance' and six reports being rated 'high risk'. This is a significant increase on 2017/18, when three reports were rated 'high risk' and 2016/17, when four reports were rated as 'high risk'; for context prior to 2018/19 no reports have previously been rated as 'no assurance'.

While the majority of higher risk rated reports are discrete to specific areas, with the high risk findings stemming from issues largely limited to these areas, for example failing to meet statutory deadlines, as was the case for the 2018/19 review of Special Educational Needs and Disability (SEND) there are also a number of reviews where failings are more pervasive in nature. For example, the Council's response to GDPR legislation (which impact on nearly all areas of the Council) and how the Council's projects' portfolio is managed, reported and overseen (again applicable to most areas of the Council). There is also a common thread running through both high and lower risk rated reports, where Internal Audit is increasingly observing a failure to properly document, consistently exercise and evidence good process management.

Part of this is linked to areas being reviewed by Internal Audit that have either never been reviewed previously, for example Home to School Transport or areas which have not been reviewed comprehensively for a number of years, for example Parking. However, the weakening of the control environment is also likely to be linked to reduced resources across the Council, most notably at the corporate centre, the key support services such as IT, Information Management and Contract Management which have seen significant reductions in capacity in recent years.

The Council has responded to the reduced capacity at the corporate centre to a degree. Notably by putting in place revised arrangements to report and monitor progress with the 'strategic' change programme, to ensure that senior management have a more accurate and up to date picture of the progress being made. There has also been additional capacity put into the procurement and contract management team and a new post planned to better manage the Council's response to GDPR – Internal Audit will play a key role, both in assessing the degree to which these revised arrangements have been effective and identifying areas where similar issues are occurring.

Comparison of planned and actual activity

Audit Unit	Fee	Review Undertaken	Suspended Review	Additional Review	Comments
Asset Management	£7,800	■			
Commercial Strategy/Income Generation	£7,800		■		
Contract Monitoring	£7,800	■			
Cross Services Outcomes	£7,800		■		
Domiciliary Care	£7,800	■			
Fire Service Governance	£7,800			■	
GDPR/Data Sharing	£7,800	■			
Home to School Transport	£7,800	■			
Houses with Multiple Occupation	£7,800	■			

Audit Unit	Fee	Review Undertaken	Suspended Review	Additional Review	Comments
Income Collection (Cowes Bridge, Shanklin Lift, Crematorium)	£7,800	■			Report in Draft
IT General Controls (ITGC)	£7,800	■			
Key Financial Systems (KFS)	£11,600	■			
Local Care Plan	£7,800		■		
Support for Providers	£7,800			■	
Looked After Children	£7,800	■			
Nicholson Road	£7,800			■	
Parking	£7,800	■			
Project Management	£7,800	■			
Regulatory Compliance	£7,800	■			
Schools	£7,800	■			In 2018/19 we reviewed School Financial Value Standard (SFVS) submissions from 10 schools: • Arreton Primary • Barton Primary • Binstead Primary • Cowes Primary • Hunnyhill Primary • St Mary's Primary • Medina House • Medina College • Newport Primary • St Helens Primary
Social Media/CCTV	£7,800	■			
Special Educational Needs and Disability (SEND)	£7,800	■			
Third Party Relationship Governance	£7,800		■		
Total	**£152,000**				

Audit Unit	Fee	Review Undertaken	Suspended Review	Additional Review	Comments
In addition to the audit work detailed above, the total Internal Audit fee for 2018/19 covers a number of supporting activities, as summarised below: • Planning and preparation of the annual Internal Audit Risk Assessment and Plan. • Engagement management meetings held with management and attending Audit Committee. • Engagement administration and project management. • Ad hoc support from core audit team and specialists.					

Implications for management

The changes above evidence Internal Audit responding flexibly to the Council's needs, as these evolve in year. For example, scheduling postponing the Commercial Strategy, to respond to the delayed completion timeline and substituting additional reviews, for example Nicholson Road, to accommodate areas where review would be beneficial.

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

Internal Audit's work has been performed subject to the limitations outlined below.

Opinion

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of Internal Audit's programme of work, were excluded from the scope of individual internal audit assignments or were not brought to Internal Audit's attention. As a consequence management and the Audit Committee should be aware that the opinion may have differed if the programme of work or scope for individual reviews was extended or other relevant matters were brought to Internal Audit's attention.

Internal control

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

Future periods

Internal Audit's assessment of controls relating to the Isle of Wight Council is for the period 1st April 2018 to the 31st March 2019. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

The specific time period for each individual internal audit is recorded within section 3 of this report.

Responsibilities of management and internal auditors

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

We endeavour to plan work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Appendix 2: Opinion types

The table below sets out the four types of opinion that we use, along with an indication of the types of findings that may determine the opinion given. The Chief Internal Auditor will apply her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.

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

Disclaimer opinion	• An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either:
	   o Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or
	   o We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.

Appendix 3: Basis of our classifications

Report classifications

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

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification		Points
🔴	Critical risk	40 points and over
🟠	High risk	16– 39 points
🟡	Medium risk	7– 15 points
🟢	Low risk	6 points or less

Individual finding ratings

Finding rating	Effect on Service	Embarrassment/ reputation	Personal Safety	Personal privacy infringement	Failure to provide statutory duties/meet legal obligations	Financial	Effect on Project Objectives/ Schedule Deadlines
Critical	A finding that could result in a: • Major loss of service, including several important areas of service and /or protracted period. Service Disruption 5+ Days	A finding that could result in: • Adverse and persistent national media coverage • Adverse central government response, involving (threat of) removal of delegated powers • Officer(s) and/or Members forced to resign	A finding that could results in: • Death of an individual or several people	A finding that could result in: • All personal details compromised/ revealed	A finding that could result in: • Litigation/claims/ fines from Department £250k + • Corporate £500k +	A finding that could result in: • Costs over £500,000	A finding that could result in: • Complete failure of project/ extreme delay – 3 months or more
High	A finding that could result in a: • Complete loss of an important service area for a short period • Major effect to services in one or more areas for a period of weeks Service Disruption 3-5 Days	A finding that could result in: • Adverse publicity in professional/muni cipal press, affecting perception/standi ng in professional/local government community • Adverse local publicity of a major and persistent nature	A finding that could result in: • Major injury to an individual or several people	A finding that could result in: • Many individual personal details compromised/ revealed	A finding that could result in: • Litigation/claims/ fines from Department£50k to £125k • Corporate £100k to £250k	A finding that could result in: • Costs between £50,000 and £500,000	A finding that could result in: • Significant impact on project or most of expected benefits fail/ major delay – 2-3 months

Finding rating	Effect on Service	Embarrassment/ reputation	Personal Safety	Personal privacy infringement	Failure to provide statutory duties/meet legal obligations	Financial	Effect on Project Objectives/ Schedule Deadlines
Medium	A finding that could result in a: • Major effect to an important service area for a short period • Adverse effect to services in one or more areas for a period of weeks Service Disruption 2-3 Days	A finding that could result in: • Adverse local publicity /local public opinion aware • Statutory prosecution of a non-serious nature	A finding that could result in: • Severe injury to an individual or several people	A finding that could result in: • Some individual personal details compromised/ revealed	A finding that could result in: • Litigation/claims/ fines from Department £25k to £50k • Corporate £50k to £100k	A finding that could result in: • Costs between £5,000 and £50,000	A finding that could result in: • Adverse effect on project/ significant slippage – 3 weeks–2 months
Low	A finding that could result in a: • Brief disruption of important service area • Significant effect to non-crucial service area Service Disruption 1 Day	A finding that could result in: • Contained within section/Unit or Directorate • Complaint from individual/small group, of arguable merit	A finding that could result in: • Minor injury or discomfort to an individual or several people	A finding that could result in: • Isolated individual personal detail compromised/ revealed	A finding that could result in: • Litigation/claims/ fines from Department £12k to £25k • Corporate £25k to £50k	A finding that could result in: • Costs less than £5,000	A finding that could result in: • Minimal impact to project/ slight delay less than 2 weeks
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.						

Appendix 4: Performance of internal audit

Key Performance Indicators

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

KPI	Target	Performance	Comments
Planning			
• **% of audits with scope agreed prior to fieldwork commencing.**	100%	100%	
Fieldwork			
• **% of audits with an exit meeting.**	100%	100%	
Reporting			
• **% of audits with draft report issued within 10 working days of completion of exit meeting.**	100%	100%	
• **% of audits with draft report issued within 10 working days of receiving documentation from auditee**	100%	100%	
• **% of audits with final report issued within five working days of agreement of management response**	100%	100%	