Internal Audit Progress Report 30th September 2019

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1. Introduction

Internal Audit is a statutory function for all local authorities. The Isle of Wight Council's Internal Audit service has an in-house team and a shared Chief Internal Auditor with Portsmouth City Council (PCC). The in-house audit team is supported by audit and counter fraud staff from PCC under a collaborative working arrangement.

The requirement for an Internal Audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015 as to:

> *Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*

The standards for 'proper practices' are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2016].

2. Purpose of report

The purpose of this report is to update the Audit Committee on the progress of the 2019/20 Audit Plan as at 30th September 2019 and to highlight any significant risk exposure and control issues, including fraud and governance risks.

Subsequent to the Council moving to a partnership-based approach from the 1st April 2019 the format of reporting to Audit Committee has been updated to align with the approach taken by Portsmouth and Southampton, the other councils in the partnership. This is the first of the new style reports and is the format which will be used for all future reporting to the Audit Committee.

3. Assurance Levels

Internal Audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives for the area under review.

Assurance Level	Description / Examples
Assurance	No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority
Reasonable Assurance	Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority
Limited Assurance	Control weaknesses or risks were identified which pose a more significant risk to the Authority
No Assurance	Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit

Audits rated No Assurance are reported in their entirety to Audit Committee along with Director's comments

4. Exception Risk Ranking

The following table outline the exceptions raised in audit reports, reported in priority order and are broadly equivalent to those previously used.
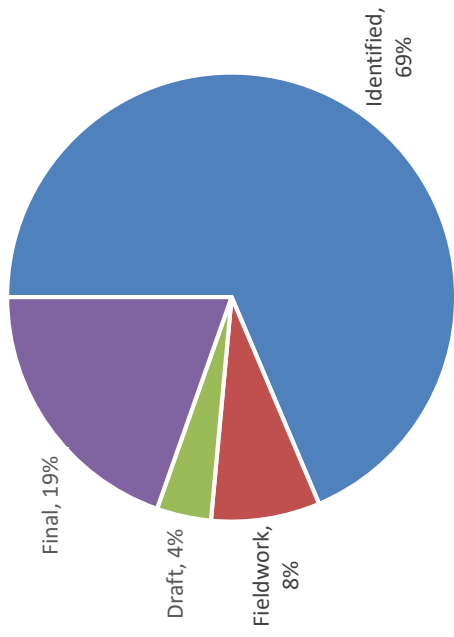
Priority Level	Description
Low Risk (Improvement)	*Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.*
Medium Risk	*These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.*
High Risk	*Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not 'show stopping' but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.*
Critical Risk	*Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the Council's objectives in relation to: The efficient and effective use of resources, The safeguarding of assets, The preparation of reliable financial and operational information, Compliance with laws and regulations and corrective action needs to be taken immediately.*

Any critical exceptions found the exceptions will be reported in their entirety to the Audit Committee along with Director's comments
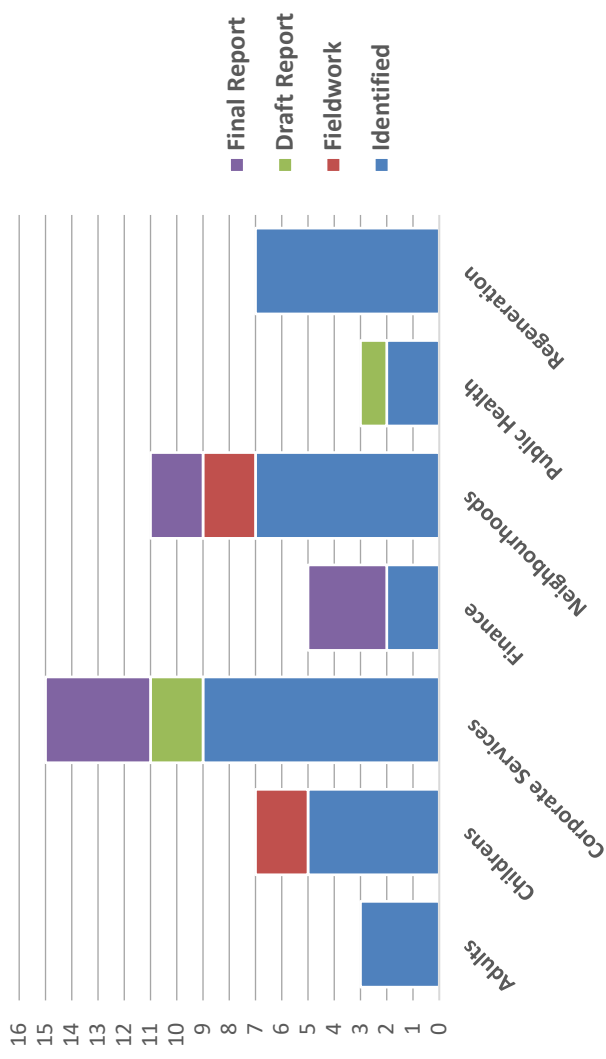
5. Audit Plan Progress

Status Overall

Status By Directorate

The provisional Internal Audit Plan for 2019/20, presented to Audit Committee in February 2019, proposed 36 named audits, plus additional placeholders for grants verified, schools, follow-ups and reviews to be carried out in Adult and Children's services. This level of coverage represents an increase from the coverage provided prior to the partnership with Portsmouth City Council (PCC) and is appropriate for the size and range of responsibilities held by the Isle of Wight Council.

Status (including follow-ups)	Audits
Identified	35
Fieldwork	4
Draft Report	3
Final Report	9
TOTAL	51

Meetings have now been carried out with senior managers in Adult Services and eight in Children's Services, with three reviews agreed in Adult Services and eight in Children's Services (including follow-up reviews). Further additions have been made to the provisional Internal Audit Plan for 2019/20, for example 14 follow-up reviews, bringing the Isle of Wight Council in line with the approach taken to follow-up at PCC.

Collectively these additions increased the potential number of reviews to 58. To ensure that the Internal Audit coverage is appropriate for the Council and does not create an excessive overhead for service areas a rescoping exercise has been carried out, reducing the number of reviews now scheduled to 51. Reviews removed from the Plan will be revisited during scoping for the 2020/21 Internal Audit Plan and considered for inclusion in the 2020/21 programme of work.

All reviews currently included in the 2019/20 programme of work are included in summary information on this page, more detail regarding changes to the Audit Plan is provided in the '**Audit Status**' section, later in this report.

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6. Audits in Period

Sickness Absence/ /Occupational Health

Exceptions Raised

Critical	High	Medium	Low
0	0	3	1

Overall Assurance Level

Reasonable Assurance

Agreed actions are scheduled to be implemented by the 31st March 2020

Assurance Level by Scope Area

Achievement of strategic objectives	**Reasonable Assurance**
Compliance with Policies, Laws & Regulations	NAT
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	**Reasonable Assurance**
Reliability and Integrity of Data	NAT

The main issue identified through this review is that management of sickness absence by line management is inconsistent across the Council. This is due to gaps in SAP functionality (this only captures the duration and type of illness, other information is split between shared drives held by HR and line managers and, where there are cases involving HR advisors, the IKEN system), no corporate training being provided across the Council since 2016 (targeted training has been provided to Children's and Adult services) and potentially under resourcing within the HR Advisor Team; investigations by the Team show that the Isle of Wight Council is potentially an outlier in terms of resourcing, compared to broadly similar councils.

Beach Fronts (Water Safety)

Exceptions Raised

Critical	High	Medium	Low
0	0	2	3

Overall Assurance Level

Reasonable Assurance

Agreed actions are scheduled to be implemented by the 31st March 2020

Assurance Level by Scope Area

Achievement of strategic objectives	**Reasonable Assurance**
Compliance with Policies, Laws & Regulations	NAT
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	**Reasonable Assurance**
Reliability and Integrity of Data	NAT

This review has not identified any significant issues with the operation of the current level of provision. For example, third party providers are correctly overseen and a regime of inspections operates to ensure that services are being provided and safety equipment is fit for purpose. The most significant gap is the need for the Council to better understand what it is trying to achieve strategically, specifically how the current level of provision supports the objective for the Island to be a 'leading UK visitor destination' and is informed by good practice.

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Beach Huts

Exceptions Raised

Critical	High	Medium	Low
0	0	1	1

Overall Assurance Level

Reasonable Assurance

Agreed actions are scheduled to be implemented by the 31st October 2019

Assurance Level by Scope Area

Achievement of strategic objectives	Reasonable Assurance
Compliance with Policies, Laws & Regulations	NAT
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	Reasonable Assurance
Reliability and Integrity of Data	NAT

This audit did not identify any major issues, specifically both areas of the scope (introducing consistency to how the existing portfolio across the Island is managed and increasing revenue, both from the existing portfolio and by adding to the portfolio), beyond minor issues, have been correctly managed. The most significant issue, applicable to both areas of the scope, is that income has not been realised at the originally anticipated level, resulting from the Cabinet decision to introduce an additional option for Beach Hut owners to remain on three-year licenses. For clarity this has been correctly managed, specifically with senior management and members being kept up to date and approving changes to the approach at Colwell.

IT Internal Transfer Processing

Exceptions Raised

Critical	High	Medium	Low
0	1	2	1

Overall Assurance Level

Reasonable Assurance

Agreed actions are scheduled to be implemented by the 31st March 2020

Assurance Level by Scope Area

Achievement of strategic objectives	NAT
Compliance with Policies, Laws & Regulations	NAT
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	Reasonable Assurance
Reliability and Integrity of Data	NAT

Sample testing to inform this audit confirms that access to SAP (the core financial system) is well controlled, with access routinely removed when staff change job roles and any access required for new job roles having to be re-requested. Orphan access to systems (access left over from previous job roles when staff move) was also limited in sample testing, with no orphan accounts on Northgate (Revenues & Benefits), the highest number of 'likely' orphan accounts (four out of 20 sampled) being on Paris, the system used in Adult Social Care (this will be investigated further in an imminent audit of the Paris system). The highest risk area of orphan access is shared drive access, with potentially eight out of 20 transferees sampled having incorrect access. A range of issues were also identified with wider shared drives.

School Financial Value Standard (SFVS)

Exceptions Raised

Critical	High	Medium	Low
0	0	1	0

Overall Assurance Level

Reasonable Assurance

Assurance Level by Scope Area

Scope Area	Assurance
Achievement of strategic objectives	NAT
Compliance with Policies, Laws & Regulations	NAT
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	Reasonable Assurance

In summary, although five out of seven schools sampled have not been able to evidence benchmarking activities, however further evidence is available to support the remainder of the SFVS responses reviewed. As a result Internal Audit offers reasonable assurance that the SFVS self-assessment returns are of low risk to the Authority.

Bus Subsidy Grant

Exceptions Raised

Critical	High	Medium	Low
0	0	0	0

Overall Assurance Level

Assurance

Assurance Level by Scope Area

Scope Area	Assurance
Achievement of strategic objectives	NAT
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	NAT
Reliability and Integrity of Data	NAT

Testing evidenced that the Authority received permission from the Department for Transport (DfT) to roll the 18/19 funding into the 2019/20 financial year.

Local Transport Capital Funding

Exceptions Raised

Critical	High	Medium	Low
0	0	0	0

Overall Assurance Level

Assurance

Assurance Level by Scope Area

Achievement of strategic objectives	NAT
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	NAT
Reliability and Integrity of Data	NAT

Testing was able to evidence sufficient capital expenditure to allow the Chief Internal Auditor to sign the declaration confirming the grant conditions had been complied with.

7. Follow-up Audits in Period

Contract Management

Original Exceptions Raised

Critical	High	Medium	Low
0	0	3	1

Original Assurance Level

Reasonable Assurance →

Follow-up Assurance Level

Reasonable Assurance

Progress has been made since the 2018/19 review, most importantly the revised contract management framework has been completed and is pending final approval from CMT. Overall one of the medium risk findings followed up has been implemented and two are in progress.

		Original Action Date: June 2019 **Revised Action Date: March 2020**	
1	Medium	**Contract Population** Duplicate and expired contracts have been removed from the Contract Database and 'owner' details are now complete.	Closed
2	Medium	**Implementation Action Plan** The action plan is now a more credible document and progress is being made. A follow-up action has been raised to confirm with senior management that they are satisfied with the current rate of progress.	In Progress
3	Medium	**Existing Contracts** Procurement activity is underway (where necessary) for all contracts due to expire in 2019 and that signed copies are now held for 112 out of 194 high value contracts. Work is ongoing to regularise performance management/oversight across the Contract Portfolio.	In Progress

IT General Controls

Original Exceptions Raised

Critical	High	Medium	Low
0	2	1	1

Original Assurance Level

Limited Assurance

Follow-up Assurance Level

Reasonable Assurance

Original Action Date: November 2018
Revised Action Date: March 2020

Progress has been made since the 2018/19 review, most importantly successfully planning for and restoring the County Hall datacentre from backups, following a planned outage to the electricity supply in 2018. All of the actions followed up are assessed as in progress.

1	**High**	**IT Security Training** Enhanced IT Security Training (funded by a grant from the LGA) is scheduled to be implemented in late 2019, with CMT scheduled to decide in November 2019 if additional mechanisms, for example withdrawing system access, are necessary to ensure that mandated training is completed.	In Progress
2	**High**	**IT Disaster Recovery** There was a successful IT disaster recovery in 2018. A follow-up action has been raised, to carry out fuller consultation with service areas regarding their IT disaster recovery requirements, enhance the IT Disaster Recovery Plan accordingly and present to CMT for approval.	In Progress
3	**Medium**	**Detective Controls/Reporting** A follow-up action has been raised, to assign responsibility for designing and implementing a process to respond to staff attempting to access blocked internet content to a named officer. Management are accepting risks associated with the lack of automated controls to manage/minimise local file storage.	In Progress

8. Audit Status

The table below summarises audit status including detail regarding audits now scheduled, either where the area of focus had not been confirmed at the time the 2019/20 Audit Plan was produced or where changes have been made subsequently, for example to respond to service requirements, in year.

Audit	Directorate > Service	Status	Projected	Actual/ Revised	Assurance Level	Comments
Accounts Payable (AP)	Corporate Services > Business Centre	-	Q3	-	-	
Accounts Receivable (AR)	Corporate Services > Business Centre	-	Q3	-	-	
Archives	Neighbourhoods > Archives	-	Q4	-	-	
Bank & Cash	Corporate Services > Business Centre	-	Q3	-	-	
Beach Huts	Neighbourhoods > Commercial Services	Final	Q2	Q2	Reasonable	
Beaulieu House Medication	Children's > Social Care	Scoping	Q3	-	-	This review replaces a placeholder in the 2019/20 Audit Plan.
Benefits	Corporate Services > Business Centre	-	Q3	-	-	
Budget Monitoring	Finance	-	Q3	-	-	
Bus Subsidy Grant Verification	Finance	Final	Q2	Q2	Assurance	Validation of a number of grants by Internal Audit is a sector requirement; this review supports this requirement, referenced in the provisional plan as 'Grant Verification'
Commercial Strategy	Regeneration	Suspended	Q4	-	-	This audit will be revisited in scoping for 2020/21, to enable the review to include an assessment of progress realising the Strategy.
Community Funerals	Neighbourhoods > Regulatory	-	Q4	-	-	

Audit	Directorate > Service	Status	Projected	Actual/ Revised	Assurance Level	Comments
	Services					
Contaminated Land	Neighbourhoods > Regulatory Services	Suspended	Q1	Q4	-	Initially re-scheduled at service request to Q4, subsequently removed, due to reassessment of associated risk; this area will be revisited in scoping for 2020/21.
Contract (TBC)	Corporate Services > Contracts	-	Q4	-	-	Contract to be reviewed will be confirmed during scoping for this review.
Corporate Plan - Metrics	All/Cross Service	Suspended	Q4	-	-	A revised Corporate Plan was presented to Full Council in July 2019; a review of the revised Corporate Plan as originally proposed would be of limited value.
Council Tax and NNDR	Corporate Services > Business Centre	-	Q3	-	-	
Deputyships/ Appointeeships	Adult Services > Commissioning and Partnerships	-	Q4	-	-	This review replaces a placeholder in the 2019/20 Audit Plan.
Direct Payments/ Personal Budgets	Adult Services > Commissioning and Partnerships	-	Q3	-	-	This review replaces a placeholder in the 2019/20 Audit Plan.
Disabled Facilities Grant Verification	Neighbourhoods > Housing	-	Q3	-	-	Validation of a number of grants by Internal Audit is a sector requirement; this review supports this requirement, referenced in the provisional plan as 'Grant Verification'
Environmental Sustainability	Regeneration > Economic Development	Suspended	Q4	-	-	Following consultation with service management Environmental Sustainability sits primarily under the Waste Contract. As this contract is scheduled for a specific review additionally scrutiny in this area is deemed to be of limited value.

Audit	Directorate > Service	Status	Projected	Actual/ Revised	Assurance Level	Comments
Events	Regeneration > Economic Development	-	Q4	-	-	
Grants Paid	Neighbourhoods	Suspended	Q3	-	-	Following consultation with service management the number of size of grants paid out by the Council, for example as a result of legacies, is lower than expected; the review as originally proposed would be of limited value to the Council.
Independent Fostering	Children's > Social Care	Scoping	Q3	-	-	This review replaces a placeholder in the 2019/20 Audit Plan.
Island Plan	Regeneration > Planning	-	Q4	-	-	
IT Application (Paris)	Corporate Services > IT	Draft	Q2	Q2	-	This replaces the 'IT Application (TBC)' placeholder in the provisional Internal Audit Plan for 2019/20.
IT Disaster Recovery	Corporate Services > IT	Draft	Q2	Q2	-	
IT Internal Transfer Processing	Corporate Services > IT	Final	Q1	Q1	Reasonable	
Leisure Centres	Neighbourhoods > Commercial Services	-	Q4	-	-	
Local Transport Capital Funding	Finance	Final	Q2	Q2	Assurance	Validation of a number of grants by Internal Audit is a sector requirement; this review supports this requirement, referenced in the provisional plan as 'Grant Verification'
Newport Harbour	Regeneration	-	Q4	-	-	This replaces the 'Regeneration Project (TBC)' placeholder in the provisional Internal Audit Plan for 2019/20.
Payroll	Corporate Services > Business Centre	-	Q3	-	-	

Audit	Directorate > Service	Status	Projected	Actual/ Revised	Assurance Level	Comments
Pension Administration	Corporate Services > Business Centre	Fieldwork	Q2	Q2	-	
Public Health Outcomes	Public Health	Draft	Q1	Q1	-	
Registrars	Neighbourhoods > Registrars	Fieldwork	Q2	Q2	-	
School (Bembridge Primary)	Children's Services > Education	Fieldwork	Q3	Q3	-	
School Financial Management Standard (SFVS)	Finance	Final	Q1	Q1	Reasonable	
Section 106 Agreements	Regeneration > Planning	-	Q3	-	-	
Sexual Health Contract	Public Health	-	Q4	-	-	
Sickness Absence/Occupational Health	Corporate Services > HR	Final	Q1	Q1	Reasonable	
Substance Misuse Contract	Public Health	-	Q1	Q4	-	Postponed to Q4, to align with contract procurement timeframe.
Treasury Management	Finance	-	Q3	-	-	
Uniform (Post Implementation)	Corporate Services > IT	Suspended	Q3	-	-	No significant issues have occurred during implementation and progress is being made regarding addressing outstanding issues; this review will be revisited during scoping for 2020/21, to identify if re-scheduling would be of value.
Waste Contract	Neighbourhoods > Waste	-	Q2	-	-	

Audit	Directorate > Service	Status	Projected	Actual/ Revised	Assurance Level	Comments
Beach Fronts (Water Safety)	Neighbourhoods > Commercial Services	**Final**	**Q1**	**Q1**	**Reasonable**	
Workforce Development/Learning and Development	Corporate Services > HR	**Suspended**	**Q1**	**Q4**	-	Following consultation with service management it has been identified that Workforce Development arrangements are at a very early stage of being revised, with project work not anticipated to commence until 2020/21; this audit will be revisited in scoping for 2020/21

Follow-up Reviews

During 2019/20 Internal Audit will follow-up all findings raised during 2018/19, rated as medium risk or higher. For each applicable 2018/19 audit separate follow-up reviews will be carried out during 2019/20, in four phases from quarter two, as detailed below.

Audit	Directorate > Service	Status	Projected	Actual/ Revised	Assurance Level	Comments
Follow-up: Contract Management	Corporate Services > Contracts	**Final**	**Q2**	**Q2**	**Reasonable**	
Follow-up: ITGC	Corporate Services > IT	**Final**	**Q2**	**Q2**	**Reasonable**	
Follow-up: Homes in Multiple Occupancy (HMOs)	Neighbourhoods > Regulatory Services	**Fieldwork**	**Q2**	**Q2**	-	
Follow-up: Special Educational Needs and Disability (SEND)	Children's Services > Education	**Fieldwork**	**Q2**	**Q2**	-	
Follow-up: Regulatory Compliance	Regeneration > Property	-	**Q3**	-	-	
Follow-up: Schools (Barton, Binstead & Hunnyhill primaries)	Children's Services > Education	-	**Q3**	-	-	
Follow-up: Looked After	Children's Services >	-	**Q3**	-	-	

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Audit	Directorate > Service	Status	Projected	Actual/ Revised	Assurance Level	Comments
Children (LAC)	Education					
Follow-up: Income Management (Floating Bridge)	Neighbourhoods > Parking	-	**Q3**	-	-	
Follow-up: Asset Management	Regeneration > Property	-	**Q4**	-	-	
Follow-up: Domiciliary Care	Adult Services > Contract Management	-	**Q4**	-	-	
Follow-up: General Date Protection Regulation (GDPR)	Corporate Services > Legal	-	**Q4**	-	-	
Follow-up: Home to School Transport	Children's Services > Education	-	**Q4**	-	-	
Follow-up: Social Media/CCTV	Neighbourhoods > PFI	-	**Q4**	-	-	
Follow-up: Nicholson Road	Regeneration	-	**Q4**	-	-	