



Internal Audit Progress Report 20 February 2024

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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 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 2017].

2. Purpose of report

The purpose of this report is to update the Audit and Governance Committee on the progress of the 2023/24 Audit Plan as of 20 February 2024 and to highlight any significant risk exposure and control issues, including fraud and governance risks.



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	<i>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</i>
Reasonable Assurance	<i>Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority</i>
Limited Assurance	<i>Control weaknesses or risks were identified which pose a more significant risk to the Authority</i>
No Assurance	<i>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</i>

Audits rated No Assurance are reported in their entirety to Audit and Governance 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)	<i>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.</i>
Medium Risk	<i>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.</i>
High Risk	<i>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.</i>
Critical Risk	<i>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.</i>

Any critical exceptions found will be reported in their entirety to the Audit and Governance Committee along with Director's comments



5. Follow-up Action Categorisation

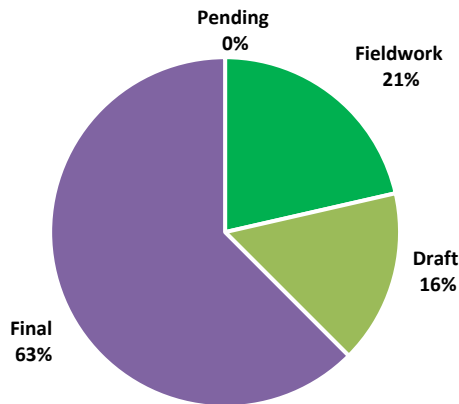
The following table outlines the follow up categories used to describe the outcome of follow up testing completed.

Follow Up Categories	Description
Open	<i>No action has been taken on agreed action.</i>
Pending	<i>Actions cannot be taken at the current time but steps have been taken to prepare.</i>
In Progress	<i>Progress has been made on the agreed action however they have not been completed.</i>
Implemented but not Effective	<i>Agreed action implemented but not effective in mitigating the risk.</i>
Closed: Verified	<i>Agreed action implemented and risk mitigated, verified by follow up testing.</i>
Closed: Not Verified	<i>Client has stated action has been completed but unable to verify via testing.</i>
Closed: Management Accepts Risk	<i>Management have accepted the risk highlighted from the exception.</i>
Closed: No Longer Applicable	<i>Risk exposure no longer applicable.</i>



6. Audit Plan Progress

Status Overall



Status (including follow-ups)	Audits
Pending	0
Fieldwork	12
Draft	9
Final	35
TOTAL	56

There were 57 reviews set out in the Audit Plan for 2023/24. There have been a number of changes to the originally proposed plan, primarily related to additional grants requiring certification by Internal Audit and consequent reductions in planned audit activity elsewhere. The current number of planned audits (full, follow-up and grant certification) is 53, more detail is provided in section eight of this report.

In addition to core assurance Internal Audit is providing further, ongoing support to the Council, by utilising IDEA software to highlight potential duplicate invoices.

All reviews currently included in the 2023/24 programme of work are included in summary information on this page. Detail regarding changes to the Audit Plan (not previously reported) is provided in the '**Audit Status**' section, later in this report.

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.



7. Audits in Period

Summaries for reports rated 'reasonable assurance' or better are provided below.

Disabled Facilities, Process Review

Exceptions Raised

Critical	High	Medium	Low
0	1	1	0

Overall Assurance Level

Reasonable Assurance

Assurance Level by Scope Area

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

The high-risk finding raised relates to gaps in financial oversight of Disabled Facilities Grant (DFG) spend, including approval and overall oversight of the budget. For context there is in excess of a £2m underspend on the Island for the DFG. A strategy should be considered, to address this underspend and ensure the grant is fully utilised for the benefit of the community, whilst complying with the grant conditions.

More minor issues were identified, regarding the need to review/update the Council's associated policy and procedure documents, ensuring that compliance with procurement rules is evidenced and that appropriate information is available on the Council's website.

Venture Quays

Exceptions Raised

Critical	High	Medium	Low
0	0	10	0

Overall Assurance Level

Reasonable Assurance

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 covered two projects focussed on East Cowes, a range of initiatives managed as a single regeneration project and the project to bring forward housing on sites purchased from Homes England. Both projects have been impacted on the dissolution of the Regeneration Directorate, with changes in senior staff responsible. To a degree both projects need to be 'normalised', for example updating risk registers and implementing revised governance arrangements. Specific to regeneration there are also actions to be addressed stemming from the recent review by the Levelling Up Fund (LUF). Regarding the housing side, following a failed procurement exercise, Housing Member Board (HMB) has recently approved disposal of the sites.



IT Disaster Recovery

Exceptions Raised

Critical	High	Medium	Low
0	0	4	0

Overall Assurance Level

Reasonable Assurance

Assurance Level by Scope Area

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

Medium risk findings were raised regarding IT elements covered in this review, regarding finalising the revised IT Disaster Recovery Plan and commissioning of the St Mary’s site (with failover testing to follow). In relation to service responsibilities a single finding covered the need to enhance IT elements of service Business Continuity plans and share learning from future exercises across the Council.

Payroll

Exceptions Raised

Critical	High	Medium	Low
0	0	2	0

Overall Assurance Level

Reasonable Assurance

Assurance Level by Scope Area

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

Sample testing of overtime and leavers (sample of ten for each) identified two errors. Regarding overtime, one claim which hadn’t been approved by the appropriate party and for leavers one instance of an underpayment to a leaver. The need for overtime claims to be approved by a separate individual has been re-highlighted to staff and the incorrect payment to the leaver has now been corrected.



Accounts Payable

Exceptions Raised

Critical	High	Medium	Low
0	1	0	2

Overall Assurance Level

Reasonable Assurance

Assurance Level by Scope Area

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

The high risk finding related to either insufficient checks being made or anomalies in evidence recorded, prior to the vendor details being changed in all ten instances checked by Internal Audit. The process needs to be reviewed end to end, with robust checks made and appropriate evidence retained, prior to vendor details being updated. Low risk findings raised relate to late payments in three out of 25 invoices reviewed by Internal Audit and one sample vendor being identified.



Follow-up Audits in Period

Summaries for follow-up reports rated 'reasonable assurance' or better are provided below.

St Mary's Catholic Primary School				First Follow-up Level	Second Follow-up Level
Original Exceptions Raised				Limited Assurance	Reasonable Assurance
Critical	High	Medium	Low		
0	3	4	1		

Assurance level remains as reasonable, due to further work being required to fully address one of the high risk findings summarised below.

1	Medium	Inventory Processes have been improved, with annual checks and better management of disposals implemented.	Closed: Verified
2	Low	Minibus Minibus no longer in place.	Closed: No Longer Applicable
3	Medium	Business Continuity Planning Revised Business Continuity Plan has been produced, with a specific appendix covering cyber security.	Closed: Verified
4	High	Data Security The server is now in a locked cabinet.	Closed: Verified
5	Medium	Estate Management A revised fire risk assessment is in place and revised processes, to ensure that required site management tasks are carried out as required.	Closed: Verified
6	High	Income Overall income records have improved. However, enhancements regarding letting records are in progress.	In Progress
7	High	Expenditure Appropriate records are now maintained for expenditure.	Closed: Verified
8	Medium	Single Central Record – SCR Appropriate processing notes and records for starters and leavers are now in place.	Closed: Verified



Oakfield Primary School

Original Exceptions Raised				Original Assurance Level	Follow-up Level
Critical	High	Medium	Low	Reasonable Assurance	Reasonable Assurance
0	0	4	1		

Good progress has been made, with the majority of issues originally identified satisfactorily addressed.

1	Low	Establishment of an accountable governing body The scheme of delegation has been updated and is on the school website.	Closed: Verified
2	Medium	Inventory The Inventory has been enhanced, to include purchase prices, values and disposal information. Monthly checks are carried out, to ensure this remains accurate.	Closed: Verified
3	Medium	Income Processes regarding cash payments have been improved. Minor discrepancies were identified in sample testing. A new action has been agreed, to address this through an enhanced reconciliation process.	In Progress
4	Medium	Lettings Clear and consistent processes are now in place, with well maintained records.	Closed: Verified
5	Medium	Expenditure A new process has been implemented, with purchase requests required from staff. Further enhancements have been agreed, to ensure these can be reconciled to invoices, where these relate to multiple suppliers.	In Progress

Risk Management

Original Exceptions Raised				First Follow-up Level	Second Follow-up Level
Critical	High	Medium	Low	Assurance	Reasonable Assurance
0	1	2	0		

As noted below there has been a deterioration in the timeliness/corporate visibility of risk reporting for two directorates within the Council.

1	Medium	Consistency of Risk Management Issues were identified regarding the timeliness/corporate visibility of risk reporting regarding Children’s Services and Public Health; this represents a deterioration since the initial follow-up for this area.	In Progress
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Early Years

Original Exceptions Raised				First Follow-up Level	Second Follow-up Level
Critical	High	Medium	Low	Reasonable Assurance	Reasonable Assurance
0	0	1	0		

Enhancements have been made to payment processes, with further work planned.

1	Medium	<p>Payments to providers Process guidelines (currently in draft) have been developed and additional checks are now made of payments to providers. Work to automate the payment process through an IT system is planned.</p>	In Progress
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Regulatory Compliance (Environmental Health/Food Safety Standards)

Original Exceptions Raised				Original Assurance Level	Follow-up Level
Critical	High	Medium	Low	Limited Assurance	Reasonable Assurance
0	2	0	0		

Enhancements have been made to payment processes, with further work planned.

1	High	<p>Governance Structure Papers have been drafted, for approval by the Portfolio Holder and Council Leader, pending approval at the time of fieldwork; this exercise will be scheduled annually, to comply with the Food Law Code of Practice.</p>	In Progress
2	High	<p>FSA Requirements Progress is being made, addressing the backlog of premises overdue food safety inspections (reduction from 1118 to 933 since the original audit). Senior management and the Food Standards Agency have been kept up to date regarding the position.</p>	In Progress



Council Tax and NNDR

Original Exceptions Raised				Original Assurance Level	Follow-up Level
Critical	High	Medium	Low	Reasonable Assurance	Reasonable Assurance
0	2	2	0		

Progress is ongoing, towards addressing issues identified.

1	High	<p>Discounts and Exemptions</p> <p>Process notes and template letters have been enhanced, a clear recovery plan is in place and satisfactory progress is being made to address backlog.</p>	Closed, verified
2	High	<p>Write Offs</p> <p>A Service Plan provided to Internal Audit identifies that enhancements are planned regarding the approach taken to write-offs.</p>	In Progress
3	Medium	<p>Long Term Debt Recovery</p> <p>The Service Plan identified directly above also covers enhancing debt recovery, with work in progress. The number of accounts with long term debt has reduced by 10% for Council Tax and 14% for NNDR, although the total value of long term debts has increased.</p>	In Progress
4	Medium	<p>Monitoring of Discounts, Exemptions and Disregards</p> <p>The Service Plan provided to Internal Audit identifies that work to enhance this area is pending. A number of improvements are planned, for example annual reviews to support identifying and investigating trends.</p>	In Progress

Accounts Receivable (AR)

Original Exceptions Raised				Original Assurance Level	Follow-up Level
Critical	High	Medium	Low	Reasonable Assurance	Reasonable Assurance
0	1	2	0		

Progress is ongoing, towards addressing issues identified.

1	High	<p>Wightcare Debt Recovery</p> <p>The overall level of debt has reduced from £93,226 at the time of the original audit to £79,083 at the point of follow-up. Work is ongoing to embed a more robust approach to managing debts.</p>	In Progress
2	Medium	<p>Authority Debt Recovery</p> <p>The issue with accounts being locked (preventing the issuing of debt recovery letters) has been resolved. Service Level Agreements (SLAs) with services, setting out joint working arrangements between the central team and service areas, are in the process of being developed.</p>	In Progress
3	Medium	<p>Aged Debt Monitoring</p> <p>A more robust approach was evidenced at follow-up, including better liaison between service areas and the central team.</p>	Closed, Verified



Software Development

Original Exceptions Raised				Original Assurance Level	Follow-up Level
Critical	High	Medium	Low	Reasonable Assurance	Reasonable Assurance
0	0	4	0		

Good initial progress was made addressing the actions agreed. Further progress has been impacted by the Software Development Manager post falling vacant, subsequent to the original audit and the Council being unsuccessful filling this post. A second follow-up is included in the 2024/25 Audit Plan.

1	Medium	Business Justification/Benefits Realisation A draft, overarching set of standards has been developed, with implementation supported by the template documented detailed below.	In Progress
2	Medium	Governance/Communications Templates have been developed, for example regarding action/decision logs and highlight reporting. Fully implementing these templates is pending.	In Progress
5	Medium	Development, Risk Management and Testing A range of templates have been developed, covering for example risk management and testing. Fully implementing these templates is pending.	In Progress
4	Medium	System Portfolio Resilience An initial gap analysis of skills has been completed, however actions to fully address gaps, for example additional training are pending.	In Progress



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 2023/24 Audit Plan was produced or where changes have been made subsequently, for example to respond to service requirements, in year.

For context audits below are grouped by the directorate structure, as at the time the Audit Plan was approved by Committee. The revised structure, implemented mid-year, will be used for reporting from 2024/25.

Audit	Full	First Follow-up	Second Follow-up	Grant	Status	Assurance Level	Comments
Adult Services							
Better Care Fund (subset)	■				Suspended		Replaced with additional fraud work.
Homelessness	■				Fieldwork		
Adults Financial Management (Debt Recovery)	■				Draft		
Deferred Payments		■			Final	Reasonable	Reported in September.
Children's Services							
Direct Contact & Supervision	■				Draft		
Cowes Primary School	■				Final	Reasonable	Reported in December.
Holy Cross Catholic Primary School	■				Final	Reasonable	Reported in December.
Island Learning Centre (Pupil Referral Unit)	■				Fieldwork		
Out of Area Placements (Care)	■				Draft		
School Financial Management Standard (SFVS)	■				Final	Reasonable	Reported in September.
Children's Key Financial Controls	■				Draft		
Transition, Children to Adults		■			Fieldwork		
St Mary's School		■			Final	Reasonable	Included in this report.
Oakfield School		■			Final	Reasonable	Included in this report.
Brighstone School		■			Final	Reasonable	Reported in September.
Early Years			■		Final	Reasonable	Included in this report.



Audit	Full	First Follow-up	Second Follow-up	Grant	Status	Assurance Level	Comments
Family Hubs and Start for Life programme				■	Final	Assurance	Reported in December.
Troubled Families (Children's)				■	Fieldwork		
Corporate Services							
Accounts Payable (AP)	■				Final	Reasonable	Included in this report.
Bank and Cash	■				Draft		
Payroll	■				Final	Reasonable	Included in this report.
IT Disaster Recovery	■				Final	Reasonable	Included in this report.
Strategic Review of Fleet	■				Final	Reasonable	Reported in December.
Duplicate Payments (IDEA)	■				Final		Reported annually
Accounts Receivable (AR)		■			Final	Reasonable	Included in this report.
Council Tax and NNDR		■			Final	Reasonable	Included in this report.
Housing Benefits		■			Final	Assurance	Reported in September.
Fleet and Hire Cars		■			Final	Reasonable	Reported in December.
IT Assets (including mobile phones)		■			Final	Reasonable	Reported in September.
Blue Badges		■			Final	Assurance	Reported in September.
Software Development		■			Final	Reasonable	Included in this report.
Finance							
Capital Accounting	■				Fieldwork		
Treasury Management	■				Fieldwork		
Tax Evasion	■				Draft		
Key Controls	■				Fieldwork		
UNESCO and Interreg 1				■	Final	Assurance	Reported in September.
UNESCO and Interreg 2				■	Added Final	Assurance	Reported in September.
Neighbourhoods							
Car Parking	■				Draft		



Audit	Full	First Follow-up	Second Follow-up	Grant	Status	Assurance Level	Comments
Highways PFI/Ministry of Justice Land	■				Suspended		Project not at a point where audit would be of value; rescheduled to 2024/25.
Disabled Facilities, Process Review	■				Final	Reasonable	Included in this report.
Regulatory Compliance (Environmental Health/Food Safety Standards)		■			Final	Reasonable	Included in this report.
Bereavement		■			Final	Reasonable	Reported in September.
Disabled Facilities				■	Final	Assurance	Reported in December.
Local Transport Capital Funding				■	Final	Assurance	Reported in September.
Bus Subsidy				■	Fieldwork		
Public Health							
Public Health Outcomes		■			Final	Assurance	Reported in September.
Regeneration							
Venture Quay	■				Final	Reasonable	Included in this report.
Asset Disposals		■			Draft		
Planning and Enforcement		■			Draft		
Strategy & Corporate							
Contract (TBC from across the organisation)	■				Suspended		Replaced with additional audits on compliance, fraud and governance.
Budget Savings	■				Fieldwork		
Risk Management (directorate arrangements)			■		Final	Reasonable	Included in this report.
Gouldings Project		■			Final	Assurance	Reported in December.
Compliance	■				Fieldwork		Additional review, assessing level of compliance for a



Audit	Full	First Follow-up	Second Follow-up	Grant	Status	Assurance Level	Comments
							range of corporate expectations.
Governance	■				Fieldwork		Additional review, assessing governance arrangements for a range of initiatives previously managed within Regeneration
Fraud	■				Fieldwork		Additional review, focussed on identifying gaps in fraud arrangements.