

# **HARROW COUNCIL**

## **Internal Audit Year-End Report**

**2021/22**

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# Introduction

This report outlines the internal audit work carried out for the year ended 31/03/22. The Public Sector Internal Audit Standards require the Head of Internal Audit 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 (Corporate Strategic Board) and approved by the Governance, Audit, Risk Management & Standards Committee (Harrow Council's Audit Committee), designed to 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.

2021/22 has been another unusual and challenging year for the Council and the Internal Audit service. During 2021/22 staff continued to work from home and audit work continued to be undertaken remotely with audit approaches being refined to ensure that they were fit for purpose. The Governance, Audit, Risk Management and Standards Committee meetings took place virtually when only information reports were being presented and in person when decisions were made (November 2021 meeting).

The Internal Audit Plan 2021/22 was based on a level of internal audit input of 587 days, of which 628 days were delivered. However due to a significant governance gap identified in August 2021 requiring the majority of the Internal Audit team to divert attention to reviewing the Highways system and supporting the police investigation the achievement of the 2021/22 annual plan was severely impacted. The team were also depleted due to a vacant post and a post subject to maternity leave that also impaired the team's ability to undertake follow-up work to assess the level of implementation of audit recommendations. The impact of these two factors has led to a qualified audit opinion as the Head of Internal Audit's opinion is based solely on the work undertaken by Internal Audit and during 2021/22 the amount of work undertaken across the Council to feed into the opinion was considerably less than a typical year.

Internal audit work was performed in conformance with the Public Sector Internal Audit Standards.

# Head of Internal Audit Opinion

The Head of Internal Audit's overall opinion on the adequacy and effectiveness of the organisation's framework of governance, risk management and control based on the annual review of governance and the assurance work of Internal Audit throughout 2021/22 is: **Good with some significant improvements required in a few areas**. This is a qualified opinion based on fewer reviews undertaken than in a typical year due to the considerable amount of work required on the significant governance gap during 2021/22. Review of the operation of Council's core financial systems, Housing Benefits, Treasury Management, Housing Rents, Business Rates, Capital Expenditure, Corporate Accounts Receivable, Corporate Accounts Payable, Payroll and Council Tax during 2021/22 demonstrated a sound level of control in place with 7 receiving a green assurance rating and 2 an amber/green assurance, a slight overall improvement from 2020/21. One red assurance report, relating to the significant governance gap and two red/amber assurance reports relating to schools were issued during the year. The red assurance review followed-up in 2021/22 attained an amber/green assurance rating indicating an improved level of control. All recommendations made to improve control were agreed by management.

## Framework for the Opinion

The opinion is based on:

- All audits undertaken as part of the 2021/22 Internal Audit Plan (except Core Financial Systems audits);
- Audits of Core Financial Systems undertaken in Q1/Q2 of 2022/23 (part of the 2022/23 plan);
- Recommendations made accepted/not accepted by management;
- Follow-up of the implementation of audit recommendations
- The annual review of governance process.

## Key Factors for the 2021/22 Opinion

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

- 79% of assurance reviews undertaken during 2021/22 were given an amber, an amber/green or a green assurance;
- 86% of controls reviewed within the Council's core financial systems were operating fully with 12% partially operating and 2% not operating;
- 94% of controls self-assessed by management within the Council's core financial systems were operating with 6% partially operating;
- 100% of overall recommendations made during 2021/22 were agreed by management for implementation;
- The red assurance review attained an amber/green assurance rating at follow-up;
- The annual review of governance has identified one significant governance gap.

# Summary of Outputs

The year-end internal audit report is timed to inform Harrow's Annual Governance Statement. A summary of key outputs/findings from the programme of internal audit work for the year is recorded in the table below:

Key Outputs	
Description	Detail
<p><b>Audit reports</b></p> <p>5 internal audit reviews were undertaken resulting in an audit report.</p>	<ul style="list-style-type: none"> <li>• 1 green, 1x amber/green, 2 red/amber and 1 red assurance reports were issued;</li> <li>• 55 high risk, 40 medium risk and 11 low risk recommendations were made to improve weaknesses identified in governance, risk management or control. (Although fewer audit reports were issued than usual more recommendations were made)</li> </ul>
<p><b>Significant weaknesses</b></p> <p>1 red assurance report and 2 re/amber assurance reports were issued during 2021/22 identifying significant weakness and/or potentially putting the achievement of objectives in this area at risk.</p>	<p>Red and red/amber assurance report:</p> <ul style="list-style-type: none"> <li>• Highways - red</li> <li>• Woodlands Primary School -red/amber</li> <li>• Cedars Manor Primary School – red/amber</li> </ul>
<p><b>Other audit work</b></p> <p>A number of other pieces of audit work have been undertaken as part of the 2021/22 Internal Audit Plan that did not result in a traditional audit report but none the less added value to the Council's governance, risk management and control framework.</p>	<ul style="list-style-type: none"> <li>• Risk Management, outputs = Corporate Risk register for Q1, Q2, Q3 and Q4 of 2021/22;</li> <li>• A review of Risk Management in Decision Making - a real-time pro-active review, with clearance provided before reports are presented to Cabinet, outputs =</li> <li>• Families First (Troubled Families Grant), outputs = validation of the Q1-Q4 grant claims;</li> <li>• Professional Advice, outputs = the provision of independent professional internal audit advice on a range of topics</li> <li>• Five grants were certified = assurance based on testing + sign-off of grant claims</li> <li>• SFVS, outputs = review of the school self-assessments against the school financial Value Standard and an assurance report for the Chief Finance Officer;</li> <li>• Authorisation Testing = Testing to cover all Core Financial Systems + Pensions to establish that appropriate authorisations were obtained during the pandemic in 2020/21, that methods of obtaining authorisation were adequate, that authorisations were appropriately applied to transactions and effective in minimising risk to the authority. Reported as part of the Core Financial System reviews.</li> </ul>
<p><b>Annual review of governance</b></p> <p>The annual review of governance is primarily undertaken to provide evidence to support the production of the Annual Governance Statement and consists of a review of governance arrangements against the CIPFA Good Governance Framework and the Council's own governance structure looking back at the previous financial year.</p>	<ul style="list-style-type: none"> <li>• Corporate Governance, annual review of governance 2020/21 outputs = A light- touch review of governance processes during 2020/21 with the Corporate Governance Working Group being asked to identify any significant changes to governance processes and/or governance gaps, follow-up of minor governance gaps identified from 2019/20, management assurance statement, Concilium Assets LLP evidence based self-assessment, Core Financial System self-assessments, deep dives areas covered by external public interest reports and the 2020/21 Annual Governance Statement.</li> </ul>
<p><b>Good practice</b></p> <p>We also identified a number of areas where few weaknesses were identified.</p>	<ul style="list-style-type: none"> <li>• Work on the Council's core financial systems undertaken during 2021/22 (based on controls in place during 2020/21) continue to be well controlled.</li> </ul>

## Internal Audit Work Conducted: Results of Individual Assignments (resulting in an audit report/assurance rating)

Review	Assurance Rating	Number of Recommendations		
		H	M	L
<b>Core Financial Systems (2020/21)</b>				
Housing Benefit	GREEN	0	0	0
Treasury Management	GREEN	0	1	0
Housing Rents	GREEN	0	1	0
Business Rates	AMBER	0	3	0
Capital Expenditure	AMBER GREEN	1	0	0
Corporate Accounts Receivable	GREEN	0	0	0
Corporate Accounts Payable	AMBER	0	2	0
Payroll	GREEN	0	0	0
Council Tax	GREEN	0	1	1
<b>Directorate Risk Based Reviews1</b>				
<b>Community</b>				
Highways System Review	RED	36	16	2
<b>People</b>				
Woodlands Primary School	RED AMBER	9	4	1
Whitchurch Primary & Nursery School Finance Review	GREEN	0	1	3
Whitchurch Primary & Nursery School Governance Review	AMBER GREEN	0	4	3
Cedars Manor Finance & Governance Review	RED AMBER	9	7	1
<b>TOTAL</b>		55	40	11

Final red and red/amber assurance reports are presented to the GARMS Committee individually for review and comment with relevant managers attending the meetings. The red assurance reports in the above table will be presented to the GARMS Committee once finalised.

## Results of Other Audit Work on the 2021/22 Plan

Work Undertaken	Results/Output
Corporate Governance	Each year the Council undertakes a review of its governance arrangements to meet the requirements of the CIPFA/SOLACE Framework <i>Delivering Good Governance in Local Government</i> and to fulfil its statutory duty as outlined in the Accounts and Audit Regulations 2015. The review annual review process undertaken as part of the 2021/22 plan covering the 2020/21 financial year identified one significant governance gap. The result of this work was fed into the production of the Annual Governance Statement for 2020/21.
Risk Management	<p>The Corporate Risk Register was updated quarterly throughout 2021/22 with each update being presented and agreed with CSB. Q1 – Q3 risk registers were also presented to the GARMS Committee for review however as the April Committee meeting was cancelled due to the local elections the Q4 risk register was not presented to the Committee.</p> <p>A review of Risk Management in Decision Making - a real-time pro-active review, with clearance provided before reports are presented to Cabinet - was completed during 2021/22. This involved ensuring the risk implications of proposed decisions were consistently and robustly included in Cabinet reports.</p>

Families First (Troubled Families Grant)	Four claims were submitted during the year in June 2021, September 2021, December 2021 and March 2021. For each Grant Submission, a 10% and one 20% sample of the cases were reviewed by Internal Audit to ensure that: <ul style="list-style-type: none"> <li>the cases are eligible for claim;</li> <li>the criteria and the outcomes are accurately identified and evidenced where applicable;</li> <li>the case has not been re-opened for further work;</li> <li>the closure report on the Mosaic system clearly identifies the outcomes achieved; and</li> <li>the spreadsheet has been checked for duplicates.</li> </ul>
Professional Advice	A range of professional advice has been provided to managers during 2020/210 including: Purchase Card Policy; Adults Financial Assessments; Schools – student bursary and wellbeing fund, payroll and authorisation queries; Leaseholder charges.
Grants	The testing was undertaken on the following grants during 2021/22 to provide assurance that grant conditions had been met in compliance with the grant requirements: <ul style="list-style-type: none"> <li>BSOG (Bus Service Operator Grant)</li> <li>Culture Recovery Fund Round 2</li> <li>Culture Recovery Fund Round 3</li> <li>Community Testing Funding</li> <li>Test &amp; Trace Grant</li> </ul>

## Follow Up Work Conducted

### Introduction

In order for the Council to derive maximum benefit from internal audit, agreed actions should be implemented. Whilst management is responsible for implementing recommendations, in accordance with the internal audit plan 2021/22, follow-ups of recommendations made and agreed by management in Amber, Red/Amber and Red assurance reports previously issued were due to be undertaken. As explained in the Introduction of the report due to a significant governance gap identified in August 2021 requiring the majority of the Internal Audit team to divert attention to reviewing the Highways system and supporting the police investigation and a vacancy and maternity leave in the team follow-up work to assess the level of implementation of audit recommendations was paused for Amber assurance reports. The table below summarises the follow up work performed during 2021/22 for the one Red assurance report.

Review	Original Assurance Rating	Re-Assessed Assurance Rating <sup>1</sup>		No. of agreed recs	Status of agreed actions				
		I	SI		PI	PL	NI		
Depot Redevelopment Project – Additional Works	<b>RED</b>	<b>AMBER</b>	<b>GREEN</b>	8	5	1	1	1	-

There were 5 Amber assurance reports that were due to be follow-up during 2021/22 as follows:

- Housing Landlords Responsibilities
- HMO Management and Enforcement
- Parking Operations
- Purchase Card Expenditure during Covid 19
- Woodlands Investigation







Work is currently underway to follow-up these outstanding reviews.

<sup>1</sup> The impact of recommendations implemented, substantially or partially implemented at follow-up on the expected controls are assessed to provide the re-assessed assurance rating and assumes that previous controls that were operating and still operating. It should be noted the correlation between control weaknesses and recommendations is not 1:1 i.e. one weakness identified may result in a number of recommendations being made and alternatively a number of weaknesses identified may result in only one recommendation being made.

# Direction of Assurance Travel

## Introduction

As only 50% of the of the Internal Audit Plan was achieved, fewer reports were issued and only one follow-up was undertaken the results of the direction of travel will be skewed making year on year comparison difficult however it is included here for information.

Assurance Ratings (including follow-ups)	Direction of Assurance Travel between 2021/22 & 2020/21 (based on %)	% of Assurances (including Follow-Ups)		
			2020/21	2019/20
<b>GREEN</b>	Up 	50% (8)	41%	40%
<b>AMBER</b> <b>GREEN</b>	Down 	19% (3)	41%	35%
<b>AMBER</b>	Up 	12% (2)	10%	21%
<b>RED</b> <b>AMBER</b>	Up 	12% (2)	0	0
<b>RED</b>	Up 	6% (1)	2%	2%
<b>% of Amber, Amber/Green or Green</b>	Down 	81% (13)	98%	96%

## Summary

One of the key factors used in the Head of internal Audit Opinion is the percentage of assurance reviews undertaken during the year that were given an amber, an amber/green or a green assurance. The 81% figure shown above also includes the assurance obtained from the re-evaluation of the red assurance review followed-up during the year hence the difference in the figure (79%) used for the audit opinion. The direction of travel for this factor between 2020/21 and 2021/22 is downward by 17% however given the far fewer assurances included in the comparison this is not considered significant.

# Performance of Internal Audit

## Introduction

A number of Key Performance Indicators (KPIs) were agreed as part of the 2021/22 Internal Audit Plan and performance against these is set out in the table below:

	<b>Internal Audit Performance Indicator</b>	<b>Target</b>	<b>Year-End</b>	<b>Comments</b>
1	Recommendations agreed for implementation	<b>95%</b>	<b>100%</b>	<b>Exceeded</b> All recommendation made were agreed
2	Follow up undertaken – Red & Red/Amber Assurance Reports	<b>100%</b>	<b>100%</b>	<b>Met</b>
3	Follow up undertaken – Amber	<b>70%</b>	<b>0%</b>	<b>Not Met</b>
4	Plan achieved for key control reviews	<b>100%</b>	<b>100%</b>	<b>Met</b>
5	Plan achieved overall (key indicator)	<b>90%</b>	<b>50%</b>	<b>Not Met</b>
<b>Corporate Performance Indicator</b>				
1	Implementation of recommendations	<b>90%</b>	N/A	<b>As no follow-ups were undertaken this was not measured</b>

## Summary

Of the 5 internal audit performance indicators 1 was exceeded and 2 were met and 2 were not met. It was not possible to measure the corporate indicator for 2021/22.



**Excellent:** The outputs from the programme of work completed by Internal Audit, based on the agreed risk-based Internal Audit Plan, demonstrate that the Council's framework of governance, risk management and control is good and that there are adequate and effective governance, risk management and control processes to enable the related risks to be managed and objectives to be met. No areas of significant weakness (red or red/amber assurance reports) were identified. See Summary of Findings in section.

**Good with improvements required in a few areas:** The outputs from the programme of work completed by Internal Audit, based on the agreed risk-based Internal Audit Plan, demonstrate that the Council's framework of governance, risk management and control is generally good. Some red and red /amber assurance reports have been issued identifying significant weakness and/or non-compliance in the framework which could potentially put the achievement of objectives in these areas at risk. Improvements have been recommended in these areas of which over 95% have been agreed by management. See Summary of Findings in section.

**Major improvement required:** The outputs from the programme of work completed by Internal Audit, based on the agreed risk-based Internal Audit Plan, demonstrate that the Council's framework of governance, risk management and control require major improvement. A large number of red and red/amber assurance reports have been issued identifying significant and endemic weaknesses and/or non-compliance in the framework of governance, risk management and control which put the achievement of organisational objectives at risk. Improvements have been recommended in these areas of which less than 95% have been agreed by management. See Summary of Findings in section.

**Unsatisfactory:** The outputs from the programme of work completed by Internal Audit, based on the agreed risk-based Internal Audit Plan, demonstrate that the Council's framework of governance, risk management and control is unsatisfactory. The majority of assurance reports issued are red or red/amber identifying significant weaknesses and/or non-compliance in the framework of governance, risk management and control indicating the achievement of corporate objectives is unlikely and control is poor [and/or] there is significant non-compliance with controls. Because of this, systems have failed or there is a real and substantial risk that systems will fail and management's objectives will not be achieved. Immediate action is required to improve the adequacy [and/or] effectiveness of governance, risk management and control. See Summary of Findings in section.

## Limitations and Responsibilities

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 responsibility for the design and operation of these systems.

The Head of Internal Audit's opinion is based solely on the work undertaken as part of the agreed internal audit plan. There may be weaknesses in systems of internal control that did not form part of agreed programme of work, in elements of systems that were not included in the scope of individual internal audit assignments or that were not brought to internal audit's attention. The risk of this is mitigated by implementing a risk-based approach to the development of the internal audit plan and to individual audit assignments.

Internal audit reports are given a **red**, **red/amber**, **amber**, **amber/green** or **green** assurance rating.

**Red** reports will indicate systems/functions/establishments with a low overall percentage of controls in place that represent a high risk to the authority needing immediate attention to improve the control environment;

**Red/amber** reports will indicate systems/functions/establishments that represent a high to medium risk to the authority needing immediate attention to improve the control environment;

**Amber** reports will indicate a fair level of controls operating that represent a medium risk in need of attention to prevent them becoming high risk;

**Amber/green** reports will indicate medium to low risk in need of attention to prevent them becoming high risk and

**Green** reports will indicate a high level of controls operating, including all critical controls, that represent low risk areas

A formula for converting audit findings into a **red**, **red/amber**, **amber**, **amber/green** or **green** rating has been developed as follows:

**Red** reports will essentially be those where there is **one or more** of the following:

- A low overall percentage of controls in place (0-50%)
- An absence of critical controls (reflected as high risk recommendations)
- A significant deterioration in control systems
- Poor progress with implementation of previous recommendations

**Red/Amber** reports will be those that have 51-60% of controls operating and no more than 40% of controls absent are critical (40% of recommendations made).

**Amber** reports will be those that have 61-70% of controls operating and no more than 25% of controls absent are critical (25% of recommendations made).

**Amber/Green** reports will be those that have 71-80% of controls operating and no more than 10% of controls absent are critical (10% of recommendations made).

**Green** reports will be those having 81-100% of controls operating including all critical controls and no absence of critical controls (no high risk recommendations).

Controls operating and substantially operating will be combined to give the overall assurance rating.