

**INTERNAL AUDIT 2012/13 MID-YEAR REPORT****Progress against the 2012/13 plan**

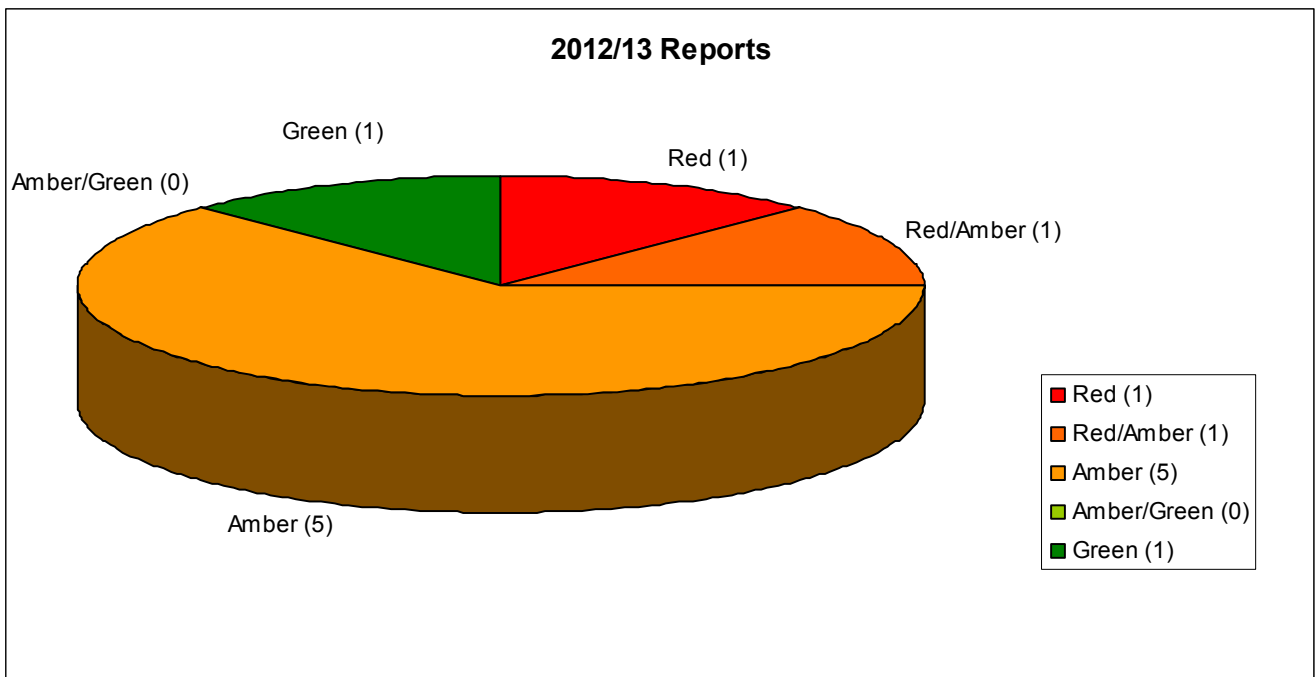
1. Overall, the Internal Audit team have started work on 27 projects (49%) of the annual audit plan for 2012/13 as at the mid-year point of 30/09/12. 100% of the planned key control reviews relied upon by the council's External Auditors have been completed along with the work on the 2011/12 Management Assurance and the annual review of governance and the Annual Governance Statement. Of the 27 projects started, 9 (33%) have been completed/finalised, 2 (7%) have been completed to draft report stage, 15 (56%) are contributions to projects/groups or advice that will run throughout the year e.g. working groups and a further 1 (4%) project is in progress.
2. In addition to this 157 days have been spent on projects carried forward from 2011/12 (representing 32% of the teams total productive time for the first half of the year), 36 days have been spent on investigating suspected financial irregularities (61% of the annual allocation), 46 days have been spent on providing professional advice on internal control and risk mitigation (76% of the annual allocation) and 13 days have been spent on standard follow-ups of audit recommendations (33% of the annual allocation).
3. During the first half of 2012/13 a total of 165 recommendations have been followed up of which 127 have been implemented, 31 were partially implemented/in the process of being implemented, 2 was planned for implementation, 3, although originally agreed by management were not implemented and 2 were no longer applicable. This represents a 77% implementation (of recommendations still applicable) with a further 20% in progress or planned at the time of follow-up thus it is expected that in due course 97% will be implemented. There were 12 high risk recommendations still only partially implemented or in progress and 1 high risk recommendation that had not been implemented.

**Emerging Risks**

4. Emerging risks are areas of risk arising during the year that were not apparent at the time of the annual planning process but that are considered significant enough by management/internal audit to warrant audit input. Emerging risk areas identified so far this year include:
  - FB60 Payments – payments made through the SAP system without raising a purchase order. Internal Audit worked with the Procurement Team to reduce the number of payments being made in this way and incorporated a review of the controls in place into the core financial systems review of the corporate accounts payable system.
  - Adults Vehicle Hire - concern was raised regarding the cost effectiveness of particular use of ad hoc hire arrangements. A review of the actual costs incurred confirmed that they were in fact cost effective.
5. In total 19 days have been spent on emerging risk areas in the first half of the year equating to 4% of the team's total productive time.

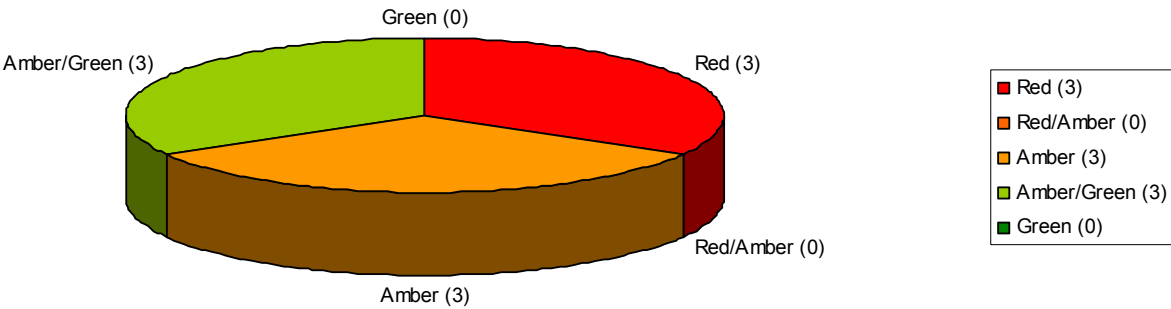
**Work undertaken 01/04/12 – 30/09/12**

- 6. In the first quarter of every financial year the work of the Internal Audit team concentrates on the authority’s core financial systems. The systems are reviewed on a 3 year risk based cycle. 4 of the 9 systems were reviewed in the first quarter of 2012/13. In addition, to satisfy the requirements of the External Auditors, managers were asked to review and update systems documentation, Internal Audit undertook walkthrough tests to confirm the actual system in operation for all core financial systems and control self-assessments were obtained for the 5 of the systems not reviewed. Out of a total of 92 controls reviewed, 56 (61%) were fully operating, 14 (15%) was substantially operating, 19 (21%) were partially operating and 3 (3%) were not operating. See detailed report Appendix 2.
- 7. Other work undertaken annually in the first quarter includes the completion of reviews from the previous years plan, the completion of the annual Management Assurance exercise and the annual governance review feeding into the authority’s Annual Governance Statement (AGS). Both of these were successfully completed with the results already reported to the GARM committee.
- 8. A total of 8 final and draft reports were issued in the first half of the year and the following graph provides an overview of the assurance ratings of these reviews:

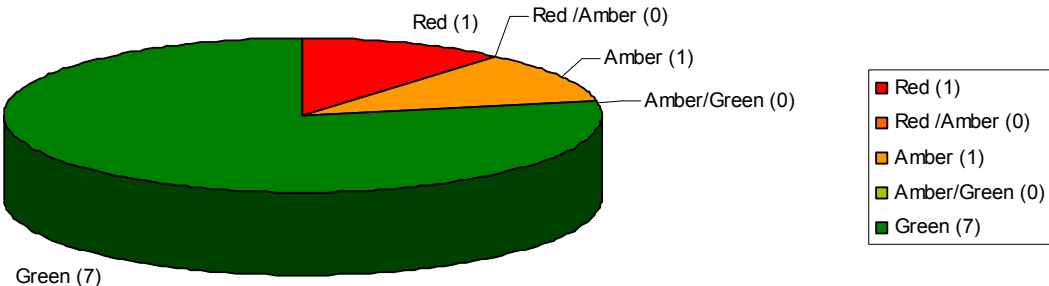


- 9. Appendix 3 details all the final reports, draft reports and follow ups issued in Q1 &2 for 2012/13.
- 10. 9 follow-ups were completed in the first half of the year and the graphs below illustrate the original and re-assessed assurance ratings:

2012/13 Follow Ups Original Traffic Light Rating



2012/13 Follow Ups Re-Assessed Traffic Light Rating



11. Internal Audit have been involved in the following ongoing projects/groups:

- Corporate Governance Group – chaired by the Monitoring Officer and responsible for the annual review of governance feeding into the Annual Governance Statement. There were 3 meetings of the Corporate Governance Group in the first half of the year. Considerable work has been undertaken outside of the meetings by Internal Audit to collect and assess evidence to support the annual review of governance and to prepare a draft Annual Governance Statement for the Corporate Governance Group consideration. 34 days have been spent on this work 85% of the annual allocation (the majority of the work is undertaken in the first half of the year).
- Corporate Strategic Risk Group – set up to assist the Council in embedding and enhancing the risk management process to ensure that risks are actively managed so that the council can achieve its objectives, take advantage of opportunities and serve Harrow's community better. Service Manager, Internal Audit attends quarterly meetings.
- Information Governance Board – Internal audit attends and contributes to the Information Governance Board. There have been 2 meetings of this group.
- IT Working Group – Internal Audit attends monthly meetings to provide control and risk advice on new and on-going IT projects.
- Shop4Support – Internal audit attend 2 working group meetings every month to provide ongoing control and risk advice for this project.

### **Productivity**

12. The days available to implement the internal audit annual plan are based on an estimation of the team's productive time. To enable this estimation to be made, and to feed into performance indicator 3 (see section below), each auditor is required to record a breakdown of their time spent each day. Each element of productive time (i.e. every project/element of the annual plan plus any additions e.g. emerging risks) and each element of non-productive time (e.g. annual leave, training, audit management) is allocated a unique code and time is recorded against each code.
13. The 2012/13 annual plan was estimated to require 874 productive days from the internal audit team to complete plus 40 days for WLWA, i.e. 914 days in total. This is based on an expectation of between 186 – 196 productive days per auditor and 150 productive days for the Service Manager.
14. The mid-year position shows that overall the team have achieved 486 productive days which exceeds the target of 457 by 29 days.

### **Performance Indicators**

15. Table 1 below outlines the three corporate audit indicators and table 2 the seven Internal Audit indicators agreed for the year, including the key indicator covering achievement of the IA annual plan and the results achieved. These indicators cover performance on projects

from the 2011/12 plan and the 2012/13 plan issued in the first half of the year (i.e. up to 30/09/12).

**Table 1 – Corporate Audit Indicators Results**

	<b>Indicator</b>	<b>Target</b>	<b>Mid Year Results</b>
1	Implementation of recommendations	90%	77% (expected to be 97%)
2	Auditee response times to draft reports within 3 weeks	80%	0%
3	Auditee response times to follow ups within 2 weeks	80%	10%

### **Analysis of Results**

16. As detailed in paragraph 3 of those recommendations where follow-up has been completed a total of 127 have been implemented, 31 were partially implemented/in the process of being implemented, 2 were planned for implementation, and 3, although originally agreed by management were not implemented. This represents a 77% implementation (of recommendations still applicable) with a further 20% in progress or planned at the time of follow-up thus it is expected that in due course 97% will be implemented.
17. Auditee response times were introduced as corporate audit indicators during 2011/12 and reported for the first time in the 2011/12 year-end report although the timescales for auditee responses have been in use for many years. The results reported in the 2011/12 year-end report, whilst not meeting the target of 80% (47% and 72% respectively), were significantly better than the results reported above for the 2012/13 mid-year position. This is in part due to the smaller number of draft reports and follow-ups the percentages are based on. Although the delayed responses does create extra work for the Internal Audit team in chasing colleagues on a positive note we have received a response to all draft reports and follow-ups issued in the first half of the year.
18. For the second half the year consideration will be given to how to raise the profile of this indicator e.g. through the Improvement Board process; whether the requested response times need to be more realistic (the average auditee response time to draft reports is 8 weeks and to follow-ups is 7 weeks) and whether the target should be lowered to a more achievable level in the short-term.

**Table 2 – Internal Audit Performance Indicator Results**

	<b>Indicator</b>	<b>Target</b>	<b>Mid Year Results</b>
1.	Recommendations agreed for implementation	95%	99%
2.	Final reports issued on/ahead of time	85%	100%
3.	Projects completed within budgeted time allowance	85%	100%
4.	Target met for issue of draft report after end of fieldwork	85%	100%
5.	Follow-up undertaken	100%	100%
6.	Plan achieved for Key Control reviews	100%	100%
7.	Plan achieved overall (Key indicator)	45%	49%

## **Analysis of Results**

19. 5 (71%) performance targets have been exceeded and 2 (29%) have been fully met i.e overall 100% of the performance targets have been met or exceeded.
20. Performance Indicator 7 reflects the work undertaken against the plan in the first half of the year including some individual projects that have been started but not completed and work on particular areas e.g. suspected financial irregularities and follow-up, where more than half of the annual allocation has been used i.e. more work than expected has been undertaken. However this indicator does not fully reflect all the work undertaken by the Internal Audit Team which also includes work on projects carried forward from 2011/12 and work on emerging risks.

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October 2012