

**2016/17 INTERNAL AUDIT MID-YEAR REPORT +
QUARTER 3 & PLAN UPDATE**

APPENDIX 1

KEY

RED assurance = 0-50% controls operating/substantially operating

RED/AMBER assurance = 51-60% controls operating/substantially operating

AMBER assurance = 61-70% controls operating/substantially operating

AMBER/GREEN assurance = 71-80% controls operating/substantially operating

GREEN assurance = 81-100% controls operating/substantially operating

Report ratings may be downgraded (D) depending on the number of high risk recommendations made (with the agreement of the Head of Internal Audit)

Mid-year Results

- Table 1 below details the follow ups completed in 2016/17 with the original assurance rating and the re-assessed assurance rating. All assurance ratings at follow-up have been re-assessed as amber/green or green showing improvement in the control environment as a result of internal audit work.

Table 1 – Follow Ups completed in Q1&2 of 2016/17

Review	Audit Coverage	Original Assurance Rating		Re-assessed Assurance Rating
Corporate Accounts Payable Key Control	Key Control Review, systems notes	AMBER 94% O	GREEN (D)	GREEN 100% O
Norbury School Governance & Financial Controls	To review the adequacy, application and effectiveness of the systems in place to control schools' delegated and standards fund income and expenditure and to assess the level of compliance with Financial Regulations and Contract Procedure Rules.	AMBER 62% O	GREEN 29% SO, (D)	GREEN 93% O 7% SO

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Review	Audit Coverage	Original Assurance Rating		Re-assessed Assurance Rating	
Business Continuity & Disaster Recovery	A review of controls over the arrangements that are in place for the prevention of system downtime through adequate resilience.	RED 20% O	AMBER 48% SO (D)	GREEN 56% O	GREEN 42% SO
Data Centre	Review of the environment and physical security controls over the IT data centre which support Harrow Council's core IT infrastructure and systems.	RED 7% O		GREEN 87% O	
Harrow School Improvement Service (HSIP)	To confirm HSIP's status and to ensure that there is transparency in the financial balances and the income and expenditure accounts including compliance with Council policy and procedures.	RED 14% O 14% SO		AMBER 51% O	GREEN 37%SO (D)
Leaseholder Service Charges	To review the adequacy, application and efficiency of the processes in place to ensure that leaseholder service charges are accurate and correctly accounted for.	AMBER 61% O		GREEN	

2. Table 2 below details all the reports issued in Q1/Q2 of 2016/17 from the 2015/16 audit plan with the report assurance rating.

Table 2 – 2015/16 Plan Reports Issued in Q1&2 of 2016/17

Review	Audit Coverage	Assurance Rating	Follow-up Due
Blocked Invoices	A review of blocked invoices to establish why they occur and the controls in place to prevent them.	RED 33% O 17%SO	Dec 2016 Outstanding

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Review	Audit Coverage	Assurance Rating	Follow-up Due
Mandate Fraud	Controls in place to prevent mandate fraud	RED 33% O 17%SO	Dec 2016 Outstanding
Tenancy Changes	A review to ensure appropriate checks are undertaken when there is change in tenancy to mitigate the risk of fraud.	AMBER 58%O 21%SO (D)	Dec 2016 Outstanding

3. Table 3 below details the completed assurance report reviews issued in Q1/Q2 of 2016/17 from the 2016/17 Plan and the assurance rating.

Table 3 – 2016/17 Plan Completed Assurance Report Reviews in Q1/Q2 of 2016/17

Review	Audit Coverage	ASSURANCE RATING	Follow-up Due
Payroll	Key Control Review, walkthrough + system notes	GREEN 80% O 12%SO	None required. 4 recommendations made, none high risk, all agreed for implementation.
Treasury Management	Key Control Review, walkthrough + system notes	GREEN 79% O 21%SO	None required. 4 low risk recommendations made, all agreed for implementation.
Council Tax	Key Control Review, walkthrough + system notes	GREEN 87% O 13% SO	None required. 2 medium risk & 2 low risk recommendations made. 2 recs agreed for implementation, 2 not agreed – management have considered and accepted the level of associated risk (1 low, 1 medium). The medium risk relates to lack of clear delegations relating to write-offs.

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4. Table 4 below details the completed assurance non report reviews undertaken in Q1/Q2 of 2016/17 from the 2016/17 Plan.

Table 4 – 2016/17 Plan Completed Assurance Non Report Reviews/work in Q1/Q2 of 2016/17

Review	Audit Coverage	Comments	
Housing Rents	System notes, walkthrough. CRSA	GREEN assurance	
Corporate Accounts Payable (CAP)	System notes, walkthrough. CRSA	GREEN assurance	
Corporate Accounts Receivable (CAR)	System notes, walkthrough. CRSA	GREEN assurance	
Capital Expenditure	System notes, walkthrough. CRSA	AMBER	GREEN
NDR	System notes, walkthrough. CRSA	GREEN assurance	
Housing Benefits	System notes, walkthrough. CRSA	GREEN assurance	
Corporate Governance	Annual governance review, drafting AGS, AGS Action Plan	Complete to end of Q2	
Information Governance Board (IGB)	To ensure that the Council has effective policies & management arrangements covering Information governance	Complete to end of Q2	
Risk Management	Q4 (2015/16) & Q1(2016/17) update of Corporate Risk Register	Complete to end of Q2	
Families First Grant	Testing and Grant certification	Complete to end of Q2	
Suspected Financial Irregularities + Control Reviews	Various – none significant	Complete to end of Q2	
Professional Advice	Advice on risk mitigation & control	Complete to end of Q2	
Liaison with External Audit	On-going liaison throughout the year	Complete to end of Q2	
Audit Management	e.g. planning, GARM reporting	Complete to end of Q2	

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Internal Audit Performance Indicators

5. The performance indicators for 2016/17 have been reviewed and streamlined. Table 5 below outlines the four Internal Audit indicators agreed for the year, including the key indicator covering achievement of the IA annual plan. These indicators cover performance on projects from the 2015/16 plan and the 2016/17 plan issued in the first half of the year (i.e. up to 30/09/16).

Table 5 – Internal Audit Performance Indicator Results

	Performance Indicator	Target	Mid Year Result
1	Recommendations agreed for implementation	95%	91%
2	Follow up undertaken	100%	100%
3	Plan achieved for key control reviews	100%	100%
4	Plan achieved overall (key indicator)	45%	47%

Analysis of Results

6. Overall 3 (75%) of the performance targets have been met or exceeded. One (25%) of the performance targets has been exceeded, 2 (50%) have been fully met.
7. One (25%) of the targets was not met. Target 1, recommendations agreed for implementation - 2 recommendations out of a total of 22 were not agreed, 1 of these was a medium risk and 1 a low risk.

Corporate Performance Indicators Results

8. As with the Internal Audit performance indicators the corporate performance indicators for 2017/18 have been reviewed and streamlined. One key corporate indicator will be reported on for 2016/17 as shown below in Table 6:

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Table 6 – Corporate Performance Indicator Results

	Performance Indicator	Target	Mid Year Result
1	Implementation of recommendations	90%	69% (expected to be 96%)

9. The result for performance indicator 1 shows that whilst 69% of recommendations had been implemented at the time of follow-up a further 27% are planned for implementation giving an expected implementation rate of 96% exceeding the 90% target.

Quarter 3 Update

10. Table 7 below details the reviews completed in Q3 2016/17.

Table 7 –2015/16 & 2016/17 Plan Completed Assurance Report Reviews in Q3 of 2016/17

Review	Audit Coverage	ASSURANCE RATING	Follow-up Due
Governing Body Key Decisions	A sample of schools were visited during July 2016 to undertake a review of Governing Body Key Decisions – individual reports were issued to schools (shown below) in addition to this summary.	Across the sample of schools which were visited it was identified that the majority of key decisions had been made appropriately and recorded clearly in minutes	N/A

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Kenmore Park Junior School – Governing Body Decisions	To review the effectiveness of the Governing Body decision making process to ensure that key decisions are made, recorded clearly and that adequate information has been provided to make the decision.	GREEN 85% Key decisions made appropriately and recorded clearly in minutes		N/A
Kingsley High School – Governing Body Decisions	To review the effectiveness of the Governing Body decision making process to ensure that key decisions are made, recorded clearly and that adequate information has been provided to make the decision.	AMBER 50% Key decisions made appropriately and recorded clearly in minutes plus a further 20% made appropriately		May 2017
St Josephs Primary School – Governing Body Decisions	To review the effectiveness of the Governing Body decision making process to ensure that key decisions are made, recorded clearly and that adequate information has been provided to make the decision.	AMBER 50% Key decisions made appropriately and recorded clearly in minutes plus a further 20% made appropriately		May 2017
St Teresa’s School – Governing Body Decisions	To review the effectiveness of the Governing Body decision making process to ensure that key decisions are made, recorded clearly and that adequate information has been provided to make the decision.	GREEN 90% Key decisions made appropriately and recorded clearly in minutes		N/A
Procurement Fraud	To review the adequacy, application and effectiveness of the internal controls in place to prevent fraud within the procurement process.	AMBER 79% O	GREEN 8% SO	June 2017
Grimsdyke School – HR Policy & Procedures	To ensure that schools have appropriate policies and procedures in place and implement them.	16 Recommendations made and all agreed for implementation		June 2017

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Roxbourne School – HR Policy & Procedures	To ensure that schools have appropriate policies and procedures in place and implement them.	16 Recommendations made and all agreed for implementation	June 2017
Grange Primary School – HR Policy & Procedures	To ensure that schools have appropriate policies and procedures in place and implement them.	13 Recommendations made and all agreed for implementation	April 2017
Shaftesbury School – HR Policy & Procedures	To ensure that schools have appropriate policies and procedures in place and implement them.	20 Recommendations made and all agreed for implementation	April 2017
Glebe SIMS Personnel	To ensure that robust controls are in place in schools for the accuracy of the processing of Payroll through the SIMS Personnel system and to prevent or detect fraud.	14 Recommendations made and all agreed for implementation	March 2017
Pinner Park Infants SIMS Personnel	To ensure that robust controls are in place in schools for the accuracy of the processing of Payroll through the SIMS Personnel system and to prevent or detect fraud.	17 Recommendations made and all agreed for implementation	March 2017

11. Table 8 below details the reviews in progress during Q3 2016/17

Table 8 –2016/17 Plan Reviews in Progress in Q3 of 2016/17

Review	Audit Coverage	Progress
Hel2Let	Risk based systems review to assess fraud resilience	Almost complete
Bed & Breakfast/Temporary Accommodation	Risk based systems review to assess fraud resilience	Planning complete
Risk Management	Update of Q2 Corporate Risk Register	Complete (report to Dec GARMS meeting)

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Debt Management	To ensure that a joined up corporate approach is taken to debt management	Planning in progress
Budget Management	Targeted review of budget management based on outturn	Complete - Amber Assurance 35% O, 39% SO (D)
Consultants/Agency workers	Review to cover appointment, vfm, expenses, use of own company	Work in Directorate complete, overview report to be drafted
Commercialisation - MyCep (PayPal/reconciliation)	To ensure adequacy, application and effectiveness of controls in place	Almost complete
Nursery Education Grant	To ensure compliance with conditions of the Grant and funding entitlement and to ensure accurate, complete and satisfactory payments of Early Education Funding to 2, 3, and 4 years olds in line with the Department of Education (DFE) Early Education and Childcare, statutory Guidance for Local Authorities (September 2014).	Complete – Green Assurance 86% O, 14% SO
Suspected Financial Irregularities	<ul style="list-style-type: none"> • Headteacher - manipulation of data • Housing Benefit - internal fraud • Banking of Income 	In progress

12. Table 9 below shows work on the 2016/17 Plan not yet started that will be carried out in Q4 2016/17

Table 9 –2016/17 Plan Reviews to be undertaken in Q4 of 2016/17

Review	Audit Coverage
Corporate Governance	Annual review of governance to be started
Risk Management	Q3 Corporate Risk Register update
Follow-ups	Standard follow-ups of Red, Red/Amber & Amber reports – to be undertaken by Auditor returning from maternity leave.
Cyber Security	A review of governance in place for cyber security (PwC)

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IT Strategies (Corporate & Directorate)	A review of the application of the Council's IT Strategies, how up to date and relevant they are, how they work together and how progress is being delivered/monitored (PwC)
IT Contract Management	As per Terms of Reference presented to the January GARMS Committee meeting
Cabinet Decisions	A review of the quality/robustness of information supplied in Cabinet reports to support key recommendations and ensure sound decisions
Commercialisation – Lettings Agency	To be determined in consultation with management, a mix of pro-active auditing and review
Schools	Thematic Reviews covering – Procurement
Families First (Troubled Families Grant)	Testing and Grant certification required
Public Health – Health Checks Follow Up	Follow-up to ensure that payment for health checks are verified
Multi-Agency Safeguarding Hub (MASH)	Follow-up of external review undertaken in 2015/16
Audit Plan 2017/18	Consultation on and risk assessment of reviews to be included in the 2017/18 annual audit plan.

13. Table 10 below shows emerging risks to be reviewed as part of the 2016/17 plan

Table 10 – Emerging Risks to be reviewed as part of the 2016/17 Plan

Review	Reason Added/Extended
SFI – Headteacher Manipulation of Data	Investigation instigated following information provided by an interim Headteacher, GARMS Committee briefed verbally at last meeting.
SFI – Housing Benefit Internal Fraud	Following the identification of an internal fraud (currently being investigated by CAFT) planning began to review controls within the HB system to be undertaken in Q4
Shared Service Governance	Following an enquiry from a HIA in another borough regarding a shared service for which Harrow is the lead it was established that the SS agreement is weak around governance, further enquires established that this is potential a weakness across a number of our shared service agreements.-

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SFI – Banking of Income	Following the discover that Harrow Income had inadvertently been paid into a non-Harrow bank account an audit of the reconciliation undertaken by the Financial Business Partner is to be undertaken.
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14. This equates to 62 extra audit days in Q3 with a further estimated 41 days in Q4 totaling an extra 103 days in the 2016/17 plan.
15. Table 11 below shows reviews in the 2016/17 Plan that will no longer be undertaken

Table 11 – Reviews in 2016/17 Plan no longer to be undertaken

Review	Audit Coverage	Reason Omitted
Contract Management	Per-temps Contract or sample of medium contracts (to be determined by risk assessment)	Lower risk – agreed with management
Homelessness Data on Northgate	Information Security, data quality, information sharing	Updated version of Northgate is currently being implemented. Go Live February 2017 – to be re-considered for 2017/18 plan
Facilities Management Contract	Contract Management Review	Lower risk
Major Works - Leaseholders	Review of charges to leaseholders for major works	Project underway to incorporate Leasehold Management (including annual charges & major works) on Northgate for implementation in July 2017 - to be re-considered for 2017/18 plan
Regeneration Programme	Procurement Process/ Financial Management/ Land Deals to be determined via a risk process in consultation with management	Omitted on basis of resource will be c/f to Q1 of 2017/18 plan
Adult Residential Care	A review of commissioning of adult residential care	Lower risk – agreed with management

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Homelessness - Preventative Work	Cost, effectiveness and vfm of preventative work	Possible new legislation from April 2017 (Homelessness Reduction Bill – Private Members Bill) which is expected to change approach to this work – agreed with management better to do after bill introduced
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16. This equates to 105 audit days taken out of the original 2016/17 plan. However as 103 audit days have been added in (Table 10 above) overall this equates to a reduction of 2 audit days.

Resources

17. The cumulative effect of one member of the team's maternity leave (not known at the time of the 2016/17 planning stage) and another member of the team's early return from maternity leave reduced the number of audit days available to complete the 2016/17 plan by 70 audit days. The budget for these posts (less maternity pay) has been used to purchase support for risk management however by using this resource flexibly 30 additional audit days have been made available and thus the overall impact is a reduction of 40 audit days against the original 2017/18 plan resources of 834 audit days. This is expected to impact on the timeliness of the completion of the 2016/17 plan.

Susan Dixson
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17/01/17