

**Internal Audit Year-End Report**

**2018/19**

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## Introduction

This report outlines the internal audit work carried out for the year ended 31/03/19. 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.

The Internal Audit Plan 2018/19 was based on a level of internal audit input of 855 days, of which 850 days were delivered.

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

## Head of Internal Audit Opinion

Sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and internal control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance on the system of internal control – see Appendix 2.

## 2018/19 Opinion

**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. Three red and two 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 98% have been agreed by management (1 low risk recommendation was not agreed and 1 high risk recommendation was only partially agreed at this time with the intention of implementing it fully in the future). See Summary of Findings section.

## Framework for the Opinion

The opinion is based on:

- All audits undertaken as part of the 2018/19 Internal Audit Plan (except Core Financial Systems audits);
- Audits of Core Financial Systems undertaken in Q1 of 2019/20 (part of the 2019/20 plan);
- Recommendations made accepted/not accepted by management;
- Recommendations implemented by management at follow-up;
- Re-assessed assurance ratings at follow-up in respect of audits from previous periods.
- The annual review of governance process.

## Key Factors for the 2018/19 Opinion

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

- 88% of assurance reviews undertaken during 2018/19 were given an amber, an amber/green or a green assurance;
- 90% of controls reviewed within the Council's core financial systems were operating fully/substantially with 10% operating partially;
- 93% of controls self-assessed by management within the Council's core financial systems were operating;
- 98% of overall recommendations made during 2018/19 were agreed by management for implementation;
- 74% of recommendations were implemented/substantially implemented, 19% were in progress and 7% were planned at time of follow-up thus it is expected that in due course 100% will be implemented;
- All follow-ups resulted in an improved assurance rating with 100% attaining an amber, amber/green or green assurance rating;
- The annual review of governance identified one significant governance gap.

## Summary of Findings

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/Findings	
Description	Detail
<p><b>Audit reports</b></p> <p>34 internal audit reviews were undertaken resulting in an audit report.</p>	<ul style="list-style-type: none"> <li>• 10 green, 6 amber/green, 13 amber, 2 red/amber and 3 red assurance reports were issued;</li> <li>• 117 high risk, 150 medium risk and 36 low risk recommendations were made to improve weaknesses identified in governance, risk management or control.</li> </ul>
<p><b>Significant weaknesses</b></p> <p>3 Red and 2 Red/Amber assurance reports were issued during 2018/19 identifying significant weakness and/or non-compliance of control which could potentially put the achievement of objectives in these areas at risk.</p>	<p>Red assurance reports:</p> <ul style="list-style-type: none"> <li>• Museum &amp; Great Barn</li> <li>• Parking (Whistleblowing) – in draft</li> <li>• Kingsley (Budget Management) – in draft</li> </ul> <p>Red/amber assurance reports:</p> <ul style="list-style-type: none"> <li>• Regeneration</li> <li>• Fuel Cards – Fraud Prevention</li> </ul>
<p><b>Other audit work</b></p> <p>A number of other pieces of audit work were undertaken as part of the 2018/19 Internal Audit Plan that did not result in a traditional audit report but non the less added value to the Council's governance, risk management and control framework.</p>	<ul style="list-style-type: none"> <li>• Corporate Governance, outputs = the annual review of governance evidence table, management assurance statements, share service/partnership evidence based governance self-assessments and the 2018/19 Annual Governance Statement;</li> <li>• Risk Management, outputs = Corporate Risk register for Q1, Q3 and Q4 of 2018/19;</li> <li>• Information Governance Board, outputs = pro-active audit input and advice on information governance policy, procedures and issues;</li> <li>• Health &amp; Safety, outputs = a follow-up of the Health &amp; Safety Action Plan to feed into the annual review of governance;</li> <li>• Build a Better Harrow Governance, outputs = pro-active input into the development of the governance structure and the development of the corporate project management process;</li> </ul>

	<ul style="list-style-type: none"> <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>• Families First (Troubled Families Grant), outputs = validation of the three grant claims made in year;</li> <li>• Professional Advice, outputs = the provision of independent professional internal audit advice on a range of topics.</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. During the course of this work one significant governance gap was identified that should be reported in the Annual Governance Statement.</p>	<ul style="list-style-type: none"> <li>• The significant governance gap identified is in relation to Corporate Health &amp; Safety: Although action has been taken during 2017/18 and 2018/19 to reduce the governance gap identified in 2016/17 by improving the governance structure for Health &amp; Safety further action is still required during 2019/20 to embed best practice both corporately and within directorates, as one Council.</li> </ul>
<p><b>Follow up</b></p> <p>During the year we have undertaken follow up work on the implementation of previously agreed actions.</p>	<ul style="list-style-type: none"> <li>• 9 follow-ups have been completed during 2018/19 and a further 10 are still in progress. All completed follow-ups have resulted in an improved assurance rating.</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>• The Council's core financial systems continue to be well controlled with the combined approach of periodic full audit reviews and annual evidence based self-assessments working well;</li> <li>• Overall schools, with one notable exception, also continue to demonstrate a strong level of control over their finances and budgets along with good governance procedures.</li> </ul>

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

The table below sets out the results of the internal audit work:

Review	Assurance Rating		Number of Recommendations		
			H	M	L
<b>Corporate Risk Based Reviews</b>					
Review of Expenditure/Discretionary Spend	GREEN		0	2	0
Audit Committee	AMBER		0	8	3
<b>Resources Directorate + Core Financial Systems</b>					
Payroll	GREEN		0	4	0
Council Tax	AMBER	GREEN	1	0	3
Corporate Accounts Receivable	GREEN		0	0	0
Corporate Accounts Payable	GREEN		0	1	0
Business Rates	AMBER	GREEN	1	1	0
Capital Expenditure	AMBER	GREEN	1	0	0
Housing Benefit	GREEN		0	0	0
Housing Rents	GREEN		0	1	0
Treasury	GREEN		0	0	0
Parking (Whistleblowing)	RED		5	8	1
IT System Security – SIMS (Schools financial management system)	AMBER	GREEN	2	4	2
IT System Security – CapitaOne (Education management system)	AMBER		4	6	2
<b>Directorate Risk Based Reviews</b>					
<b>Community</b>					
Homelessness – Preventative Work	AMBER		4	8	0
Empty Property Grant – vfm	AMBER		2	2	0
Trade Waste Collection	AMBER		3	10	1
Fly Tipping	AMBER		4	6	1
Museum & Great Barn	RED		18	10	1
Regeneration	RED	AMBER	25	11	1
Fuel Cards – Fraud Prevention	RED	AMBER	4	6	1
Depot Security (Emerging Risk)	AMBER		7	6	5
Parking – CEO Shifts (Emerging Risk)	AMBER		2	3	0
Housing Landlord Responsibilities - Health & Safety Compliance (Emerging Risk)	AMBER		2	6	1
<b>People</b>					
Glebe Primary School – Governance & Financial Control	GREEN		0	4	3
Grange Primary School – Governance & Financial Control	AMBER	GREEN	0	6	5
Pinner Park Infants & Nursery - Governance & Financial Control	AMBER	GREEN	1	8	1
Roxbourne Primary - Governance & Financial Control	AMBER		9	5	3
Roxeth Primary – Budget Management	GREEN		0	1	1
Vaughan Primary School – Budget Management	GREEN		0	3	0
Kingsley - Budget Management	RED		5	1	0
Fostering	AMBER		6	2	0
Personal Budgets - Children with Disabilities	AMBER		4	4	0
Personal Budgets - Sample Testing	AMBER		7	13	1
Total			117	150	36

Final red and red/amber assurance reports are presented to the GARMS Committee individually for review and comment with relevant managers attending the meetings. Of the red and red/amber assurance reports issued in 2018/19 three have been presented to the Committee so far and two have yet to be presented as they are currently in draft.

## Results of Other Audit Work on the 2018/19 Plan

Work Undertaken	Results/Output
Corporate Governance	Each year the Council undertakes a robust 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. For 2018/19 the annual review process consisted of an evidenced based self-assessment undertaken by members of the Corporate Governance Working Group co-ordinated and reviewed by Internal Audit, a management assurance exercise completed by each Directorate, and a review of the governance of shared service and partnership arrangements. The result of this work is fed into the production of the Annual Governance Statement.
Risk Management	In Quarter 1 of 2018/19 a refresh of the Corporate Risk Register was undertaken with the Corporate Strategic Board to streamline the register and ensure that the risks being considered by CSB are those that are corporately significant and warrant the attention of the Corporate Board. The Corporate Risk Register contained 33 risks at its peak during 2017/18 and the process successfully reduced the number of corporate risks on the register to 8. By making the risk more complex/encompassing, the majority of the risks on the Q3/Q4 2017/18 register are covered by these risks. The Corporate Risk Register was further updated for Q3 and Q4 of 2018/19 and the refresh and the updates were reported during the year to the GARMS Committee.
Information Governance Board (IGB)	The Head of Internal Audit's attendance to the Information Governance Board enables pro-active audit input and advice on information governance policy, procedures and issues to be provided.
Health & Safety	A follow-up of the Health & Safety action plan confirmed that 43% of agreed actions were fully/substantially implemented with 7% partially implemented and 50% not implemented. This has been fed into the annual review of governance for 2018/19 and the Annual Governance Statement.
Build a Better Harrow Governance	The organisation and facilitation of the work and meetings of the Build a Better Harrow Governance Working Group including preparation of agendas and action points + pro-active input into the development of the governance structure and the development of the corporate project management process
SFVS Assurance Statement	Schools are required to undertake an annual self-assessment against the Schools Financial Value Standard and the Council's Chief Finance Officer (CFO) is required to provide details of the schools completing/not completing the assessment and confirm that a system of audit for schools is in place that gives adequate assurance over their standards of financial management and the regularity and propriety of their spending. To support the CFO in this Internal Audit reviewed the 35 self-assessments undertaken by schools and prepared a report detailing the level of assurance obtained from these, how they are taken into account for audit planning purposes and provided an overview of the completion process.
Families First (Troubled Families Grant)	During 2018/19 Internal Audit contributed to the update of the financial framework for Troubled Families particularly in relation to the outcomes plan. An Internal Audit protocol was also created during the year to clarify the role of Internal Audit in the claims process and to set agreed timescales for the audit work. Three claims were submitted during the year in September, January and March. For each Grant Submission, a sample of the cases (usually 10%) were reviewed to ensure that: <ul style="list-style-type: none"> <li>the cases are eligible for claim;</li> </ul>

	<ul style="list-style-type: none"> <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 2018/19 including on electronic signatures, responding to FOI requests, cashless parking, Wiseworks, early years grant funding and schools.

## 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, follow-ups of recommendations are undertaken for all but Green assurance reports. The table below summarises the follow up work performed during 2018/19.

Review	Original Assurance Rating		Re-Assessed Assurance Rating	No. of agreed recs	Status of agreed actions					
	I	SI			PI	PL	NI			
Help2Let	RED	AMBER	GREEN	15	10	0	4	1	0	
Housing Benefits Fraud Risk	RED	AMBER	GREEN	27	26	0	1	0	0	
Council Tax - Severely Mentally Impaired Exemption	AMBER		GREEN	2	2	0	0	0	0	
Major Works Leaseholders	AMBER	GREEN	GREEN	7	5	1	1	0	0	
Weldon Park Governance & Financial Controls	RED	AMBER	AMBER	GREEN	33	18	10	4	1	0
Weldon Park Teaching Assistants	RED		AMBER	GREEN	12	10	2	0	0	0
Fuel Cards	RED	AMBER	AMBER	GREEN	10	4	2	3	1	0
Regeneration Programme	RED	AMBER	AMBER		37	8	5	16	8	0
Housing Benefits New Claims Fraud	Non Assurance		Non Assurance		7	7	0	0	0	0
<b>TOTALS</b>				150	90	20	29	11	0	
<b>PERCENTAGES</b>					60 %	14 %	19 %	7%	0%	

### Summary

74% of recommendations were implemented/substantially implemented at the time of follow-up, with a further 19% in progress and 7% planned. All of the recommendations were still considered appropriate by management and thus it is expected that in due course 100% will be implemented.

All follow-ups undertaken resulted in an improved assurance rating with 100% attaining an amber, amber/green or green assurance rating.<sup>1</sup>

## Direction of Assurance Travel

### Introduction

Whilst the audit days in the Internal Audit Plan have remained broadly consistent over the last 3 years the number of pieces of audit work contained in the plan varies year on year depending on the estimated audit days required to complete individual assignments. Direction of travel is therefore based on percentages rather than number of assignments.

Assurance Ratings (including follow-ups)	Direction of Assurance Travel between 2018/19 & 2017/18	Number/% of Reports + Follow-Ups		
		2018/19	2017/18	2016/17
<b>GREEN</b>	Down ↓	14 (33%)	26 (48%)	22 (55%)
<b>AMBER</b>   <b>GREEN</b>	Down ↓	9 (22%)	14 (26%)	5 (12%)
<b>AMBER</b>	Up ↑	14 (33%)	6 (11%)	7 (18%)
<b>RED</b>   <b>AMBER</b>	Down ↓	2 (5%)	3 (6%)	5 (12%)
<b>RED</b>	Down ↓	3 (7%)	5 (9%)	1 (3%)
<b>% of Amber, Amber/Green or Green</b>	Up ↑	37 (88%)	46 (85%)	34 (85%)

### 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 direction of travel for this factor between 2017/18 and 2018/19 is positive showing a 3% increase.

<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.



# Performance of Internal Audit

## Introduction

A number of Key Performance Indicators (KPIs) were agreed as part of the 2018/19 Internal Audit Plan and performance against these is set out in the table below:

	Internal Audit Performance Indicator	Target	Mid-Year	Year-End	Comments
1	Recommendations agreed for implementation	95%	99%	98%	<b>Exceeded</b> 2 low risk recommendations were not agreed for implementation and 1 high risk recommendation was only partially agreed at this time with the intention of implementing it fully in the future.
2	Follow up undertaken	100%	100%	47%	<b>Not Met</b> 9 of 19 follow-ups were completed. Assistant Auditor post vacant from the middle of Q1 impacting on the achievement of this indicator.
3	Plan achieved for key control reviews	100%	100%	100%	<b>Met</b> 2 full reviews and 7 evidence based self- assessments undertaken
4	Plan achieved overall (key indicator)	90%	45%	90%	<b>Met</b> 42.5 of 47 items on the plan completed. 4 reviews and 10 follow-ups are still in progress.
	<b>Corporate Performance Indicator</b>				
1	Implementation of recommendations	90%	67%	74%	<b>Exceeded (in due course)</b> 74% of recommendations were implemented/substantially implemented, 19% were in progress and 7% were planned at time of follow-up thus it is expected that in due course 100% will be implemented.

## Summary

Of the 4 internal audit performance indicators 1 was exceeded, 2 were met and 1 was not met. In the past the majority of follow-ups have been undertaken by the Assistant Auditor however this post became vacant during Q1 2018/19 requiring the Auditors to undertake this work in addition to completing their allocated portion of the 2018/19 Internal Audit Plan. As priority is given to completing planned reviews over follow-up of reviews previously completed this had a detrimental impact on the achievement of this target.

**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 % 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 requires major improvement. A large number (x) 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 % 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 (x) 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 2018/19. 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.