Internal Audit Year-End Report 2019/20

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Introduction

This report outlines the internal audit work carried out for the year ended 31/03/20.
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 2019/20 was based on a level of internal audit input of 795 days, of which 798 days were delivered.

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

Head of Internal Audit 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 with 94% of reports issued being amber, amber/green or green assurance. One red assurance report has been issued identifying significant weakness and/or non-compliance in the framework which could potentially put the achievement of objectives in this area at risk and one significant governance gap was identified as part of the annual review of governance process. However overall, the direction of assurance travel over the past three years is positive with fewer red and red/amber assurance reports issued each year. Improvements have been recommended in areas where weaknesses were identified of which 98% have been agreed by management.   See Summary of Findings section.

Framework for the Opinion

The opinion is based on:
- All audits undertaken as part of the 2019/20 Internal Audit Plan (except Core Financial Systems audits);
- Audits of Core Financial Systems undertaken in Q1/Q2 of 2020/21 (part of the 2020/21 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 2019/20 Opinion

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

- 96% of assurance reviews undertaken during 2019/20 were given an amber, an amber/green or a green assurance (6% higher than 2018/19);
- 82% of controls reviewed within the Council's core financial systems were operating fully/substantially with 18% operating partially (8% lower than 2018/19);
- 97% of controls self-assessed by management within the Council's core financial systems were operating/substantially operating with 3% partially operating (4% higher than 2018/19);
- 98% of overall recommendations made during 2019/20 were agreed by management for implementation (the same as 2018/19);
- 68% of recommendations were implemented/substantially implemented (6% lower than 2018/19), 21% were in progress (2% higher than 2018/19) and 11% (4% higher than 2018/19) were planned at time of follow-up thus it is expected that in due course 100% will be implemented (the same as 2018/19);
- 100% of follow-up reviews attained an amber, amber/green or green assurance rating (the same as 2018/19), all, bar one resulted in an improved assurance rating with;
- The annual review of governance identified one significant governance gap (one more than 2018/19).

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
Audit reports 33 internal audit reviews were undertaken resulting in an audit report.	• 13 green, 11 amber/green, 8 amber and 1 red assurance reports were issued; • 59 high risk, 106 medium risk and 43 low risk recommendations were made to improve weaknesses identified in governance, risk management or control.
Significant weaknesses 2 Red assurance reports were issued during 2019/20 identifying significant weakness and/or non-compliance of control which could potentially put the achievement of objectives in these areas at risk.	Red assurance report: • IR35 – in draft
Other audit work A number of other pieces of audit work have been undertaken as part of the 2019/20 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.	• Corporate Governance, outputs = the annual review of governance evidence table, management assurance statements, share service/partnership evidence based governance self-assessments and the 2019/20 Annual Governance Statement; • Risk Management, outputs = Corporate Risk register for Q1, Q2, Q3 and Q4 of 2019/20; • Information Governance Board, outputs = pro-active audit input and advice on information governance policy, procedures, issues and data breaches; • Build a Better Harrow Governance, outputs = continued pro-

	active input into the development of the governance structure and the development of the corporate project management process; • SFVS, outputs = review of the school self-assessments against the school financial Value Standard and an assurance report for the Chief Finance Officer; • Families First (Troubled Families Grant), outputs = validation of the Q1 & Q4 grant claim; • Professional Advice, outputs = the provision of independent professional internal audit advice on a range of topics
Annual review of governance 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 will be reported in the Annual Governance Statement and the previous significant governance gap identified that spanned 2016/107 – 2018/19 has now been closed.	• The significant governance gap identified is in relation to Corporate Health & Safety spanning 2016/17 – 2018/19 has been closed during 2019/20 by embedding best practice both corporately and within directorates. • A new governance gap has been identified during 2019/20 in relation to the Depot Redevelopment Project as a significant overspend has been projected along with the identification of several breaches of the Council's Financial Regulations and Contract Procedure Rules. Poor governance contributed to the overspend and the delay in reporting it corporately. A report on the full extent of the governance issues, recommendations to improve the governance weaknesses and agreed management action will be presented to the GARMS Committee meeting in October 2020.
Follow up So far during the year we have undertaken follow up work on the implementation of previously agreed actions.	• 14 follow-ups have been completed during 2019/20 (5 more than 2018/19). All, bar one, follow-up resulted in an improved assurance rating with 100% attaining an amber, amber/green or green assurance rating;
Good practice We also identified a number of areas where few weaknesses were identified.	• 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; • Overall schools also continue to demonstrate a strong level of control over their finances and budgets along with good governance procedures.

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
Corporate Compliance Checks					
Contract Procedure Rules	AMBER		1	2	0
IR35	RED		22	1	0
Corporate Risk Based Reviews					
GDPR c/f 2018/19	AMBER	GREEN	0	1	0
IT System Security – PAWS	AMBER		8	5	0
Payroll (CFS)[1]	GREEN		0	4	0
Council Tax (CFS)	AMBER	GREEN	1	0	3
Corporate Accounts Receivable (CFS)	GREEN		0	0	0
Corporate Accounts Payable (CFS)	GREEN		0	1	0
Business Rates (CFS)	AMBER	GREEN	2	0	0
Capital Expenditure (CFS)	AMBER	GREEN	1	0	0
Housing Benefit (CFS)	GREEN		0	0	0
Housing Rents (CFS)	GREEN		0	1	0
Treasury (CFS)	GREEN		0	0	0
Debt Collection	AMBER	GREEN	1	4	0
Cashiers	AMBER		2	1	3
Directorate Risk Based Reviews					
Community					
Empty Property Grant	AMBER		2	4	4
Property Acquisition	GREEN		0	1	4
HMO Management & Enforcement	AMBER		4	10	1
Parking Operations	AMBER		5	10	1
People					
Camrose Primary Governance & Fin Controls	AMBER	GREEN	0	9	4
Norbury Primary Governance & Fin Controls	AMBER	GREEN	1	4	2
Whitchurch Primary School Gov & Fin Controls Enhanced	AMBER		7	16	3
Pinner Wood Primary School	AMBER	GREEN	1	3	2
Newton Farm Primary Budgetary Control	GREEN		0	1	0
Longfield Primary Budgetary Control	GREEN		0	1	2
St Teresa's Primary Budgetary Control	GREEN		0	1	3
Grimsdyke Primary Finance & Governance	GREEN		0	0	2
Cannon Lane Primary Finance & Governance	AMBER	GREEN	0	3	1
First Response Team	AMBER	GREEN	0	7	0
Youth Offending Team	AMBER	GREEN	0	6	1
Adult Social Care – Personal Budgets	GREEN		0	0	2
IT System Security – Mosaic	GREEN		0	3	2
Schools SLA c/f 2018/19	AMBER		1	7	3
TOTAL			59	106	43

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 reports shown in the above table are still in draft so have not yet been presented.

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[1] Reviews of Core Finial Systems (CFS) undertaken as part of the 2019/20 plan relate to 2018/19 and were used to support the 2018/19 Head of Internal Audit's Opinion – reviews of Core Financial Systems undertaken as part of the 2020/21 plan were used to support the 2019/20 Head of Internal Audit's Opinion detailed within this report.

Results of Other Audit Work on the 2019/20 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 *Delivering Good Governance in Local Government* and to fulfil its statutory duty as outlined in the Accounts and Audit Regulations 2015. For 2019/20 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	
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.
Build a Better Harrow Governance	On- going input to the development of governance arrangements
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 – high assurance for 8 schools; good assurance for 19 schools ;adequate assurance for 3 schools and limited assurance for the remaining 4 schools. The report also covered how the assurance would be taken into account for audit planning purposes and provided an overview of the completion process.
Families First (Troubled Families Grant)	Two claims were submitted during the year in May 2019 and March 2020. For each Grant Submission, a 10% sample of the cases were reviewed by Internal Audit to ensure that: - the cases are eligible for claim; - the criteria and the outcomes are accurately identified and evidenced where applicable; - the case has not been re-opened for further work; - the closure report on the Mosaic system clearly identifies the outcomes achieved; and - the spreadsheet has been checked for duplicates.
Professional Advice	A range of professional advice has been provided to managers during 2019/20 including on Adult Social care Debt; Facilities Management; Joint Venture Governance; School Whistleblowing; Regeneration Manager's Pay; School conflict of interest.
Budget Process	Ongoing support and advice to the S151 Officer
SAP Replacement Project	Ongoing support and input

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 reports on the Council's core financial systems and all but Green assurance reports of other systems. The table below summarises the follow up work performed during 2019/20.

Review	Original Assurance Rating		Re-Assessed Assurance Rating		No. of agreed recs	Status of agreed actions				
						I	SI	PI	PL	NI
Regeneration Programme (2nd f/up)*	RED	AMBER	AMBER	GREEN	29	21	0	3	5	0
Planning	AMBER		GREEN		19	13	1	4	1	0
SNT (2nd f/up)**	RED		AMBER		16	3	6	4	3	0
Museum & Great Barn	RED		AMBER		29	21	0	3	5	0
Empty Property Grant – vfm	AMBER		AMBER	GREEN	4	3	0	0	1	0
Helix Centre – Budgetary Control	AMBER		GREEN		4	3	0	0	1	0
CAR	GREEN		GREEN		4	3	0	1	0	0
CAP	GREEN		GREEN		3	2	0	0	1	0
Parking Whistleblowing	RED		AMBER	GREEN	14	6	3	5	0	0
Harrow Arts Centre	AMBER		GREEN		16	16	0	0	0	0
Residential Adult Care	RED		AMBER	GREEN	31	13	0	18	0	0
Major Works Leaseholders	AMBER	GREEN	GREEN		7	5	1	1	0	0
Pinner Park School – Gov & Fin Controls	AMBER	GREEN	GREEN		10	6	0	2	2	0
Council Tax KC	AMBER	GREEN	AMBER	GREEN	4	2	0	1	1	0
TOTALS					190	117	11	42	20	0
PERCENTAGES						62%	6%	21%	11%	0

Summary
68% of recommendations were implemented/substantially implemented at the time of follow-up, with a further 21% in progress and 11% 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, bar one, follow-ups undertaken resulted in an improved assurance rating with 100% attaining an amber, amber/green or green assurance rating.[2] The one follow-up that did not result in an improved assurance rating was the Council Tax Key Control review, this was because the one high risk recommendation had not been implemented at the time of follow-up.

[2] 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

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 2019/20 & 2018/19	Number/% of Reports + Follow-Ups		
			2019/20	2018/19	2017/18
GREEN		Up	19 (40%)	14 (33%)	26 (48%)
AMBER	GREEN	Up	17 (35%)	9 (22%)	14 (26%)
AMBER		Down	10 (21%)	14 (33%)	6 (11%)
RED	AMBER	Down	0	2 (5%)	3 (6%)
RED		Down	2(4%)	3 (7%)	5 (9%)
% of Amber, Amber/Green or Green		Up	46 (96%)	37 (88%)	46 (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 2018/19 and 2019/20 is positive showing a 8% increase.

Performance of Internal Audit

Introduction

A number of Key Performance Indicators (KPIs) were agreed as part of the 2019/20 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%	97%	98%	**Exceeded** 1 high risk recommendation was not agreed. 3 recommendations (1 high, 1 medium, 1 low) were partially agreed.
2	Follow up undertaken	100%	100%	50%	**Not Met** 11 of 22 follow-ups were completed.
3	Plan achieved for key control reviews	100%	100%	100%	**Met** 3 full reviews and 6 evidence based self- assessments undertaken
4	Plan achieved overall (key indicator)	90%	44%	84%	**Not Met** 59 of 70 workstreams on the plan completed.
	Corporate Performance Indicator				
1	Implementation of recommendations	90%	62%	68% **Lower than usual**	**Exceeded (in due course)** 68% of recommendations were implemented/substantially implemented, 21% were in progress and 11% 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, 1 was met and 2 were not met.

This is the second year running that the target for follow-ups has not been met, this is due to the Assistant Auditor post being vacant thus requiring Auditors to undertake this work in addition to completing their allocated portion of the Internal Audit Plan. As priority is given to completing planned reviews over follow-up of reviews previously completed this had a continued detrimental impact on the achievement of this target. To address this the audit strategy for follow ups will be reviewed for the 2020/21 plan.

The target to achieve 90% of the overall plan has been missed by 6% and this is largely down to the impact of the Covid-19 Pandemic and an Auditor post becoming vacant in the April 2020 reducing the team's capacity by 20%. Each year work from the previous year's plan is completed in the Q1 of the current year alongside specific work in the current plan (reviews of the core financial systems and the annual governance review). This work was disrupted due to officers, both in the audit team and teams being audited, not having access to IT initially, having IT problems, reduced capacity or working on P1 services. The deadline to complete the work was extended to August to minimise this impact.

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.