

**Internal Audit Mid-Year Report and Quarter 3 Update
2020/21****CONTENTS:****Introduction****Head of Internal Audit Opinion**

- Key Factors at Mid-Year for the 2020/21 Opinion

Summary of Outputs

- Key Outputs at Mid-year
- Progress against the 2020/21 Internal Audit Plan at Mid-Year and Q3 including Assurance Results of Individual Assignments
- Follow Up Work Conducted/Due

Performance of Internal Audit**Appendices:**

1. Audit Report Assurance Levels

Introduction

This report outlines the internal audit work carried out in the first half of the year ending 31/03/21 i.e. quarters 1 and 2 plus, given the timing of the report, an update of work undertaken in quarter 3.

The Internal Audit Plan 2020/21 was based on a level of internal audit input of 565 days and was agreed by the Governance, Audit, Risk Management and Standards Committee on 22/10/20. At the mid-year point 262 audit days have been delivered and 46% of the plan has been completed with 2% in progress.

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

Head of Internal Audit Opinion

The aim of the internal audit plan is to ensure that sufficient internal audit work is undertaken throughout the year to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and internal control across the Council.

The level of progress against the plan at mid-year indicates that sufficient work will be undertaken to allow an opinion to be given at year-end.

Key Factors at Mid-Year for the 2020/21 Opinion

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

- 90% of assurance reviews undertaken at mid-year 2020/21 were given an amber, an amber/green or a green assurance;
- 100% of overall recommendations made during 2020/21 were agreed by management for implementation;
- 79% of recommendations were implemented/substantially implemented, 15% were in progress and 6% 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/green or green assurance rating;

Summary of Outputs

A summary of key outputs/findings from the programme of internal audit work at mid-year is recorded in the table below:

Key Outputs at Mid-Year	
Description	Detail
<p>Audit reports 3 internal audit reviews were undertaken resulting in an audit report.</p>	<ul style="list-style-type: none"> • 2 green and 1 red assurance report was issued. • 6 high risk, 8 medium risk and 1 low risk recommendation was made to improve weaknesses identified in governance, risk management or control.
<p>Significant weaknesses 1 red assurance report has been issued at mid-year 2020/21.</p>	<ul style="list-style-type: none"> • Major Projects - Depot Redevelopment Additional Works. (Presented to GARMS Committee at October 20 meeting.)
<p>Other audit work A number of other pieces of audit work have been undertaken as part of the 2020/21 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"> • Risk Management, outputs = Corporate Risk Register for Q1/ Q2 • Families First (Troubled Families Grant), outputs = validation of the Q2 grant claim. • Professional Advice, outputs = the provision of independent professional internal audit advice on a range of topics e.g. <ul style="list-style-type: none"> - Schools: waivers for cleaning contract, declaration of interests, delegations, separation of duties and changes to online banking. - Resources Directorate: authorisations during pandemic, hardship payment fund policy review. - Brexit: risk management advice on EU Trade and Co-Operation Agreement; action points relating Settled Status and facilitation of the meetings of the Council's Brexit Group. - Adults: applying carers premium to financial assessments, cash float. - Community: parking policy review.
<p>Follow up Follow up of the implementation of previously agreed actions taken as a result of audit recommendations.</p>	<ul style="list-style-type: none"> • 5 follow-ups have been completed during 2020/21 at mid-year. All completed follow-ups have resulted in an improved assurance rating.
<p>Good practice A have been a number of areas where few weaknesses were identified.</p>	<ul style="list-style-type: none"> • 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.

Progress against the 2020/21 Internal Audit Plan at Mid-Year and Q3 including Assurance Results of Individual Assignments

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

Review	Assurance Rating/Mid-Year Position	Q3 Progress
Corporate Compliance Checks		
Contract Procedure Rules (Annual Assurance)		Due in Q3/4
Financial Regulations (Annual Assurance)		In progress
Adults Financial Assessments (Residential + non-residential)		Due in Q4
Adult Social Care - Personal Budgets Monitoring		Due in Q4
Invoice Payments - adherence to Fin Regs VAT invoice requirements		Due in Q4
Purchase Card expenditure during Covid-19	In progress	AMBER
Fees & Charges (Annual Assurance)		Due in Q3
IT Reviews		
Replacement ERP System	Ongoing audit input to development of replacement ERP system.	Ongoing
Corporate Risk Based Reviews		
Corporate Governance	2019/20 annual review of governance completed, and Annual Governance Statement produced.	2020/21 annual review of governance to commence Q4
Follow-up of minor governance gaps		In progress
Risk Registers	Corporate Risk Register updated for Q1/Q2	Corporate Risk Register updated for Q3
Risk Management Strategy review		In progress
Risk Management in projects		Due Q4
Risk Management in Decision Making		Pro-active review of risk management implications in Cabinet reports commenced with December Cabinet.
Information Governance	The Information Governance Board did not meet in Quarters 1 & 2 due to lead members being diverted to deal with consequences of the pandemic.	The Information Governance Board did not meet in Quarter 3.
Social Value		In progress
Income Collection		Due in Q4
Resources Directorate + Core Financial Systems		
Housing Benefit	GREEN	
Treasury Management	GREEN	
Housing Rents – evidenced based self-assessment (EBS-A)	AMBER	GREEN
Business Rates – EBS-A	AMBER	GREEN
Capital expenditure – EBS-A	GREEN	
Corporate Accounts Receivable – EBS-A	GREEN	
Corporate Accounts Payable – EBS-A	GREEN	
Payroll – EBS-A	GREEN	
Council Tax – EBS-A	AMBER	GREEN
Covid-19 Grants		In progress
Directorate Risk Based Reviews		
Community		
Major Projects - Depot Redevelopment Additional Works	RED	Follow-up in progress
Major Projects - Grange Farm/Depot		Due in Q2/3
Bus Subsidy Grant	Grant claim completed	

Empty Property Grant (VFM)		AMBER	GREEN
Discretionary Grants Fund		Due in Q3	
People			
Together with Families Programme (Troubled Families Grant)	1 st claim completed in Q2	2 nd claim completed in Q3	
Test & Trace Grant		Due in Q4	
Woodlands Investigation		AMBER	
Whitmore School Finance Review		GREEN	
Elmgrove School Budgetary Control & Management		In progress	
West Lodge School Budgetary Control & Management		In progress	
Kenmore Park Junior School Budgetary Control & Management		In progress	
Cedars Manor School Budgetary Control & Management		In progress	
Schools x3		Due Q4	

Final red and red/amber assurance reports are presented to the GARMS Committee individually for review and comment with relevant managers attending the meetings.

Follow Up Work Conducted/Due

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 protocol follow-ups of recommendations are undertaken for Red, Red/Amber & Amber assurance reports and report recommendations are followed-up until at least an Amber assurance rating is achieved. The table below summarises the follow up work performed during 2020/21.

Review	Original Assurance Rating		Re-Assessed Assurance Rating at Mid Year / Comments		Re-Assessed Assurance Rating at Q3 / Comments
Parking Whistleblowing ¹	RED		AMBER	GREEN	
Pinner Park School – Gov & Fin Controls	AMBER	GREEN	GREEN		
Council Tax KC	AMBER	GREEN	AMBER	GREEN	
Harrow Arts Centre	AMBER		GREEN		
Kenmore Park Infants Pay Policy	AMBER	GREEN	GREEN		
Grange School – Gov & Fin Controls	AMBER	GREEN			GREEN
Fostering	AMBER				GREEN
Payroll	GREEN				GREEN
IT Access Control – CapitaOne	AMBER	GREEN			GREEN
Housing Landlord Responsibilities					In progress
Personal Budgets CYAD (0-18)					In progress
Homelessness Preventative Work					In progress
Empty Property Grant Process					In progress

Summary (as at end Q2)

79% of recommendations were implemented/substantially implemented at the time of follow-up, with a further 15% in progress and 6% 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/green or green assurance rating by the end of Q2.²

3 follow ups are currently on hold due to the current situation as staff have either been deployed on to other areas or there is a reduced workforce.

¹ See confidential Appendix 2

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.

Performance of Internal Audit at Mid-Year

Introduction

A number of Key Performance Indicators (KPIs) were agreed as part of the 2020/21 Internal Audit Plan and performance against these is set out in the table below:

	Internal Audit Performance Indicator	Target Mid-Year	Actual Mid-Year	Comments
1	Recommendations agreed for implementation	95%	100%	Exceeded
2	Follow up undertaken – Red & Red/Amber Assurance Reports	100%	100%	Met 1 completed
3	Follow up undertaken – Amber Assurance Reports	35% (70% full year)	38%	Exceeded 5 out of 13 follow ups completed at the end of Q2. A further 4 have been issued in Q3/Q4 and the remaining 4 are in progress however there have been some difficulties obtaining the information.
4	Plan achieved for key control reviews	100%	100%	Met 3 full reviews and 6 evidence based self- assessments undertaken
5	Plan achieved overall (key indicator)	45% (90% full year)	46%	Exceeded 21 out of 46 projects complete to end of Q2.
Corporate Performance Indicator				
1	Implementation of recommendations	90%	79%	Exceeded (in due course) 79% of recommendations were implemented/substantially implemented, 15% were in progress and 6% were planned at time of follow-up thus it is expected that in due course 100% will be implemented.

Summary

Of the 6 internal audit performance indicators 4 were exceeded and 2 were met.

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.