

LONDON BOROUGH OF HARROW

Internal Audit Year-End Report

2022/23

CONTENTS:

Introduction

Head of Internal Audit Opinion

Summary of Outputs

Direction of Assurance Travel

Performance of Internal Audit

Appendices:

1. Opinion Types/Limitations and Responsibilities
2. Audit Report Assurance Levels

Introduction

This report outlines the internal audit work carried out for the year ended 31 March 2023.

The Public Sector Internal Audit Standards (PSIAS) 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 2022/23 was based on a level of internal audit input of 684 audit days, however this plan was revised to reflect the reduced Internal Audit Team that consisted of the Head of Internal Audit, the Interim Risk Manager, one full-time Auditor, one full-time Auditor (returning from maternity June 2022), two temporary full-time Auditors (working a total 7 months) with two unfilled permanent vacancies reflecting the Council recruitment freeze. The revised plan was based on 479 audit days.

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

Head of Internal Audit Opinion

The Head of Internal Audit's overall opinion on the adequacy and effectiveness of the organisation's framework of governance, risk management and control based on the annual review of governance and the assurance work of Internal Audit throughout 2022/23 is:

Good with some improvements required in discrete areas. Review of the operation of Council's core financial systems, Housing Benefits, Treasury Management, Housing Rents, Business Rates, Capital Expenditure, Corporate Accounts Receivable, Corporate Accounts Payable, Payroll and Council Tax during 2022/23 demonstrated a sound level of control in place with five receiving a green assurance rating and four an amber/green assurance. There were two red/amber assurance reports relating to schools issued during the year. The red assurance review followed-up in 2022/23 attained a red/amber assurance rating. All recommendations made to improve controls were agreed by management.

Framework for the Opinion

The opinion is based on:

- All audits undertaken as part of the 2022/23 Internal Audit Plan (except Core Financial Systems audits)
- Audits of Core Financial Systems undertaken in Q1/Q2 of 2022/23 (part of the 2021/22 plan)
- Recommendations made accepted/not accepted by management
- Follow-up of the implementation of audit recommendations
- The annual review of governance process (yet to be finalised).

Key Factors for the 2022/23 Opinion

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

- 83% of assurance reviews undertaken during 2022/23 were given an amber, amber/green or green assurance;
- 73% of controls reviewed within the Council's core financial systems were operating fully with 15% substantially operating, 8% partially operating and 4% not operating;
- 82% of controls self-assessed by management within the Council's core financial systems were operating with 5% substantially operating and 13% partially operating;
- 100% of overall recommendations made during 2022/23 were agreed by management for implementation;
- 100% of recommendations due have been fully or partially implemented; 33% fully implemented, 55% partially implemented and 12% not yet due.

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
<p>Audit reports 23 internal audit reviews were undertaken resulting in an audit report.</p>	<ul style="list-style-type: none"> • 7 green, 6 amber/green, 6 amber, 2 red/amber and 2 non-assurance reports were issued; • 23 high risk, 24 medium risk and 3 low risk recommendations were made to improve weaknesses identified in governance, risk management or control.
<p>Significant weaknesses 2 red/amber assurance reports were issued in 2022/23 identifying significant weakness and/or potentially putting the achievement of objectives in this area at risk.</p>	<ul style="list-style-type: none"> • Breach of CPRs for contracts, purchase orders not being raised in advance, overpayment of contract. • Lack of supporting documentation for petty cash payments.
<p>Other audit work A number of other pieces of audit work have been undertaken as part of the 2022/23 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, Q3 and Q4 of 2022/23; • Risk Management in Decision Making – clearance provided before reports are presented to Cabinet, outputs = cleared cabinet reports; • Families First (Troubled Families Grant), outputs = validation of the Q1-Q4 grant claims; • Professional Advice, outputs = the provision of independent professional internal audit advice • Grants certified, 6 = assurance based on testing + sign-off of grant claims; • SFVS, outputs - review of the school self-assessments against the School Financial Value Standard and an assurance report for the Chief Finance Officer.
<p>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 looking back at the previous financial year.</p>	<ul style="list-style-type: none"> • Corporate Governance, annual review of governance 2022/23 outputs - An evidence table detailing the review of governance processes in place during 2022/23, a management assurance statement, and the 2022/23 Annual Governance Statement will be produced.
<p>Good practice We also identified a number of areas where few weaknesses were identified.</p>	<ul style="list-style-type: none"> • Work on the Council's core financial systems undertaken during 2022/23 (based on controls in place during 2021/22) continue to be well controlled.

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

Review	Assurance Rating		Number of Recommendations		
			H	M	L
Core Financial Systems (2021/22)					
Business Rates	AMBER	GREEN	0	3	0
Capital Expenditure	AMBER	GREEN	1	2	1
Treasury Management	GREEN		0	0	0
Housing Rents	GREEN		0	0	0
Housing Benefit	GREEN		0	0	0
Corporate Accounts Receivable	GREEN		0	1	0
Corporate Accounts Payable	GREEN		0	1	0
Payroll	GREEN		0	0	0
Council Tax	AMBER	GREEN	0	2	0
IT					
IT Inventory	AMBER		1	2	0
Corporate Risk Based/Governance Reviews					
Corporate Governance Assurance	AMBER	GREEN	n/a		
Risk Management Assurance	AMBER		n/a		
Commissioning Cycle Assurance	AMBER		n/a		
Community					
Leaseholders Service Charges	AMBER		3	4	1
Housing Repairs Compliance	AMBER		1	3	1
People					
Cedars Manor Investigation	RED	AMBER	10	2	0
Stag Lane Investigation	RED	AMBER	5	0	0
Resources					
Restart Grants	GREEN		0	0	0
Other Unplanned Reviews					
SNT Procurement	AMBER	GREEN	1	2	0
Housing Purchase Card	AMBER	GREEN	0	2	0
Job Advert Investigation	AMBER		n/a		
3 rd Party Enquiries	N/A		n/a		
Occupational Therapy Whistleblowing	N/A		n/a		
TOTAL	23		22	24	3

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 assurance reports in the above table will be presented to the GARMS Committee once finalised.

Results of Other Audit Work on the 2022/23 Plan

Work Undertaken	Results/Output
Corporate Governance	Each year the Council undertakes a 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. The annual review process undertaken as part of the 2023/24 plan covering the 2022/23 financial year identified no significant governance gaps.
Risk Management	The Corporate Risk Register was updated quarterly throughout 2022/23 with each update presented and agreed with CLT. Q1 and Q2 risk registers were also presented to the GARMS Committee for review and the Q4 register was presented at the July 2023 meeting. A review of Risk Management in Decision Making - a real-time pro-active review, with clearance provided before reports are presented to Cabinet was completed during 2022/23. This involved ensuring the risk implications of proposed decisions were consistently and robustly included in Cabinet reports.
Families First (Troubled Families Grant)	Four claims were submitted during the year in June 2022, September 2022, January 2023 and March 2023. For each Grant Submission, a 10% and one 20% sample of the cases were reviewed by Internal Audit to ensure that: <ul style="list-style-type: none"> 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 the spreadsheet has been checked for duplicates
Professional Advice	A range of professional advice has been provided to managers during 2022/23 including: Highways Process Maps; Adults Financial Assessments; Schools (direct debits, petty cash claims, recruitment, reconciliations, payroll provider changes, register of interests, policy/procedures).
Grants	Testing was undertaken on the following grants during 2022/23 to provide assurance that grant conditions had been met in compliance with the grant requirements: <ul style="list-style-type: none"> BSOG (Bus Service Operator Grant) Biodiversity Net Gain Grant 2022/23 Contain Outbreak Management Fund (COMF) Universal Drug Treatment Grant Test & Trace Support Grant Disabled Facilities Grant

Follow Up Work Conducted





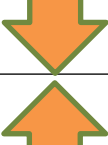

In order for the Council to derive maximum benefit from internal audit, agreed actions should be implemented. Whilst management is responsible for implementing recommendations, in accordance with the internal audit plan 2022/23, follow-ups of recommendations made and agreed by management in amber, red/amber and red assurance reports previously issued were due to be undertaken. The table below summarises the follow up work performed during 2022/23.

Review	Original Assurance Rating	Re-Assessed Assurance Rating ¹	No. of agreed recs	Status of agreed actions				
				I	SI	PI	PL	NI
Highways System Review	RED	RED AMBER	54	14	0	36	4	0
HMO Management & Enforcement	AMBER	AMBER	15	4	0	9	2	0
Parking Enforcement	AMBER	AMBER	16	10	0	2	4	0
TOTAL			85	28 33%	0	47 55%	10 12%	0

¹ The impact of recommendations implemented, substantially or partially, at follow-up are assessed to provide the re-assessed assurance rating and assumes previous controls assessed as operating are 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 and alternatively a number of weaknesses identified may result in only one recommendation being made.

Direction of Assurance Travel

The direction of travel of assurance ratings over the last 3 years is included here for information.

Assurance Ratings (including follow-ups)	Direction of Travel between 2021/22 & 2022/23 (based on %)	% of Assurances (including Follow-Ups)		
		2022/23	2021/22	2020/21
GREEN	Down 	29% (7)	50% (8)	41%
AMBER GREEN	Up 	25% (6)	19% (3)	41%
AMBER	Up 	33% (8)	12% (2)	10%
RED AMBER	Up 	12.5% (3)	12% (2)	0
RED	Down 	0	6% (1)	2%
% of Amber, Amber/Green or Green	Up 	87.5% (21)	81% (13)	98%

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, amber/green or green assurance. The 87.5% figure shown above also includes results of follow up reviews including the assurance obtained from the re-evaluation of the red assurance review followed-up during the year hence the difference in the figure used for the audit opinion. The direction of travel between 2021/22 and 2022/23 increased.

Performance of Internal Audit

Internal Audit performance against Key Performance Indicators (KPIs) agreed as part of the 2022/23 Internal Audit Plan is set out in the table below:

Internal Audit Performance Indicator	Target	Year-End	Comments
Recommendations agreed	95%	100%	Exceeded
Follow up undertaken–Red, Red/Amber	100%	100%	Met
Follow up undertaken–Amber	70%	100%	Exceeded
Plan achieved for key control reviews	100%	100%	Met
Plan achieved overall (key indicator)	90%	97%	Exceeded
Corporate Performance Indicator			
Implementation of recommendations due at the time of review	90%	100%	Exceeded - 33% implemented, 55% partially implemented, 12% planned at time of follow-up.

Of the five internal audit performance indicators three were exceeded and two were met.

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 over 95% have been agreed by management. See Summary of Outputs.

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 require major improvement. A large number 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 less than 95% 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 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 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 Red, Red/Amber, Amber, Amber/Green or Green assurance ratings as follows: -

Assurance Rating	Description
Red	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	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	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	Amber/Green reports will indicate medium to low risk in need of attention to prevent them becoming high risk.
Green	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: -

Assurance Rating	Description
Red	Red reports will be those where there is one or more of the following: <ul style="list-style-type: none"> • 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	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	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	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	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/substantially operating will be combined to give an overall assurance rating.