

**INTERNAL AUDIT 2010/11 MID-YEAR REPORT****Progress against the 2010/11 plan**

1. Overall, the Internal Audit team have started work on 29 projects (48%) of the annual audit plan for 2010/11 as at the mid-year point of 30/09/09. 100% of the planned key control reviews relied upon by the council's External Auditors have been completed along with the work on the 09/10 Management Assurance and the annual review of governance and the Annual Governance Statement. Of the 29 reviews started 8 (28%) have been completed to at least draft report stage, 6 (20%) are contributions to projects/groups that will run throughout the year e.g. working groups and a further 15 (52%) projects are in progress.
2. In addition to this 141 days have been spent on projects carried forward from 2009/10 (representing 29% of the teams total productive time for the first half of the year), 57 days have been spent on investigating suspected financial irregularities (57% of the annual allocation), 33 days have been spent on providing professional advice on internal control and risk mitigation (51% of the annual allocation) and 12 days have been spent on the follow-up of audit recommendations (59% of the annual allocation).

**Emerging Risks**

3. Emerging risks are areas of risk arising during the year that were not apparent at the time of the annual planning process but that are considered significant enough by management/internal audit to warrant audit input. A number of emerging risks have been identified in the first half of the year and work has been undertaken on these areas and has also continued on a number identified in 2009/10 which are in addition to projects identified in the annual plans for 2009/10 and 2010/11. The emerging risk areas identified so far this year are:
  - Mears Agency – a review was undertaken at an agency used by Harrow Council to provide care to clients. The agency was given a default notice by Harrow Council for service failures and a review was carried out to help support improvements to the agency.
  - Harrow College Contracts – the contract was last reviewed 15 years ago and a review was undertaken, in consultation with Procurement and Legal, and advice provided on improvements for a new contract.
  - Libraries Stock Control – following an incident at another authority where a library member applied for several memberships under false names and took a number of valuable stock items, a review was undertaken of the membership and borrowing of stock.
  - Grants to Voluntary Organisations – following the PwC review of HAVS the Overview & Scrutiny Committee requested an Internal Audit review be undertaken of Grants to Voluntary Organisations. This work is ongoing and will feed into the work of the O&S HAVS Challenge Panel.
4. In total 66.08 days have been spent on emerging risk areas in the first half of the year equating to 14% of the team's total productive time.

**Work undertaken 01/04/10 – 30/09/10**

5. In the first quarter of every financial year the work of the Internal Audit team concentrates on the authority's core financial systems. The 7 systems are reviewed on a 3 year risk based cycle. 2 of the 7 systems were reviewed in the first quarter of 2010/11. In addition, to satisfy the requirements of the External Auditors, managers were asked to review and update systems documentation, Internal Audit undertook walkthrough tests to confirm the actual system in operation for all core financial systems and control self-assessments were obtained for the 5 systems not reviewed. Out of a total of 21 key controls reviewed, 17 (81%) were operating satisfactorily and 1 (5%) was substantially operating and 3 (14%) were partially operating. See detailed report Appendix 2.
6. Other work undertaken annually in the first quarter includes the completion of reviews from the previous years plan, the completion of the annual Management Assurance exercise and the annual governance review feeding into the authority's Annual Governance Statement (AGS). Both of these were successfully completed with the results already reported to the GARM committee.
7. The following reviews were finalised in Q1 of 2010/11:

REPORT	ISSUE DATE	ASSURANCE RATING/CONTROLS OPERATING
Sickness Absence	07.04.10	Red/amber report. Overall 55% of the expected controls were found to be in place and operating effectively, 4% were substantially operating, 24% were partially in place with a further 17% not operating.  All recommendations have been agreed for implementation.
Decent Homes Self-Referral Suspected Financial Irregularity	11.05.10	The investigation did not highlight any obvious mis-use of the 'self-referral' system and the application does not appear to have been favoured or 'fast-tracked'. However, a lack of controls/transparency was highlighted in the processes in operation which could lead to allegations of favouritism or preferential treatment.  10 of the 11 recommendations made have been agreed for implementation. The remaining recommendation is being referred to CSB.
GR/IR Account – System	14.05.10	Red report. Overall 6% of the expected controls were found to be in place and operating effectively, 47% were partially in place with a further 47% not operating.  A total of 3 recommendations have been agreed for implementation. For the remaining 6 recommendations an alternative action has been agreed. For 3 of the alternative actions agreed these do not fully mitigate the risks identified by Internal Audit.
ContactPoint	22.06.10	Green report. Overall 89% of the expected controls were found to be in place and operating effectively with a further 11% partially in place.  All actions were agreed for implementation.

8. The following draft reports were also issued in Q1 of 2010/11

REPORT	ISSUE DATE	ASSURANCE RATING/CONTROLS OPERATING
Leaseholders Electricity Charges (Emerging Risk 2009/10)	22.06.10	Red report. Overall 9% of the expected controls were found to be in place and operating effectively, 27% were partially in place with a further 64% not operating.
Major Works Gateway Process	23.06.10	Green report. Overall 83% of the expected controls were found to be in place and operating effectively, 11% were substantially operating, and 6% were partially in place.
Libraries Review (Emerging Risk 2009/10)	29.06.10	Red report. Overall 32% of the expected controls were found to be in place and operating effectively, 12% were substantially operating, 30% were partially in place with a further 26% not operating.
Payroll Key Control Review 09/10	30.06.10	Overall, 81% (22) of the elements of the controls were operating effectively, and 19% (5) were partially operating. Each of the 10 key controls is made up of a number of individual elements that were each tested. Therefore 8 key controls are fully in place and 2 key controls are partially in place.
Council Tax Key Control Review	30.06.10	Overall, 87% of the elements of the controls were operating effectively, with a further 13% partially operating. Each of the 11 key controls is made up of a number of individual elements that were each tested. Therefore 9 key controls are fully in place 1 key control was substantially in place and 1 key control is partially in place.

9. The following follow up report was issued in Q1 of 2010/11

REPORT	DATE OF FOLLOW-UP MEMO	CONCLUSION
Harrow Museum and Heritage Site – Follow up	03.06.10	<p>It was established that the action agreed to address 9 of the 11 recommendations has been fully implemented and evidence was obtained to support this. It was established that 2 of the remaining 11 agreed actions have been partially implemented. This relates to management seeking advice from the Taxation Officer to obtain advice and guidance on assigning VAT.</p> <p>This report was originally given an red assurance rating which after follow up was re-assessed as a green assurance rating.</p>

10. The following reviews were finalised in Quarter 2:

<b>REPORT</b>	<b>ISSUE DATE</b>	<b>ASSURANCE RATING/CONTROLS OPERATING</b>
Personal Budgets/Direct Payments	15.07.10	Amber report. Overall 57% of the expected controls were found to be in place and operating effectively, 10% were substantially operating, 19% were partially in place with a further 14% not operating.  All recommendations have been agreed for implementation.
Major Works Gateway Process	21.07.10	As for draft (see above). All 3 recommendations have been agreed for implementation.
Income Collection and Banking – Parking	23.10.10	Green report. Overall 84% of the expected controls were found to be in place and operating effectively, 3% were substantially operating, 10% were partially in place with a further 3% not operating.  5 recommendations have been fully agreed for implementation, 1 recommendation has been agreed to be partially implemented.
Council Tax Key Control Review	29.10.10	As for draft (see above). All 3 recommendations have been agreed for implementation.

11. The following draft reports were also issued in Quarter 2

<b>REPORT</b>	<b>ISSUE DATE</b>	<b>ASSURANCE RATING/CONTROLS OPERATING</b>
Customer Service Standards	26.08.10	Amber report. Overall 77% of the expected controls were found to be in place and operating effectively, 3% were operating substantially, 13% were partially in place with a further 7% not operating.
Stock Control – Libraries	06.09.10	Amber report. Overall 50% of the expected controls were found to be in place and operating effectively, 19% were substantially operating, 12% were partially in place with a further 19% not operating.

12. The following follow up reports were issued in Q2 of 2010/11

REPORT	DATE OF FOLLOW-UP MEMO	CONCLUSION
Catering & Meals	09.08.10	<p>The action agreed to address 5 of the 7 recommendations has been fully implemented and evidence was obtained to support this and one of the remaining agreed actions is in progress.</p> <p>The other outstanding agreed action could not be followed up due to the relevant officer leaving the council and it would appear that it has not been passed to another officer for implementation, therefore there is still a risk to the authority. The relevant Corporate Directors/Divisional Director have been informed of this. The level of implementation made to date is acceptable although senior management should establish who will take ownership of the 1 outstanding agreed action.</p> <p>This report was originally given an amber assurance rating which after follow up was re-assessed as a green assurance rating.</p>
Income Collection & Banking – Under One Sky	20.08.10	<p>The action agreed to address 4 of the 6 recommendations has been fully implemented and evidence was obtained to support this. It was established that 1 of the remaining 2 agreed actions has been partially implemented and one recommendation has not been implemented. The relevant Corporate Director/Divisional Director have been made aware of this. The level of implementation made to date is acceptable.</p> <p>This report was originally given an amber/green assurance rating which after follow up was re-assessed as a green assurance rating.</p>
Nower Hill SFI	20.09.10	<p>The action agreed to address 7 of the 8 recommendations has been fully implemented and evidence obtained to support this, and one recommendation has been partially implemented. This report was not traffic lighted.</p>
Sickness Absence	28.09.10	<p>The action agreed to address 7 of the 20 recommendations has been fully implemented and evidence was obtained to support this. It was established that 8 of the remaining 20 agreed actions are in progress, 4 are planned for implementation with a further 1 recommendation not implemented. The level of implementation of recommendations to date is low (30%) and senior management have been made aware of this and now need to take action to ensure that the outstanding recommendations are implemented immediately to minimise the risk to the Council.</p> <p>This report was originally given an red/amber assurance rating which after follow up has not changed.</p>

13. Internal Audit are involved in the following ongoing projects/groups:

- Corporate Governance Working Group – chaired by the Service Manager Internal Audit, meets quarterly, reviews governance arrangements across the Council, undertakes the annual review of governance feeding into the Annual Governance Statement and reports to the Corporate Governance Group. There have been 2 meetings of this group during the first half of 2010/11 and 4 meetings of the Corporate Governance Group (which the Service Manager, Internal Audit also attends) considerable work has been undertaken outside of the meetings to collect and assess evidence to support the annual review of governance and to prepare a draft Annual Governance Statement for the Corporate Governance Group consideration. 27 days have been spent on this work, 67% of the annual allocation.
- Strategic Risk Group – set up to assist the Council in embedding and enhancing the risk management process to ensure that risks are actively managed so that the council can achieve it's objectives, take advantage of opportunities and serve Harrow's community better. Service Manager, Internal Audit attends quarterly meetings. There have been 2 quarterly meetings of this group and 0.5 of a day has been spent on attending these meetings equating to 20% of the total annual allocation of time.
- Information Governance Board – Internal audit attends and contributes to the Information Governance Board. There has been 1 meeting of this group and 0.5 of a day spent on attending this meeting and dealing with related issues, this equates to 20% of the total annual allocation of time.
- Corporate Independent Safeguarding Authority Group – set up to support the implementation of the ISA requirements within the council. Service Manager, Internal Audit attends meetings. This group has been disbanded following the change in government policy.

## Productivity

14. The days available to implement the internal audit annual plan are based on an estimation of the team's productive time. To enable this estimation to be made, and to feed into performance indicator 3 (see section below), each auditor is required to record a breakdown of their time spent each day. Each element of productive time (i.e. every project/element of the annual plan plus any additions e.g. emerging risks) and each element of non-productive time (e.g. annual leave, training, audit management) is allocated a unique code and time is recorded against each code to the nearest 15 minutes. During 2009/10 the criteria for determining what constitutes productive time was revised to bring us inline with CIPFA guidelines and it was found that we had been recording many elements as non-productive that CIPFA's revised guidelines suggested could now be recorded as productive time e.g. annual planning and audit committee reporting.
15. The 2010/11 annual plan has been estimated to require 842.5 productive days from the internal audit team to complete. This is based on an expectation of 187 productive days per auditor and 94.5 productive days for the Service Manager. CIPFA benchmarking indicates an average (across other Councils) of 177 productive days per experienced auditor and recognises that this would be less for trainees and managers and the recent PwC review indicated that 50% of the experienced auditors productive time would be reasonable for the manager.

16. The mid-year position shows that overall the team have achieved 488.77 productive days which exceeds the target of 421.25 days by 67.52 days.

### Performance Indicators

17. Table 1 below outlines the seven indicators agreed for the year, including the key indicator covering achievement of the IA annual plan and the results achieved. These indicators cover performance on projects from the 2009/10 plan and the 2010/11 plan issued in the first half of the year (i.e. up to 30/09/10)

**Table 1 – Performance Indicator Results 2010/11**

	Indicator	Target	Mid Year Results
1.	Recommendations agreed for implementation	95%	92%
2.	Final reports issued on/ahead of time	85%	100%
3.	Projects completed within budgeted time allowance	85%	100%
4.	Target met for issue of draft report after end of fieldwork	85%	100%
5.	Follow-up undertaken	100%	100%
6.	Plan achieved for Key Control reviews	100%	100%
7.	Plan achieved overall (Key indicator)	45%	48%

### Analysis of Results

18. 4 (57%) performance targets have been exceeded, 2 (29%) have been fully met and 1 (14%) has not been met i.e overall 86% of the performance targets have been met or exceeded.
19. Performance indicator 1 shows that the internal audit team have not met the mid-year target of 95% of audit recommendations being agreed for implementation by 3%. This specifically relates to 2 recommendations not being agreed, 1 for parking relating to internal checking procedures (medium risk) and 1 for decent homes relating to recording of staff who are also council tenants (medium risk) and 3 recommendations for GR/IR where alternative actions were agreed that did not fully mitigate the risk. In all cases management have been made aware of the outstanding risks.
20. Performance Indicator 7 reflects the work undertaken against the plan in the first half of the year including some individual projects that have been started but not completed and work on particular areas e.g. suspected financial irregularities and follow-up, where more than half of the annual allocation has been used i.e. more work than expected has been undertaken. However this indicator does not fully reflect all the work undertaken by the Internal Audit Team which also includes work on projects carried forward from 2009/10 and work on emerging risks.
21. In 2009/10 the process for obtaining feedback via client questionnaires did not work well due to the lack of responses received and whilst it was intended to review this process the GARM Committee, at its meeting in June 2010, indicated that this was not necessary and

that they would be happy with this indicator to be replaced with monitoring of positive and negative feedback. No negative feedback has been received, however, below are some of the positive comments received so far this year:

- The ContactPoint team would like to take this opportunity to thank you all for your hard work and continued support throughout the project. It has been a pleasure working with you all.
- Thank you so much for being sensitive and sending it (*the audit report*) sooner than expected for it makes the beginning of term even more positive.
- Thanks for the ongoing advice and support.
- Just want to also thank you for the support you have given us recently with delegations and, generally, with a positive attitude and "can do" approach
- Thank you for this review it provides a good basis to look at procedures for the internal processes to assure the integrity of the department.

Susan Dixon  
Service Manager, Internal Auditor  
October 2010