

INTERNAL AUDIT YEAR-END REPORT 2010/11

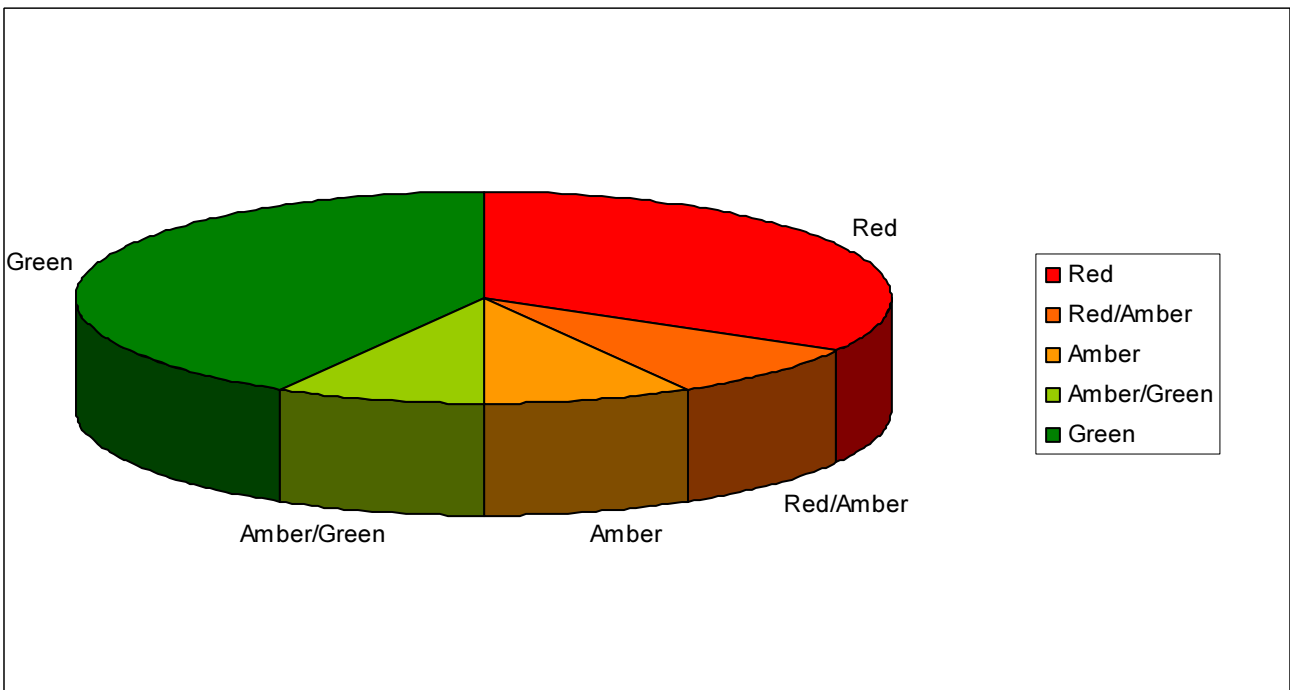
OVERVIEW OF WORK UNDERTAKEN

1. Overall the Internal Audit Team achieved 91% of the 2010/11 Annual Audit plan, exceeding the 90% target. This included 100% achievement of the core financial systems reviews relied upon by the council’s External Auditors.
2. The original 2010/11 plan contained 37 projects, during the year 6 projects were removed (as a result of a change in government policy or to allow for emerging risks), 8 new emerging risk projects were added and 4 emerging risk projects were carried forward from 2009/10. As a result the final plan contained 39 projects.

Assurance Reports

3. Audit reports are traffic lighted to indicate the level of assurance that can be obtained from the system under review. This ranges from green reports indicating that a system is well controlled and therefore a low risk to the authority to red reports indicating that a system represents a high risk to the authority needing immediate attention to improve the control environment.
4. As the Internal Audit Plan is risk based it concentrates on systems that have been identified as high risk by management via inclusion in the corporate risk registers or during consultation on the audit plan or by internal audit based on cumulative audit knowledge. As a result there is an expectation that a higher number of audits will be given a red or red/amber assurance and this has been borne out by the results over the last three years: In 2008/9 41% of assurance levels were red or red/amber; in 2009/10 it was 50% and in 2010/11 it was 42%.
5. Table 1 below illustrates the mix of the assurance levels given to reports relating to the 2010/11 plan.

Table 1 – Traffic Light Reports 2010/11



6. The table shows that 58% of the traffic lighted systems reviewed during 2010/11 were given an amber, an amber/green or a green assurance rating i.e. over 61% expected controls operating at the time of review.
7. A total of 232 recommendations were made of which 221 were agreed (or alternative actions agreed) for implementation which meets the 95% target.
8. During 2010/11 a total of 228 recommendations have been followed up of which 181 have been completed and 47 are still in progress. Of those completed a total of 101 have been implemented, 63 were partially implemented/in the process of being implemented, 5 was planned for implementation, 5, although originally agreed by management, were not implemented and 7 were no longer applicable due to system changes. This represents only a 58% implementation (of recommendations still applicable) however a further 39% are in progress or were planned at the time of follow-up thus it is expected that in due course 97% will be implemented. It was identified that the majority of those not yet implemented was due to a slower than agreed implementation.

Emerging Risks

9. 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. The emerging risk areas arising during 2010/11 were:
 - 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 has fed into the work of the O&S HAVS Challenge Panel.
 - Direct Payments to Carers – advice was provided to the Adults team regarding payment processes for direct payment to carers.
 - School Financial Regulation Guidance – a risk was identified that schools had not been issued with the most up-to-date version of the regulations (2009) and that schools were having difficulties interpreting certain aspects of the regulations as terminology and references in the regulations are Council rather than school specific. An exercise was undertaken to ensure that all schools received an up-to-date regulations and a guide was produced by Internal Audit to help schools interpret them.
 - Caretakers Housing – support was provided for an exercise being undertaken to identify council properties surplus to requirements that raised issues around council tenancies which presented a risk to the Council.
 - Gordon Avenue Petty Cash – following on from a suspected financial irregularity further audit work was undertaken to clarify and improve the petty cash system at this residential home.

COMPLIANCE WITH STANDARDS/DELIVERY PLAN

10. The CIPFA Code of Practice for Internal Audit in Local Government in the UK defines the way in which the internal audit service should undertake its functions. The code includes a checklist to test compliance with the code that is used as a self-assessment tool to review the IA each year. The results of this self-assessment indicated that the section is complying fully with 89% (an increase of 6% from 2009/10) of the standards and partially with a further 6%. Key areas to be addressed are the review and update of the Internal Audit Terms of Reference and a formalisation of some audit protocols e.g. around partnership working. This have been included as actions planned in the Internal Audit Delivery Plan.

INTERIM OPINION ON THE OVERALL CONTROL ENVIRONMENT

11. This is an interim opinion based on internal audit risk based work and an independent investigation carried out in 2010/11 and will be updated once the core financial systems work for 2010/11 has been completed and the results of the management assurance exercise for 2010/11 are available.
12. The adequacy and effectiveness of the organisation's control environment for the 2010/11 financial year has been assessed as "adequate - good" based on the following:
- 59% of the traffic lighted systems reviewed during 2010/11 were given an amber, an amber/green or a green assurance rating;
 - 95% of recommendations made during 2010/11 were agreed for implementation;
 - 100% of schools assessed passed the Financial Management Standard in schools within the financial year;
 - 58% of recommendations followed-up have been implemented, 39% are in progress or are planned at the time of follow-up thus it is expected that in due course 97% will be implemented. 89% of follow-ups resulted in an improved assurance rating.
 - 22 suspected financial irregularities were reported to Internal Audit during 2010/11, the majority of irregularities investigated by Internal Audit were either caused by a break down/lack of control or where fraud was involved this was a contributing factor. In 18 (82%) cases there was no loss or the loss has been recouped (e.g. from banks, insurance or individuals); in 1 (4%) case there was a loss of over £2000 and in 3 (14%) cases work is ongoing to establish whether a loss has occurred and/or the level.
 - An investigation was undertaken by PWC and a specialist consultant into capital expenditure on a small number of schools that identified significant weaknesses in the design and operation of system controls in place resulting in an overspend on the agreed capital programme. A considerable amount of work has been undertaken to improve the controls within the systems for financial control and monitoring of capital projects.

SUMMARY OF WORK UNDERTAKEN

Audit of Core Financial Systems – Updated Report

13. As part of the 2010/11 Annual Plan Internal Audit undertook a key control review on the following systems as part of the agreed approach to the audit of the Authority's

core financial systems for the financial year 2009/10 (reported in detail in the mid-year report):

- Council Tax
- Payroll

14. Overall out of a total of 21 key controls reviewed 17 (81%) were fully operating, 1 (5%) was substantially operating and 3 (14%) were partially operating. In total 5 recommendations were made, 4 were rated as high risk and 1 was rated as medium risk. 3 of the recommendations have been agreed for implementation and 2 were not agreed which were rated as medium risk. These relate to an interim mechanism being introduced for those areas which currently do not have access to ESS, whereby a list of managers who are authorised to sign overtime sheets/timesheets is maintained to enable monthly checks to be made on signatures. This was not agreed due to the lack of resources available and as from April 2011 this will no longer be applicable. The second recommendation relates to a mechanism being introduced for managers to actively confirm the accuracy of their payroll bills. This has been agreed in the past (and only implemented by 1 Finance team) in that budget managers would sign a copy of the quarterly salaries report to be returned to Finance as part of the monthly monitoring meetings. This has not been agreed and needs to be co-ordinated across the Council; therefore there is the outstanding risk of ghost employees being set up on payroll.
15. The position for each system reviewed is shown below.

SYSTEM	NUMBER OF CONTROLS	FULLY OPERATING	SUBSTANTIALLY OPERATING	PARTIALLY OPERATING	NOT OPERATING	OVERALL RATING ¹
Payroll	10	8	0	2	0	91%
Council Tax	11	9	1	1	0	95%
Overall	21	17 (81%)	1 (5%)	3 (14%)	0 (0%)	93%

16. For the Payroll system, 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. 2 recommendations have been made to address the weaknesses identified, both of which were rated as medium risk.
17. For the Council Tax system 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. 3 recommendations have been made to address the weaknesses identified, 2 were rated as high risk and 1 was rated as medium risk.
18. In addition to satisfy additional requirements of the External Auditors, Control self-assessments were obtained from the relevant managers for the following core financial systems:
- Housing Benefits
 - NDR

¹ Operating controls given a weighting of 2 and partially operating controls given a weighting of 1

- Housing Rents
- Corporate Accounts Payable
- Corporate Accounts Receivable

and systems documentation was reviewed/updated and walkthrough tests were undertaken to confirm the actual system in operation for all the above core financial systems.

Reliance

19. The Authority's External Auditor's, Deloitte & Touche, placed reliance on the work undertaken by Internal Audit as part of the 2010/11 Annual Plan in relation to the Authority's core financial systems in operation during 2009/10.

Other Reliance Reviews undertaken in 2010/11 (NB SFI reports are shown in Appendix B)

Quarter 1

20. 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 2009/10. 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.
21. Other work undertaken annually in the first quarter includes the completion of the annual Management Assurance exercise and the annual review of governance arrangements feeding into the authority's Annual Governance Statement (AGS).
22. Quarter 1 is also the time that reviews undertaken in the final quarter of the previous year are completed/finalised. 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 20 recommendations have been agreed for implementation.
Decent Homes SFI Report	11.05.10	See Appendix B for further details.
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. 3 of the 9 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.
Nower Hill SFI Report	16.06.10	See Appendix B for further details.
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.

23. In addition, the following follow-up review was undertaken in Quarter 1:

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 a red assurance rating which after follow-up was re-assessed as a green assurance rating.</p>

Quarter 2

24. The following reports were finalised in Quarter 2:

REPORT	ISSUE DATE	ASSURANCE RATING/CONTROLS OPERATING
Personal Budgets/Direct Payments	15.07.10	<p>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.</p> <p>All 9 recommendations have been agreed for implementation.</p>
Major Works Gateway Process	21.07.10	<p>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.</p> <p>All 3 recommendations have been agreed for implementation.</p>
Income Collection and Banking – Parking	23.10.10	<p>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.</p>

		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	<p>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.</p> <p>All 3 recommendations have been agreed for implementation.</p>

25. In addition, the following follow-up reviews were undertaken in Quarter 2:

REPORT	DATE OF FOLLOW-UP MEMO	CONCLUSION
Catering & Meals Follow-up	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</p>

		recommendation has been partially implemented. This report was not traffic lighted.
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>

Quarter 3

26. The following reports were finalised in quarter 3:

REPORT	ISSUE DATE	ASSURANCE RATING/CONTROLS OPERATING
Camrose Primary School	5.11.10	<p>Amber report. Overall 66% of the expected controls were found to be in place and operating effectively, 10% were substantially operating, 14% were partially in place with a further 10% not operating.</p> <p>All 9 recommendations have been agreed for implementation.</p>
Stock Control - Libraries	8.11.10	<p>Amber/Green report. Overall 56% 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 13% not operating.</p> <p>All 7 recommendations have been agreed for implementation.</p>
Libraries Review (Emerging Risk 2009/10)	9.11.10	<p>Red report. Overall 35% of the expected controls were found to be in place and operating effectively, 13% were substantially operating, 36% were partially in place with a further 26% not operating.</p> <p>12 of the 16 recommendations have been agreed for implementation. For 2 recommendations an alternative action has been agreed and the remaining 2 recommendations have not been agreed; one is high risk and the other medium risk.</p>
Asbestos Management in relation to Housing	30.11.10	<p>At the time of the interim briefing note (if this had been formally reported) it would have been a red report with 11% of the expected controls in place</p>

REPORT	ISSUE DATE	ASSURANCE RATING/CONTROLS OPERATING
stock		<p>and operating effectively with a further 58% partially operating and 31% not operating. The formal final report issued a year later is a red/amber report. Overall 29% of the expected controls were found to be in place and operating effectively, 29% were substantially operating with 42% partially operating.</p> <p>No further recommendations are made as the existing ones continue to apply but the current position of implementation of each recommendation also reflects the remaining action required and indicates the level of residual (remaining) risk. 5 were rated as high risk, 12 as medium risk and 11 as low risk.</p>
Capability Procedure Review	15.12.10	<p>Amber report. Overall 71% of the expected controls were found to be in place and operating effectively, 3% were substantially operating, 23% were partially in place with a further 3% not operating.</p> <p>9 of the 11 recommendations have been agreed for implementation, 2 recommendations have not been agreed 1 medium risk and 1 low risk.</p>

27. In addition the following follow-up reviews were undertaken in quarter 3:

REPORT	DATE OF FOLLOW-UP MEMO	CONCLUSION
Homelessness Follow-up	26.10.10	<p>It was established that the action agreed to address 1 of the 3 recommendations has been fully implemented and evidence was obtained to support this. It was established that both of the remaining 2 agreed actions have been partially implemented.</p> <p>This report was originally given an amber assurance rating which after follow-up was re-assessed as an amber/green assurance rating.</p>
Income Collection and Banking – Harrow Arts Centre – Follow-up	26.10.10	<p>It was established that the action agreed to address 5 of the 7 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 1 recommendation is in the process of being implemented.</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>
SAP – CRM Follow-up	26.10.11	It was established that the action agreed to

		<p>address 4 of the 11 recommendations has been fully implemented and evidence was obtained to support this. It was established that 5 of the remaining 7 agreed actions are in progress and 2 recommendations are planned for implementation.</p> <p>This report was originally given an amber /green assurance rating which remains unchanged after follow-up.</p>
Council Tax Key Control Follow-up	30.11.10	It was established that the action agreed to address all 3 recommendations has been fully implemented.

Quarter 4

28. The following final reports were issued in quarter 4 of 2010/11:

REPORT	ISSUE DATE	ASSURANCE RATING/CONTROLS OPERATING
Vehicle Management	09.02.11	<p>Amber/green report at draft stage. Overall, 77% of the expected controls were found to be in place and operating or substantially operating, 10% were partially in place with a further 13% not operating.</p> <p>The report was finalised with a follow-up being carried out at the same time, and the follow-up confirmed that this is now a green report with 97% of expected controls operating effectively and a further 3% partially in place with 1 recommendation still to be addressed.</p>
Salvatorian College	28.02.11	<p>This is the fourth audit report since April 2008 (2 Suspected Financial Irregularity reports and 2 follow ups) and there remain continuing issues in the operation of a number of financial controls. Of the recommendations made at the last SFI follow up report issued in February 2010 3 have been fully implemented (27%), 6 partially implemented (55%) and 2 have not been implemented (18%). 9 new recommendations were also made.</p> <p>All of the ongoing actions and the recommendations have been agreed for action.</p>
Payroll Key Control Review	01.03.11	<p>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. 2 recommendations have been made to address the weaknesses identified.</p> <p>Neither of the 2 recommendations made have been agreed for implementation and are rated as</p>

REPORT	ISSUE DATE	ASSURANCE RATING/CONTROLS OPERATING
		medium risk.
Customer Service Standards	02.03.11	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. All 13 corporate recommendations have been agreed for implementation. Individual reports were also sent (as appendices) to the departments included in the testing sample and a total of 42 recommendations were made. 40 have been agreed for and for the 2 remaining recommendations alternative actions have been agreed.
Grants to Voluntary Organisations (Emerging Risk 2009/10)	30.03.11	Red report. Overall 36% of the expected controls were found to be in place and operating effectively, 5% were substantially operating, 43% were partially in place with a further 16% not operating. 33 of the 34 recommendations have been agreed for implementation. The outstanding recommendation is low risk.

29. In addition the following follow-up reviews were undertaken in quarter 4:

REPORT	DATE OF FOLLOW-UP MEMO	CONCLUSION
Registrars SFI – Follow-up	29.03.11	It was established that the action agreed to address 19 of the 20 recommendations has been fully implemented and evidence was obtained to support this. 1 of these recommendations has been implemented as far as was possible and 1 recommendation has not been implemented but this is low risk.

30. The following FMSIS External Assessments (re-assessments) were also completed in 2010/11 :

School Name	Pass	Fail	Best Value or developmental recommendations made	Recommendations made to schools that have failed the standard
Nower Hill High School	Pass		1	
Hatch End High School	Pass		3	

31. Where the school has passed the Standard a number of External Assessment recommendations were made. These are not considered significant enough for the school to have failed to meet the individual standard, however they should ensure that the financial systems remain robust or that areas of development are fully completed. Each school has been issued with an action plan to complete to confirm the action that they intend to take for each recommendation.

32. The following 2010/11 reviews have been issued in draft:

REPORT	ASSURANCE RATING/CONTROLS OPERATING
Housing Benefits Quality, Overpayments and Write Offs	Red report. Overall 58% of the expected controls were found to be in place and operating effectively, 2% were substantially operating, 34% were partially in place with a further 6% not operating. Although these percentages indicate a red/amber assurance rating, there are a significant number of high risk recommendations therefore this has been assessed as a red report. Twenty one recommendations have been made to address the weaknesses identified, 17 were rated as high risk and 4 were rated as medium risk.
Treasury Management	Green report. Overall 90% of the expected controls were found to be in place and operating effectively, 4% were substantially in place with a further 6% partially in place. 6 recommendations have been made to address the weaknesses identified, 4 were rated as medium risk and 2 was rated as low risk.
Mears (Emerging Risk 2010/11)	Amber report. Overall 63% of the expected controls were found to be in place and operating effectively, 5% were substantially operating, 23% were partially in place with a further 9% not operating. 18 recommendations have been made to address the weaknesses identified, 13 were rated as high risk, 4 were rated as medium risk and 1 was rated as low risk.
Caretakers' Housing	During the course of the work undertaken it has become apparent that there is a lack of ownership surrounding the caretakers properties and that actions are based around those made historically. Due to the lack of ownership, tenancies have been allowed to lapse which has resulted in a number becoming secure tenancies. It has also been identified that rents have not been reviewed for the non HRA properties and many of them are so low that they are below rents charged for HRA properties and considerably lower than commercial rents. The authority has not been acting as one council and each department are treating the process of dealing with properties differently. Also there is no corporate overview of all properties and there are issues surrounding the accounting for rents e.g. incorrect budgets being charged.
4 Gordon Avenue – Client Finances	It has not been possible to prove any of the allegations made against the member of staff concerned as the systems/records in place are poor and there is a lack of evidence to support the allegations. Management need to take action to resolve the issues with the staff at Gordon Avenue.
4 Gordon Avenue – Petty Cash	The reconciliation of cash identified a discrepancy of £10.80, whilst this is not a significant amount, it has highlighted that petty cash should be more tightly controlled to ensure further discrepancies do not occur.
Weald Investigation SFI	See appendix B for details

FMSiS Reviews

33. The FMSiS standard was withdrawn by the Government in November 2010 and as a result the 20 planned FMSiS external assessments co-ordinated by Internal Audit did

not take place in quarter 4. However, there were 2 schools (Nower Hill High School and Hatch End High School) which were re-assessed under the standard in quarter 2 of 2010/11 having failed the standard in 2009/10. Salvatorian College, the other High School that failed in 2009/10 had not been re-assessed by the time that the standard was withdrawn because the follow up of their suspected financial irregularity review had not been concluded and progress was necessary to meet the standard. Camrose Primary School (formerly Little Stanmore F&M School) was also due to be assessed, as due to its amalgamation its 2009/10 its' assessment had been delayed, however the standard was withdrawn before the assessment could take place.

Other Work

34. Management Assurance: Completion of the 2009/10 annual management assurance exercise including preparation of the summary report, reality checking and input to the 2009/10 Annual Governance Statement plus follow - up of action planned. Due to the assurance mapping exercise the development and instigation of the 2010/11 exercise was delayed until quarter 1 of 2011/12.
35. Corporate Governance Working Group: Corporate Governance Working Group – chaired by the Service Manager Internal Audit, meets at least 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 4 meetings of this group during 2010/11 and 6 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 draft the Annual Governance Statement for the Corporate Governance Group consideration.
36. Corporate 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. The Service Manager, Internal Audit attends quarterly meetings.
37. Information Governance Board: Internal audit attends and contributes to the Information Governance Board.
38. Corporate Independent Safeguarding Authority Group: set up to support the implementation of the ISA requirements within the council. This group was disbanded following a change in government policy.
39. Improvement Boards: Provision of information on the production of draft and final IA reports and follow-ups undertaken to support quarterly improvement boards.

Professional Advice

40. A range of professional advice was provided by the IA Team across the council during the year covering controls, risks, compliance with Financial Regulations and Contract Procedure Rules and systems' development. Areas covered included advice to schools, income/petty cash, retention of documents, BACS, HFTRA, aids and adaptation, major works, maintenance procurement, safeguarding, cheque printing and school academies.

Suspected Financial Irregularities

41. During 2010/11, 23 suspected financial irregularities were reported to Internal Audit. Investigations into 78% of these have been concluded with no significant loss to the Council. 4 of the 23 SFIs have resulted in the issue of an Internal Audit report.

FOLLOW-UP OF AUDIT RECOMMENDATIONS

42. The Internal Audit policy on follow-up is to follow-up red and red/amber reports after 3 months and to follow-up amber and amber/green reports after 6 months, reassessing the traffic light of each report. Green reports are not followed up as they are low risk.
43. In total for 2010/11, 228 recommendations have been followed up of which 181 have been completed and 47 are still in progress. Of those completed a total of 181 recommendations were followed-up, of these 101 (56%) have been implemented, 63 (34%) were partially implemented/in the process of being implemented, 5 (3%) were planned for implementation, 5 (3%), although originally agreed by management, were not implemented and 7 (4%) were no longer applicable.
44. Of the 16 reviews where the follow up has been completed, 2 were red reports, 1 was a red/amber report, 3 were amber reports, 5 were amber/green reports and 5 were reports that had not been traffic lighted. In accordance with the Internal Audit policy on follow-ups the reports shown in table 2 below were reassessed as part of the follow-up and a new audit opinion issued showing the updated traffic light position:

Table 2 – Re-issued Audit Opinions

Report	Original Traffic-light	Re-assessed Traffic Light
Harrow Museum Heritage Site	Red	Green
Catering & Meals follow up	Amber	Green
Income Collection & Banking – Under One Sky	Amber/green	Green
Homelessness	Amber	Amber-green
Income Collection & Banking – Harrow Arts Centre	Amber/green	Green
Sickness Absence	Red/amber	Red/amber
SAP CRM	Amber/green	Amber/green
Housing Asbestos	Red	Red/Amber
Vehicle Management	Amber/green	Green

45. All but one re-assessed report showed an improved assurance rating.

Productivity

46. 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.

47. 842.5 productive days were estimated as available for the 2010/11 annual plan. This was based on an expectation of 187 productive days per auditor and 94.5 productive days for the Service Manager. CIPFA guidance and benchmarking data indicates a range of average productive days from as low as 171 (average actually attained by comparator London Boroughs in 2009/10) to as high as 200 days (CIPFA target) per experienced auditor and recognises that this would be less for trainees and managers and the 2009/10 PwC review of Internal Audit indicated that 50% of the experienced auditors productive time would be reasonable for the manager.
48. The year-end position shows that overall the team have achieved 989 productive days which exceeds the target of 842.5 days by 146.5 days. On average each auditor (excluding the manager) achieved 200.5 productive days with the manager achieving 187 productive days.

PERFORMANCE INDICATORS

49. The Internal Audit Quality Assurance and Performance Indicators Framework was developed in compliance with the CIPFA Code of Practice and has been operating since 2007/08. The aim of the framework is to demonstrate that the internal audit service is:
- meeting its aims and objectives
 - compliant with the CIPFA Code of Practice
 - meeting internal quality standards
 - effective and efficient, continuously improving
 - adding value and assisting the organisation in achieving its objectives.
50. The performance and the effectiveness of internal audit is monitored by the Service Manager Internal Audit to ensure that it improves over time, in terms of both the achievement of targets and generally in terms of the quality of the service provided to the user and to identify areas for improvement.
51. Table 3 below outlines the seven indicators agreed for 2010/11, including the key indicator covering achievement of the IA operational plan and the results achieved.

Table 3 – Performance Indicator Results 2009/10

	Indicator	Target	Mid Year Results	Year End Results
1	Recommendations agreed for implementation	95%	92%	95%
2*	Final reports issued on/ahead of time	85%	100%	100%
3	Projects completed within budgeted time allowance	85%	100%	95%
4*	Target met for issue of draft report after end of fieldwork	85%	100%	100%
5	Follow-up undertaken	100%	100%	100%
6	Plan achieved for Key Control reviews	100%	100%	100%
7	Plan achieved overall (Key indicator)	90%	48%	91%

Notes

Internal Audit Standards are for:

- Draft reports to be issued within 1 week of the end of fieldwork (exit meeting) (PI 4)
- Final reports to be issued within 2 weeks from the date of the agreed action plan (PI 2)
- Managers are given 3 weeks from the date the draft report was issued.
- to return the completed action plan

Analysis of Results

52. All 7 (100%) of the performance indicators have been met or exceeded. The key indicator, plan achieved overall, was exceeded and it should be noted that the outstanding 4 reviews are in still in progress and once completed 100% of the plan will have been achieved.
53. 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. Below are some of the positive comments received in 2010/11:
- 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.
 - I think the work you have done has been very helpful in gathering together historical data which led to the position we are now in.

Only two cases of negative feedback were received as follows:

- A reference was made in an audit report to information pertaining to a different directorate and whilst the information was not incorrect its' inclusion in the report had not been cleared with the directorate concerned. This was acknowledged by Internal Audit as an error and the audit team have been reminded to consult all relevant directorates in the future.
- Comments on a the report were received after the report had been agreed and issued in final. The issues raised did not impact on the content of the final report however this was not communicated by Internal Audit in a timely manner due to workload which led to confusion and dissatisfaction in department receiving the report.

Susan Dixon
Service Manager, Internal Audit
June 2011