



SLOUGH BOROUGH COUNCIL

Annual Internal Audit Report 2017/2018

May 2018

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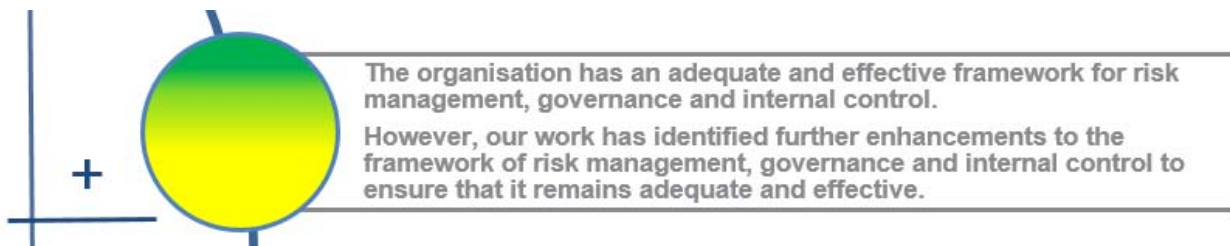
1 THE HEAD OF INTERNAL AUDIT OPINION

In accordance with Public Sector Internal Audit Standards, the head of internal audit is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. The opinion should contribute to the organisation's annual governance statement.

1.1 The opinion

For the 12 months ended 31 March 2018, the head of internal audit opinion for Slough Borough Council is as follows

Head of internal audit opinion 2017/18



Please see appendix A for the full range of annual opinions available to us in preparing this report and opinion. Whilst there are still a number of areas where the Council can only take partial assurance over the effectiveness of controls in place, the Council has demonstrated across the year improvements in its overall control environment. This can be demonstrated through the fact that, of the 31 reviews undertaken where a formal assurance opinion has been provided, we issued positive opinions for 23 of these, including some areas such as budgetary control where a partial assurance opinion had been previously provided. Whilst improvements have been made across the year in respect of a number of key systems, such as Risk Management and Business Continuity, there is still further work required by the Council in 2018/19 and potentially beyond to ensure that these are fully embedded across all business areas within the organisation.

1.2 Scope and limitations of our work

The formation of our opinion is achieved through a risk-based plan of work, agreed with management and approved by the audit committee, our opinion is subject to inherent limitations, as detailed below:

- the opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation;
- the opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led Corporate Risk Register. As such, the Corporate Risk Register is one component that the board takes into account in making its annual governance statement (AGS); Whilst Risk Management processes are not yet fully embedded across the Council, good progress has been made in the previous 12 months to develop a Corporate Risk Register, and there is now regular reporting on Corporate Risks across the Council including to the Audit and Corporate Governance Committee.

- the opinion is based on the findings and conclusions from the work undertaken, the scope of which has been agreed with management
- the opinion is based on the testing we have undertaken, which was limited to the area being audited, as detailed in the agreed audit scope;
- where strong levels of control have been identified, there are still instances where these may not always be effective. This may be due to human error, incorrect management judgement, management override, controls being by-passed or a reduction in compliance;
- due to the limited scope of our audits, there may be weaknesses in the control system which we are not aware of, or which were not brought to attention; and
- it remains management's responsibility to develop and maintain a sound system of risk management, internal control and governance, and for the prevention and detection of material errors, loss or fraud. The work of internal audit should not be seen as a substitute for management responsibility around the design and effective operation of these systems.

1.3 Factors and findings which have informed our opinion

We have issued 41 internal audit reports in 2017/18. Of these, 31 were issued with assurance opinions, 4 were follow ups of progress made to implement previously agreed management actions and the remaining 6 were advisory reviews. We issued positive assurance opinions for 23 of the 31 assurance reviews.

No audit reports have been issued where we have issued a no assurance (red) opinion, this is an improvement on recent years. The following audits however resulted in a **partial** assurance (amber red) opinions. For these areas, the Council can only take partial assurance that the controls to manage this risk are suitably designed and consistently applied. Action is needed to strengthen the control framework to manage the identified risks.

Information Governance: Whilst the Council had taken action to address some of the failings identified in the previous report in 2016/17, where a 'no assurance' opinion was provided, such as the commencement of mapping of data flows within the organisation, a number of issues remained. Specifically; the update of key corporate policies in relation to Information Governance, the lack of review of contracts to ensure appropriate IG clauses are included, the lack of update and monitoring of training uptake and the lack of action plans to address any of the areas identified contributed to the opinion.

Fixed Penalty Notice Enforcement (draft): Progress had been made by the Council since our 2016/17 Internal Audit, where a no assurance opinion had been provided, however we identified a number of control weaknesses. This included a lack of detail within the Enforcement Policy and inconsistencies between the templates used, resulting in key information not being captured. We also noted issues with income management, including a lack of a robust reconciliation process and no formal tracking of income.

Voids: Testing concluded the voids process was not being undertaken in a timely manner, or in line with Council procedures. We also identified a lack of clarity of responsibilities between the Voids Team and Property Services in relation to the responsibility for Voids work conducted by a contractor.

We also found that the voids process carried out for each property was not fully being captured on the CAPITA system. There is still a lack of evidence to demonstrate prompt action had been taken between the date of our last report in September 2016 to December 2017.

Neighbourhood Anti Social Behaviour Enforcement: Although a Neighbourhood Services ASB Policy had been developed, , there were significant gaps in its application and inconsistencies between current operational practice and the ASB Policy and as such we concluded that only partial assurance could be taken that agreed policies and procedures were being complied with.

Management of Housing Stock: Weaknesses were found in the retention of tenancy agreements through the Document Imaging Processing system and as such assurance could not be provided that such agreements were in place for all of the housing stock reviewed as part of our audit. We also identified areas for improvement in the management of cases, as well as a need to review and update Tenancy Strategy and Policy.

Payroll: Significant weaknesses were identified with the management of leavers and the resulting effect of overpayments. Reconciliations between the payroll system and the ledger had also not been undertaken since June 2017. At December 2017, overpayments totalled £44k for the current financial year, with c£17k attributable to one member of staff. In addition, weaknesses were identified in relation to leavers from the Payroll Team at arvato not having their access terminated on Agresso (raised in prior years by internal audit external audit).

Debtors: Weaknesses were identified in relation to the training provided to staff, processing of credit notes and the significant amount of 'parked' invoices which had no explanation for why they had not been chased or paid. Sundry debtor balances had increased to £5.6m for the period of August 2017 (c£3.4m for August 2015 and 2016).

Creditors: Weaknesses included a lack of training received in relation to requisitioning, the absence of robust controls around amendments to supplier data (raised in prior years) and the retrospective raising of requisitions..

In addition to the above audits, for two of our four **follow up** audits undertaken during the year we concluded that **little progress** had been made by the Council in implementing previous management actions. A number of medium and high priority actions remained not implemented beyond their planned implementation date.

We have also undertaken a number of advisory reviews during the year for which no opinion was provided but where a number of areas of improvement were identified as part of the audits. These included two reviews of **Legal Services**, a review of **Cyber Security** arrangements, and a review of the **Environmental Services Contract**, which identified significant opportunities for the recovery of overcharges levied on the Council. Within each of these audits a number of actions were agreed (uncategorised for the Legal Services – Part 2 and Environmental Services audits). A number of weaknesses were identified on the advisory Cyber Security audit and we have agreed two high and seven medium priority actions).

It should also be noted that there were a number (23) of audits where we concluded that either a substantial (five) or reasonable assurance (18) could be taken. These areas are listed in full within appendix B of this report and include the following significant systems;

- Gas Safety
- Budgetary Control (draft)
- Delayed Transfers of Care
- Five Year Plan – Performance Reporting
- Capital Expenditure
- Rent Accounts
- Assets
- Council Tax
- General Ledger
- Business Rates

A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

Finally, due to weakness identified in respect of both the Council's **Risk Management** and **Business Continuity** arrangements in 2016/17, we have utilised a proportion of the Internal Audit plan to provide support to the Council to assist in addressing some of the previous weaknesses identified. We have included below a summary of the work undertaken:

Risk Management: The objective of our work was to assist the council in refreshing the corporate (strategic) risks to take account of changes in the business, including organisational structure changes and changes in the external environment such as legislation. This was achieved via a series of interviews and workshops with the Council Management Team and supporting officers, which resulted in the agreement of a revised set of corporate risks for the Council. This represents an improvement from the position 12 months previously where significant weaknesses were identified in the Council's risk registers and supporting processes. We continue to support the Council in this area by developing a process for examining the effectiveness of controls in place and transferring knowledge to council officers.

Business Continuity: A previous Internal Audit of this area provided no assurance over the effectiveness of controls in place. RSM were therefore commissioned via the audit plan to provide the Council with advice and support in the development of a revised Business Continuity Plan. This has been undertaken through the production of a template for undertaking a Business Impact Analysis which can be used by each Service Department to identify the resources and systems that they would require to recover the business. This analysis would then feed into the production of the BCP and recovery plans and template plans have been developed for two service areas across the Council.

A draft framework BCP has also been produced, using a crisis management team to make decisions about invoking the plan. The plan has been reviewed and is owned by the BCR Manager and has been refined to take account of a worst-case scenarios. Whilst there is still further work required by the Council to develop and embed its business continuity arrangements, there is a far greater understanding of the business impacts of any significant adverse event and a draft framework detailing how such events could be managed.

1.4 Topics judged relevant for consideration as part of the annual governance statement

Although the Head of Internal Audit Opinion is a positive one, there were a number of areas, as detailed in section 1.3 above where we concluded that only partial assurance could be taken over the effectiveness of controls in place, and the Annual Governance Statement should therefore include appropriate detail regarding these areas, together with the actions that have been taken by the Council to address these.

In addition, there should also be appropriate consideration of the work undertaken during the year in developing Risk Management and Business Continuity arrangements, and any further actions required during the forthcoming 12 months. We have highlighted to the Council as part of our work to support the preparation of the AGS those areas which require inclusion within this document. Some of these partial assurance opinions were not in areas considered material to the annual governance statement. The one's that are;

- Fixed Penalty Notice Enforcement
- Voids
- Information Governance
- Finance systems - Debtors, Creditors and Payroll
- Risk Management
- Business Continuity
- Cyber Security

2 THE BASIS OF OUR INTERNAL AUDIT OPINION

As well as those headlines discussed at paragraph 1.3, the following areas have helped to inform our opinion. A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

2.1 Acceptance of internal audit management actions

Management have agreed actions to address all of the findings reported by the internal audit service during 2017/2018. At the time of the production of this report only 4 reports remain in draft, and whilst we have been provided with assurances with management as part of the debrief meeting process that the management actions have been accepted, without a formal response to these audits, the Council cannot be assured that action will be undertaken in a timely manner to address the weaknesses identified.

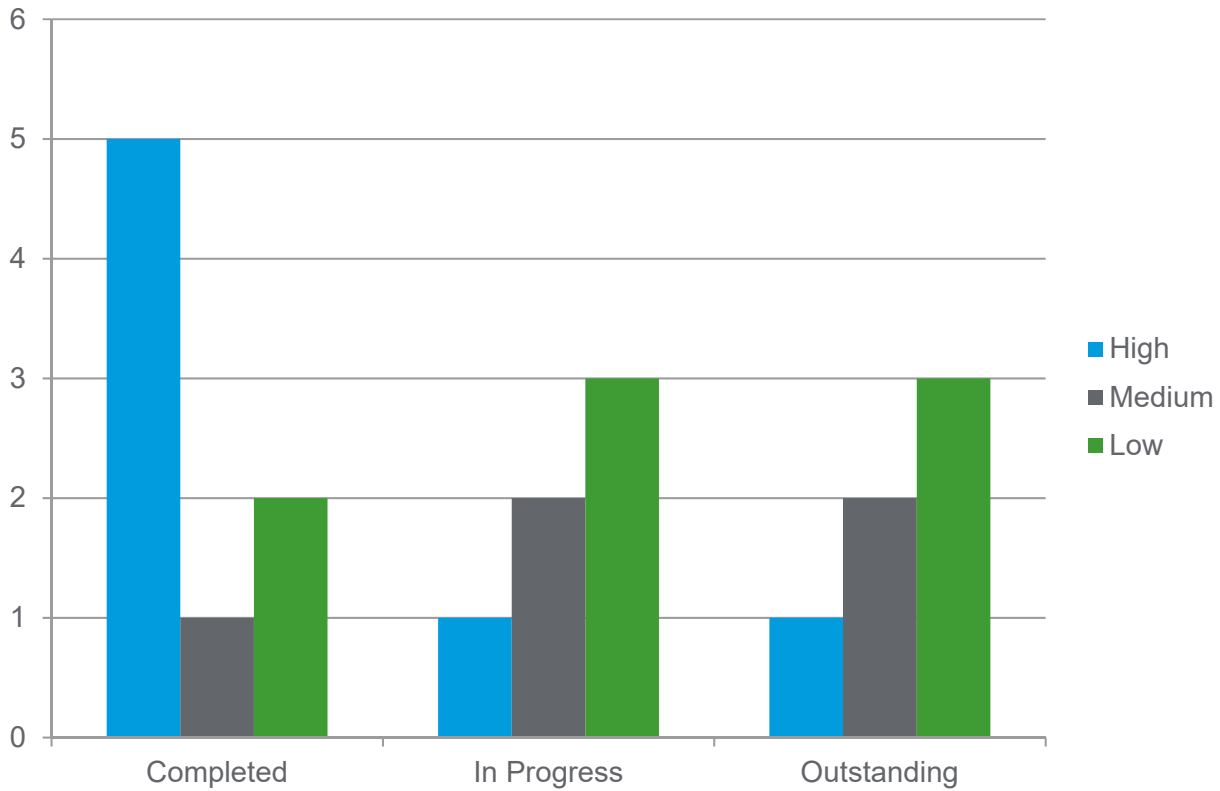
2.2 Implementation of internal audit management actions

Where actions have been agreed by management, these have been monitored by management through the action tracking process in place which is managed by the Risk and Insurance Officer. During the year progress has been reported to each Audit and Corporate Governance Committee meeting, and quarterly validation of a sample of high and medium priority actions has been undertaken by Internal Audit.

For the four reviews undertaken during the year, two demonstrated that the Council had made **reasonable progress** in implementing agreed action and the remaining two demonstrated **little progress**, with a number of high and medium priority actions outstanding beyond their due date. A summary of the implementation rate of the actions followed up is detailed below;

Implementation status by management action priority	Number of actions agreed	Status of management actions					
		Implemented (1)	Implementation ongoing (2)	Not implemented (3)	Superseded (4)	Not yet due (5)	Completed or no longer necessary (1)+(4)
Medium	51	27	14	8	2	0	29
High	8	4	2	1	1	0	5
Totals	59	31	16	9	3	0	34

Of the 59 actions reviewed, we found that whilst 31 (52.5%) had been implemented, nine actions (15.2%) were not implemented. Of this, one high priority action had not been implemented at the time of our review, this relating to Health and Safety.



2.3 Working with other assurance providers

In forming our opinion we have not placed any direct reliance on other assurance providers.

The audit and corporate governance committee is reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not, seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers, such as external audit to ensure that duplication is minimised and a suitable breadth of assurance is obtained.

3 OUR PERFORMANCE

3.1 Wider value adding delivery

Area of work	How this has added value
Risk Management	We have provided the Council with support to embed and re-establish effective risk management processes to aid in the achievement of the Council's objectives. This included the population of corporate risks on the Corporate Risk Register and a review of risks and controls on the 4Risk software system.
Business Continuity	Following a negative assurance opinion in 2016/2017, we provided support to the Council in improving its processes in relation to Business Continuity. Good progress has been made, however, there is still a lot of work to do to ensure that BC plans are rolled out across the wider council and all key service areas.
Data Flow Mapping (DFM)	We have provided the Council with Support to map their flows of data, to aid in the Council's management and security of data. The initial DFM work has been completed and three successful DFM workshops have been held. The overall focus and outcome is to assist the Council in understanding and mapping their data flows, which is required to comply with the new GDPR arrangement coming into force in May 2018.
Gender Pay Gap Reporting	Through our HR Consulting Team we have assisted the Council in the production of its Gender Pay Gap report.
Contract Management	As part of our review of the Environmental Services Contract previously provided by AMEY, we have identified significant opportunities for the recovery of monies by the Council.
Legal Services	As part of our Legal Services audit we have assisted the Council in the production of an options appraisal regarding the future provision of the legal services function.
Attendance at Risk Management Group	We attend the monthly Risk Management Group (now the Risk and Audit Board) meetings with a view to aiding the council embed Risk Management, as part of this meeting we review actions taken by the Council to address risks identified within Internal Audits. This has included updating the Group on significant findings from Internal Audit work together with providing independent challenge on the content and quality of the risk registers.
We have continued to provide sector briefings on a regular basis to both Council management and the Audit and Corporate Governance Committee	These publications provided guidance to the Council regarding the significant issues facing the sector within these areas. In addition they also highlights both key questions that all organisations should be asking themselves together with areas of good practice that can help strengthen the control environment.

3.2 Conflicts of interest

We have undertaken work in the 2017/18 financial year covering the following areas;

- GDPR Data Flow Mapping: we are currently engaging with the Council to assist in their GDPR preparations through the provision of Data Flow Mapping workshops.
- Health and Safety: We have undertaken a number of assignments at the request of the Council to support them with a review of Health and Safety risks for the environmental services function.
- Contract Management: we have undertaken an Open Book review on one of the Council's significant suppliers and have continued to support the Council in developing in contract management arrangements and procedure rules.
- Gender Pay Gap: we have provided support to the Council in the production of their Gender Pay Gap assessment and action plan.
- Financial Procedure Rules: we have provided support to the Council to assist in re-drafting the Financial Procedure Rules.

All of this work was undertaken under separate letters of engagements, led by independent engagement partners and delivered by specialist staff separate from the core Internal Audit Team.

3.3 Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our risk assurance service line commissioned an external independent review of our internal audit services in 2016 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA) on which PSIAS is based.

The external review concluded that "there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to audit committee and the supporting working papers". RSM was found to have an excellent level of conformance with the IIA's professional standards.

The risk assurance service line has in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit services. Resulting from the programme, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

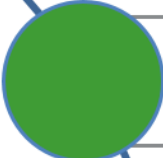
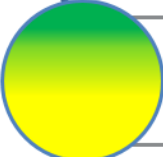

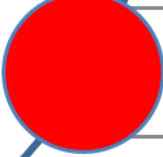
3.4 Quality assurance and continual improvement

To ensure that RSM remains compliant with the PSIAS framework we have a dedicated internal Quality Assurance Team who undertake a programme of reviews to ensure the quality of our audit assignments. This is applicable to all Heads of Internal Audit, where a sample of their clients will be reviewed. Any findings from these reviews are used to inform the training needs of our audit teams.

This is in addition to any feedback we receive from our post assignment surveys, client feedback, appraisal processes and training needs assessments.

APPENDIX A: ANNUAL OPINIONS

The following shows the full range of opinions available to us within our internal audit methodology to provide you with context regarding your annual internal audit opinion.

Annual opinions	Factors influencing our opinion
 <p>The organisation has an adequate and effective framework for risk management, governance and internal control.</p>	<p>The factors which are considered when influencing our opinion are:</p> <ul style="list-style-type: none"> inherent risk in the area being audited;
<p>+</p>  <p>The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective.</p>	<ul style="list-style-type: none"> limitations in the individual audit assignments;
<p>-</p>  <p>There are weaknesses in the framework of governance, risk management and control such that it could become, inadequate and ineffective.</p>	<ul style="list-style-type: none"> the adequacy and effectiveness of the risk management and / or governance control framework; the impact of weakness identified;
 <p>The organisation does not have an adequate framework of risk management, governance or internal control.</p>	<ul style="list-style-type: none"> the level of risk exposure; and the response to management actions raised and timeliness of actions taken.

APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2017/2018

Assignment	Executive lead	Assurance level	Actions agreed		
			H	M	L
Neighbourhood ASB Enforcement	Mike England	Partial	1	4	2
Management of Housing Stock	Mike England	Partial	1	3	2
Payroll	Neil Wilcox	Partial	1	3	4
Voids	Mike England	Partial	0	4	3
Information Governance	Neil Wilcox	Partial	1	10	2
Debtors	Neil Wilcox	Partial	1	2	2
Fixed Penalty Enforcement (draft)	Mike England	Partial	0	6	4
Creditors	Neil Wilcox	Partial	1	5	7
Chalvey Early Years Centre	Cate Duffy	Reasonable	0	4	1
Lea Nursery School	Cate Duffy	Reasonable	0	3	10
Holy Family Catholic School	Cate Duffy	Reasonable	0	3	4
Gas Safety	Mike England	Reasonable	0	3	4
Management of the Pupil Premium	Cate Duffy	Reasonable	0	4	0
Delayed Transfers of Care	Alan Sinclair	Reasonable	0	2	1
New Facilities Contract	Roger Parkin	Reasonable	0	3	0
Five Year Plan – Performance Reporting	Neil Wilcox	Reasonable	0	1	3
Housing Regulations	Mike England	Reasonable	0	3	5
Capital Expenditure	Neil Wilcox	Reasonable	0	2	5
Rent Accounts	Neil Wilcox	Reasonable	0	3	3
Purchasing Cards	Neil Wilcox	Reasonable	0	3	5
Assets	Neil Wilcox	Reasonable	0	2	4
Council Tax (draft)	Neil Wilcox	Reasonable	0	1	1
General Ledger	Neil Wilcox	Reasonable	0	2	1
Treasury Management and Cash Handling	Neil Wilcox	Reasonable	0	2	6
Adult Social Care Supervision	Alan Sinclair	Reasonable	0	2	4
Budgetary Control	Neil Wilcox	Reasonable	0	5	3
SEN Funding	Cate Duffy	Substantial	0	1	2
Housing Benefits	Neil Wilcox	Substantial	0	0	3
Business Rates	Neil Wilcox	Substantial	0	0	1

Assignment	Executive lead	Assurance level	Actions agreed		
			H	M	L
Iqra School	Cate Duffy	Substantial	0	0	1
Priory School (draft)	Cate Duffy	Substantial	0	0	1
Follow Up Q1	Neil Wilcox	Little progress	2	8	0
Follow Up Q2	Neil Wilcox	Reasonable progress	0	6	0
Follow Up Q3	Neil Wilcox	Little progress	1	4	0
Follow Up Q4	Neil Wilcox	Reasonable progress	0	4	0
Cyber Security Control Framework (draft)	Neil Wilcox	Advisory	2	7	0
Schools Financial Value Standards (SFVS)	Neil Wilcox	Advisory	0	3	3
Environmental Services Contract	Neil Wilcox	Advisory	6 Uncategorised actions		
Legal Services – Part One	Neil Wilcox	Advisory	1	3	0
Legal Services – Part Two	Neil Wilcox	Advisory	14 uncategorised actions		
Business Continuity Plan	Neil Wilcox	Advisory	14 uncategorised actions		

All of the assurance levels and outcomes provided above should be considered in the context of the scope, and the limitation of scope, set out in the individual Assignment Report.

We use the following levels of opinion classification within our internal audit reports. Reflecting the level of assurance the board can take:

	<p>Taking account of the issues identified, the board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Urgent action is needed to strengthen the control framework to manage the identified risk(s).</p>
	<p>Taking account of the issues identified, the board can take partial assurance that the controls to manage this risk are suitably designed and consistently applied. Action is needed to strengthen the control framework to manage the identified risk(s).</p>
	<p>Taking account of the issues identified, the board can take reasonable assurance that the controls in place to manage this risk are suitably designed and consistently applied. However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risk(s).</p>
	<p>Taking account of the issues identified, the board can take substantial assurance that the controls upon which the organisation relies to manage the identified risk(s) are suitably designed, consistently applied and operating effectively.</p>

FOR FURTHER INFORMATION CONTACT

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The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of Slough Borough Council and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

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