



SLOUGH BOROUGH COUNCIL

Annual internal audit report 2016/2017

**For the meeting of the Audit and Corporate
Governance Committee Meeting on 26th July
2017**

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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. Recommendations for improvements should be assessed by you for their full impact before they are implemented. 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.

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RSM Risk Assurance Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.

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 2017, the head of internal audit opinion for Slough Borough Council is as follows:

Head of internal audit opinion 2016/2017

There are weaknesses in the framework of governance, risk management and control such that it could be, or could become, inadequate and ineffective.

Please see appendix A for the full range of annual opinions available to us in preparing this report and opinion.

1.2 Scope 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 and Corporate Governance committee, which should provide a reasonable level of assurance, subject to the inherent limitations described 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 assurance framework. It should be noted, that due to the absence of a comprehensive risk management process, we were only able to provide a partial assurance opinion over the effectiveness of the Council's risk management arrangements. As such, reliance could not be placed on the content of the risk registers and specifically that these provide a comprehensive assessment of the actual risks faced by the Council during the year.

Since the publication of our report on this area, the Council has commenced a review of its existing risk management arrangements, and is considering a number of options regarding how these can be improved and provided more effectively in the future. We understand this includes risk management training and new risk management software.

1.3 Factors and findings which have informed our opinion

We have issued 34 internal audit reports in 2016/17. Of these, 28 were issued with assurance opinions, 2 were follow ups of progress made to implement previously agreed management actions and the remaining 4 were advisory reviews. We issued positive assurance opinions for 15 of the 28 assurance reviews.

The following reports have been issued to the Council where we have provided a **no assurance (red)** opinion. For these areas, we have concluded that the Council cannot take assurance over the effectiveness of controls in place and urgent action needs to be taken to address the areas of weakness identified;

Business Continuity: Our audit highlighted a lack of a robust framework for business continuity management within the Council. These weaknesses were principally due to a lack of dedicated resource in this area over the last two years which had resulted in a lack of attention being given to this important area. Furthermore, there were no arrangements for delivering business continuity management training to staff, or to ensure that there was effective monitoring and oversight of business continuity arrangements. **Information Governance:** Our audit identified a lack of robust policies and procedures in place to support a robust information governance framework within the Council, and as a consequence of this a number of key information governance requirements, such as data flow mapping were not being undertaken effectively across the Council.

Void Management: Our audit highlighted a lack of policies and procedures in place to manage the voids process together with ineffective processes to ensure they are being complied with. **Fixed Penalty Notice Enforcement:** This audit identified weaknesses over the effectiveness of controls in place as it was not possible to demonstrate that the Council were managing our contracts effectively and that all income due is being collected.

The following audits resulted in a **partial (amber red)** assurance opinion. 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.

It should be noted that for our work on both risk management and governance that we were only able to provide partial assurance opinions and this has had a direct impact on the overall opinion that we have provided to the Council.

Risk Management: Our audit of risk management provided a partial assurance opinion due to the lack of oversight of risks at a directorate level due to the absence of an effective risk management system together with the lack of scrutiny of the corporate risk register at Cabinet level during 2016. In addition to this the audit identified that there was no joined up process between the Corporate Risk Register and Project level risks or training provided to staff on the use of the new risk management system and as consequence we could not provide assurance that risk management was operating effectively throughout the organisation.

Governance – Compliance with the Local Government Transparency Code: Our audit identified that in a number of areas information which must be published by the Council had not been published and in some instances the information that was published was out of date.

Adult Safeguarding: Our audit provided only partial assurance due to weaknesses in the management of adult safeguarding cases together with non-compliance with safeguarding training targets and a lack of multi-agency review audits to ensure that learning can be gained from previous safeguarding cases. As such, assurance could not be provided that cases are being processed in a timely and effective manner.

Budgetary Control and Financial Reporting: our audit provided only partial assurance due in particular to a lack of scrutiny and reporting on savings plans during the 1st half of the year to senior management and therefore there was no effective oversight as to whether savings plans had been delivered. In addition there was a lack of evidence of discussion of financial reports within directorate meetings and only limited numbers of staff had completed budget holder training.

Health and Safety: Our audit identified weaknesses in the reporting of health and safety risks across the Council, together with issues around the compliance with mandatory training not being identified.

Voluntary Sector Commissioning: our audit noted that whilst progress had been made in finalising and agreeing an outcomes framework for monitoring delivery of the partnership outcomes for voluntary sector commissioning, this had yet to be finalised at the time of the review. There was therefore a lack of outcomes-focused monitoring to ensure that the objectives of the partnership were being delivered.

General Ledger: Our audit identified weaknesses in the design of controls relating to the maintenance of the General Ledger. These related to month end procedures including reconciliations, user access to Agresso and the creation of new account codes.

Transfer of Balances – Agresso: Our audit identified that whilst that overall balances transferred to Agresso corresponded to Oracle; we identified issues with the mapping of the chart of accounts (CoA) and exceptions with regards to the transfer of individual account balances. As a result of these issues there is a risk that individual balances may not have transferred appropriately to the correct account.

Creditors: Our audit identified an absence of robust controls around amendments to supplier data together with a continued failure to meet the 95% 30 day payment targets, both of which were issues that were raised as part of our 2015/16 audit. In addition testing identified weakness in relation to a lack of Agresso training, a lack of procedural notes and brought forward unreconciled ledger balances.

Follow Up of Financial Control Audits (draft): A follow up of the actions identified as part of our 2015/16 financial system audits, where a number of partial assurance opinions were provided identified that the Council had made poor progress in addressing these actions. Of particular concern, it was noted that two high priority actions, in relation to findings from our creditors and debtors audits had not been implemented by the Council, although we noted that the action in relation to debtors had been subsequently been implemented.

Follow Up (draft): a follow up of finalised 2016/17 reports concluded that the Council had made poor progress in addressing management actions. Of particular concern were nine high priority management actions which had either been not addressed or only partially addressed by the Council.

For all of the above reports we have agreed management actions within our audit reports to address the areas of weakness identified. In addition, we have also agreed with the Section 151 Officer and Interim Chief Executive that as part of our 2017/18 Internal Audit Plan, we will provide some advisory support to the Council in the areas of Business Continuity, Information Governance and Risk Management to assist the organisation in developing more robust control frameworks to ensure the weaknesses identified are addressed.

In addition to the above reports, we have also undertaken a number of advisory reviews, or both the contract management change process and procurement where, whilst no formal opinion was provided, a number of areas of weakness were identified.

It should also be noted that there were a number of audits where we were provided either a substantial or reasonable assurance opinion. These areas are listed in full within appendix B of this report and include;

- Homelessness
- Asset Register
- Budget Setting
- Delivery of Five Year Plan Outcomes
- Council tax
- Treasury Management
- Rent Accounts
- Payroll
- Debtors

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

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

As the overall Head of Internal Audit Opinion for the Council is a qualified one, due to the weaknesses identified in the effectiveness of systems for risk management, governance and internal control highlighted above, the Council needs to ensure that this qualification is reflected within the Annual Governance Statement.

The statement should also highlight those specific areas of weakness in the following audits which have resulted in either no or partial assurance opinions being provided, together with the actions that have been taken by the Council since the publication of these audit reports to address the areas of weakness identified or any future action planned. 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. These audits are;

- Business Continuity:
- Information Governance
- Voids
- Fixed Penalty Notice Enforcement
- Risk Management
- Governance – compliance with the Local Government Transparency Code
- Health and Safety
- Adult Safeguarding
- Voluntary Sector Commissioning

In addition to the above, we would expect the AGS to highlight the weaknesses identified as part of our reviews of the Council's systems of key financial controls, including budgetary control in particular, as for a number of these audits we were only able to provide a partial assurance opinion (please refer to Appendix B for the further details).

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 2016/17 for those reports which have been finalised. At the time of the drafting this report, four reports were in draft and had not been finalised, although we have been provided with assurances as part of the debrief process that the management actions set out within these reports have been accepted.

2.2 Implementation of internal audit management actions

Our follow up of the actions agreed made as part of the 2015/16 financial system audits together with a sample of 2016/17 finalised reports (including Information Governance, Voids and Business Continuity where no assurance opinions had been provided and Budgetary Control and Financial Reporting and Business Continuity and IT Disaster Recovery where partial assurance opinions had been provided) concluded that the Council had made **poor** progress in implementing the agreed actions. A summary of the implementation status of the actions reviewed 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)	Completed or no longer necessary (1)+(4)
High	13	2	6	5	0	2
Medium	28	6	4	18	0	6
Low	14	6	1	6	1	7
Totals	55	14	11	29	1	15

Of the 55 actions reviewed, we found that while 14 (25%) had been implemented, a further 29 actions (53%) were not implemented. Of this, five high priority actions had not been implemented.

These related to;

- the operation of the supplier amendment process as part of the 2015/16 Creditors review;
- the follow up of discrepancies identified for parking income between the amounts collected and the amounts banked, identified in the Income and Debtors audit (2015/16), although we noted that following the issue of this follow up, we were provided with evidence to demonstrate that the Council had addressed this issue;
- the establishment of a group to oversee the Council's Business Continuity agenda (Business Continuity 2016/17)
- the development of a formal process to review technical specifications prior to works being carried out, as part of our Voids 2016/17 audit.
- The re-introduction of the Savings RAG report within the Financial and Performance Reports to ensure there is regular oversight and monitoring of performance against savings plans, (Budgetary Control and Financial Reporting 2016/17audit).

2.3 Working with other assurance providers

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

3 OUR PERFORMANCE

3.1 Conflicts of interest

We have undertaken work in the 2016/17 financial year covering the following areas:

Whistleblowing – at the request of the Assistant Director, Finance and Audit, our Counter Fraud team have assisted the Council in a whistleblowing investigation.

Contract Management - Our contract management team have undertaken an open book review into a contract and provided some contract management workshops.

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.

3.2 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.

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

The organisation has an adequate and effective framework for risk management, governance and internal control.

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.

There are weaknesses in the framework of governance, risk management and control such that it could be, or could become, inadequate and ineffective.

The organisation does not have an adequate framework of risk management, governance or internal control.

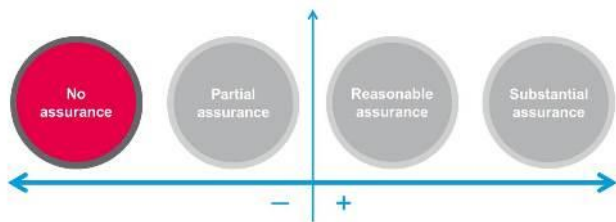
APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2016/2017

Assignment	Executive lead	Assurance level	Actions agreed		
			H	M	L
Information Governance 3.16.17	Strategic Director, Customer and Community Services	No assurance	2	12	4
Voids 6.16.17	Assistant Director, Housing and Environment	No assurance	3	3	3
Fixed Penalty Notice Enforcement 9.16.17	Interim Strategic Director, RHR	No assurance	4	5	3
Business Continuity 1.16.17	Assistant Director, Housing and Environment	No assurance	5	2	0
Governance 15.16.17	Interim Chief Executive Tracy Luck, Assistant Director - Strategy and Engagement	Partial	0	9	18
Risk Management 17.16.17	Assistant Director, Finance and Performance	Partial	1	13	3
Transfer of Balances - Agresso 2.16.17	Assistant Director, Finance and Audit	Partial	1	2	0
Creditors 26.16.17	Assistant Director, Finance and Audit	Partial	1	5	2
Budgetary Control and Financial Reporting 10.16.17	Assistant Director, Finance and Audit	Partial	1	4	2
Adult Safeguarding 28.16.17	Director of Adult Social Care	Partial	1	8	8
General Ledger 20.16.17	Assistant Director, Finance and Audit	Partial	1	3	6
Health and Safety 21.16.17	Interim Chief Executive	Partial	1	6	4
Voluntary Sector Commissioning - Delivery of Outcomes 7.16.17	Interim Director, Adult Social Care	Partial	1	4	1
Debtors 34.16.17 (DRAFT)	Assistant Director, Finance and Audit	Reasonable	0	5	1
Asset Register 31.16.17	Assistant Director, Finance and Audit	Reasonable	0	5	1
Budget Setting 4.16.17	Assistant Director, Finance and Audit	Reasonable	0	1	2

Assignment	Executive lead	Assurance level	Actions agreed		
			H	M	L
Capital Expenditure 12.16.17	Assistant Director, Finance & Audit	Reasonable	0	2	5
Cash Handling 24.16.17	Assistant Director Finance and Audit	Reasonable	0	2	2
Five Year Plan Outcomes 25.16.17	Assistant Director Finance and Audit	Reasonable	0	4	1
Rent Accounts 13.16.17	Assistant Director, Finance and Audit	Reasonable	0	3	3
Homelessness 30.16.17	Strategic Director, RHR	Reasonable	0	3	1
Payroll 27.16.17 (DRAFT)	Assistant Director, Finance and Audit	Reasonable	0	5	5
Treasury Management 19.16.17	Assistant Director, Finance and Audit	Reasonable	0	3	1
Allocations 31.16.17	Strategic Director, RHR	Reasonable	0	3	3
Business Rates 14.16.17	Assistant Director, Finance and Audit	Substantial	0	1	0
Housing Benefits 16.16.17	Assistant Director, Finance and Audit	Substantial	0	1	1
Council Tax 11.16.17	Assistant Director, Finance and Audit	Substantial	0	1	0
Schools Audit - Cippenham Nursery School 8.16.17	Interim Director, Children's Services Headteacher	Substantial	0	1	1
Procurement 32.16.17	Assistant Director, Finance and Audit	Advisory	0	9	3
Schools Financial Value Standard 5.16.17	Assistant Director, Finance and Audit	Advisory	0	5	4
Tax - Temporary staff arrangements, in-house VAT return 23.16.17	Assistant Director: Finance & Audit	Advisory	0	8	4
SBC Contract Management Change	NA	Advisory	12 Key Actions		
Follow Up (DRAFT)	Assistant Director, Finance and Audit	Poor Progress	6	11	0
Follow Up of Financial Controls Audits 22.16.17 (DRAFT)	Assistant Director, Finance and Audit	Poor progress	2	10	7

APPENDIX C: OUR 2016/17 AND 2017/18 OPINIONS

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



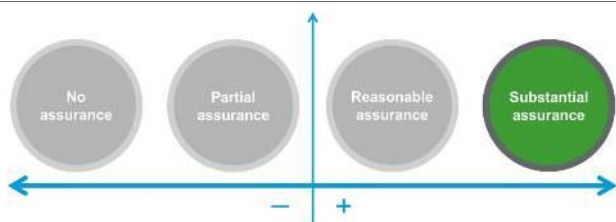
Taking account of the issues identified, the Council cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Urgent action is needed to strengthen the control framework to manage the identified risk(s).



Taking account of the issues identified, the Council 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).



Taking account of the issues identified, the Council 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).



Taking account of the issues identified, the Council 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.

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