



# SLOUGH BOROUGH COUNCIL

**Annual internal audit report 2018/2019**

**July 2019**

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# CONTENTS

1 The head of internal audit opinion .....	2
2 The basis of our internal audit opinion .....	6
3 Our performance .....	8
Appendix A: Annual opinions .....	10
Appendix B: Summary of internal audit work completed 2018/2019 .....	11
For further information contact .....	15

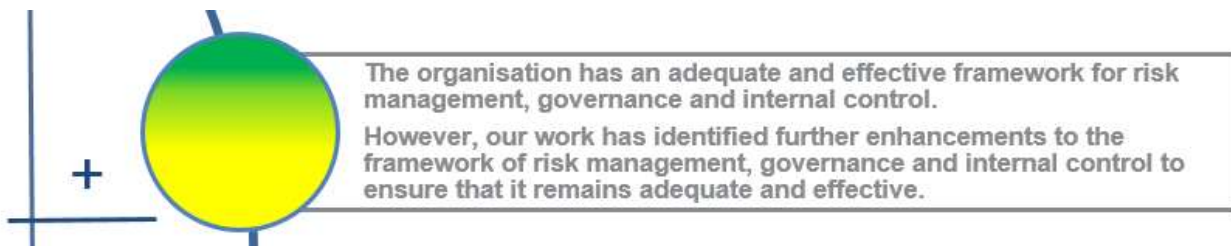
# 1 THE HEAD OF INTERNAL AUDIT OPINION

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 2019, the head of internal audit opinion for Slough Borough Council is as follows:

### Head of internal audit opinion 2018/19



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

## 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 assurance framework. As such, the assurance framework is one component that the board takes into account in making its annual governance statement (AGS);
- 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

**Risk Management:** Our audit undertaken in 2018/19 concluded that the Council can take reasonable assurance over the effectiveness of systems in place for risk management and that the procedures put in place by the Council for risk management were generally well designed and effectively implemented. We found a few weaknesses including the lack of an agreed risk appetite statement, the failure to update the target implementation date of overdue actions and the lack of the inclusion of prior implementation dates to monitor slippage.

**Governance:** Two reviews of governance arrangements were undertaken during 2018/19, focussing on the Overview and Scrutiny Committee and Sub-Committee Effectiveness. For both of these audits the Council was able to take reasonable assurance over the effectiveness of controls in place for the areas reviewed and whilst some weaknesses in control were identified these were not considered sufficiently significant to impact on the overall effectiveness of controls in place for these areas.

**Internal Control:** We have issued 39 internal audit reports for the 2018/19 financial year. Of these, 32 were issued with assurance opinions, 4 were follow ups of progress made to implement previously agreed management actions and 3 were advisory reviews. We issued positive assurance opinions for 23 of the 32 assurance reviews (note one was a split opinion).

The following audits resulted in the Council being able to take no assurance over the effectiveness of controls in place to manage the risks associated with the area;

**Debtors Management:** We identified weaknesses in relation to monitoring of training provided to staff, processing of credit notes and the significant amount of 'parked' invoices which (60% of our sample) had limited or no explanation for why they had not been chased or paid evidenced on Agresso.

**Council Buy Backs (Draft):** We found there was no comprehensive and authorised framework for the buying back of properties regarding what this process should entail and the current process does not incorporate changes which have occurred within the Council. This in turn has led to issues relating to the receipt of offers, departmental communication / involvement and the reporting of the buy-back process. In addition, we found that the appraisal process did not allow for effective scrutiny of decisions to buy back properties. Our findings identified that buy-backs are potentially being approved for purchase below the levels identified in the Financial Procedure Rules as part of the Council's Constitution, which stipulate that expenditure above £250,000 should be approved by the Chief Executive. In addition, we identified a lack of a strategy to align the buy-backs to the Council's objectives, outlined within the HRA Business Plan and Asset Management Strategy.

In addition to the above, for the following audits the Council can take only partial assurance over the effectiveness of controls in place;

**Contract Procedure Rules (CPR):** Our testing identified several instances of potential non-compliance with CPR, and a number of instances where the cumulative expenditure for a sample of suppliers were beyond OJEU limits, but in some cases, had not been advertised. Underlying these issues were a lack of up-to date procedures for staff to follow in the procurement process.

We also identified issues that could indicate duplicate payments were being made for invoices as a result of a lack of control over the supplier creation and amendment process, and a potential lack of an appropriate segregation of duties with Agresso for staff within arvato.

**Temporary Accommodation (TA) Strategy:** Issues were identified with the TA team not receiving assurance from other Council departments that Council owned properties used for TA were compliant with Health and Safety requirements, and the same issue applied to Bed and Breakfast Accommodation not owned by the Council. In addition, due to resource issues within the department and a significant increase in demand, tenant visits were not being undertaken at 3- and 6-month intervals as documented in policies and procedures. Additionally, issues were identified in relation to a lack of timely follow up where Notifications to Quit were issued, and a lack of clear procedures between the Housing Demand Team and TA team where licenses were breached by tenants.

**Health and Safety:** The Corporate Codes of Practice were still undergoing update and there was not a plan in place for the completion of this exercise. We also identified that risk assessments and self-audits within directorates were not routinely undertaken and regular directorate health and safety meetings were not taking place within the Children, Learning and Skills and Finance directorates. In addition, we noted that only 518/ 1169 employees had completed all four mandatory health and safety training modules within the last three years at the time of the audit, all of which could impact the Council's ability to manage corporate Health and Safety effectively.

**School Reviews – Claycots:** We identified areas for improvement such as formally recording exit interviews for staff who have resigned and the scoring of candidates within interviews not being recorded consistently. Other issues identified relate to the lack of audit trail for the Executive Headmasters Pay Review, lack of scrutiny from the Resources Committee of recruitment trips abroad and potentially not following tender requirements when relocating back office functions.

**Conflicts of Interest (Draft):** Declarations of interest were not routinely updated each year and the declaration of interest form did not include a field to capture the details of any directorships held. Additionally, we noted that where declarations were made at meetings, there was a lack of evidence within the minutes to suggest that individuals were withdrawn from meetings where a conflict was identified, and it was also not documented in the minutes that the potential conflict had been reviewed for impact.

**Creditors:** We identified a number of weaknesses in the operation of key controls particularly in relation to changes to the supplier Masterfile. Our testing identified that appropriate verification checks were not being undertaken and as a consequence the Council cannot be assured that inappropriate changes to supplier data had not been made. In addition, our testing of invoice and credit note processing identified that these were not always taking place in a timely manner.

**Budgetary Control:** Whilst the Council can take reasonable assurance over the controls in place for managing the delivery of the overall budget, due to demand pressures the Council are currently forecasting an overspend against the revenue budget for the year (with the balance to be addressed through reserves), in terms of the overall effectiveness of the system in place the Council can take only partial assurance over the effectiveness of controls for this area.

In addition to the above audits, all of our four **follow up** audits undertaken during the year 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.

It should also be noted that there were a number (24) of audits where we concluded that either a substantial (three) or reasonable assurance (21) could be taken. These areas are listed in full within appendix B of this report and include the following significant systems;

- Governance – Overview and Scrutiny Committee and Sub-Committee Effectiveness
- Children's Centres

- Policies and Procedures
- Treasury Management
- Capital
- Contract Management – Buoygues
- Contract Management – Osborne Property Services Limited
- Rent Accounts
- Risk Management
- Payroll
- Asset Register
- Business Rates
- Housing Benefit
- Adult Educations Service – Ofsted Inspection
- Budgetary Control (Control)

**Contract Management:** Two audits on contract management arrangements were undertaken during 2018/19 in respect of recently appointed contractors, Osborne Property Services Ltd and Buoygues. For both of these contracts the council were able to take reasonable assurance over the effectiveness of controls in place with no significant control weaknesses identified. The Council has received a number of critical audit reports in the previous five years on the area of contract management and it is therefore positive to note that improvements in internal controls were identified in the area of contract management.

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**

Although the Head of Internal Audit Opinion is an unqualified one, there were a number of areas, as detailed in section 1.3 above where only partial assurance, and two where no assurance could be taken, over the effectiveness of controls in place.

The Annual Governance Statement should therefore include appropriate detail regarding the weaknesses identified within our Debtors, Council Buy Backs, Contract Procedures Rules, Creditors, Health and Safety, Conflicts of Interest and Temporary Accommodation Strategy audits together with the actions that have been taken by the Council to address these.

## 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 2018/2019. At the time of the production of this report 4 reports remain in draft, and we have been provided with assurances by management as part of the debrief meeting process that the management actions have been accepted.

Although a number of these reports were issued only recently to the Council some of these have been outstanding for a significant period of time.

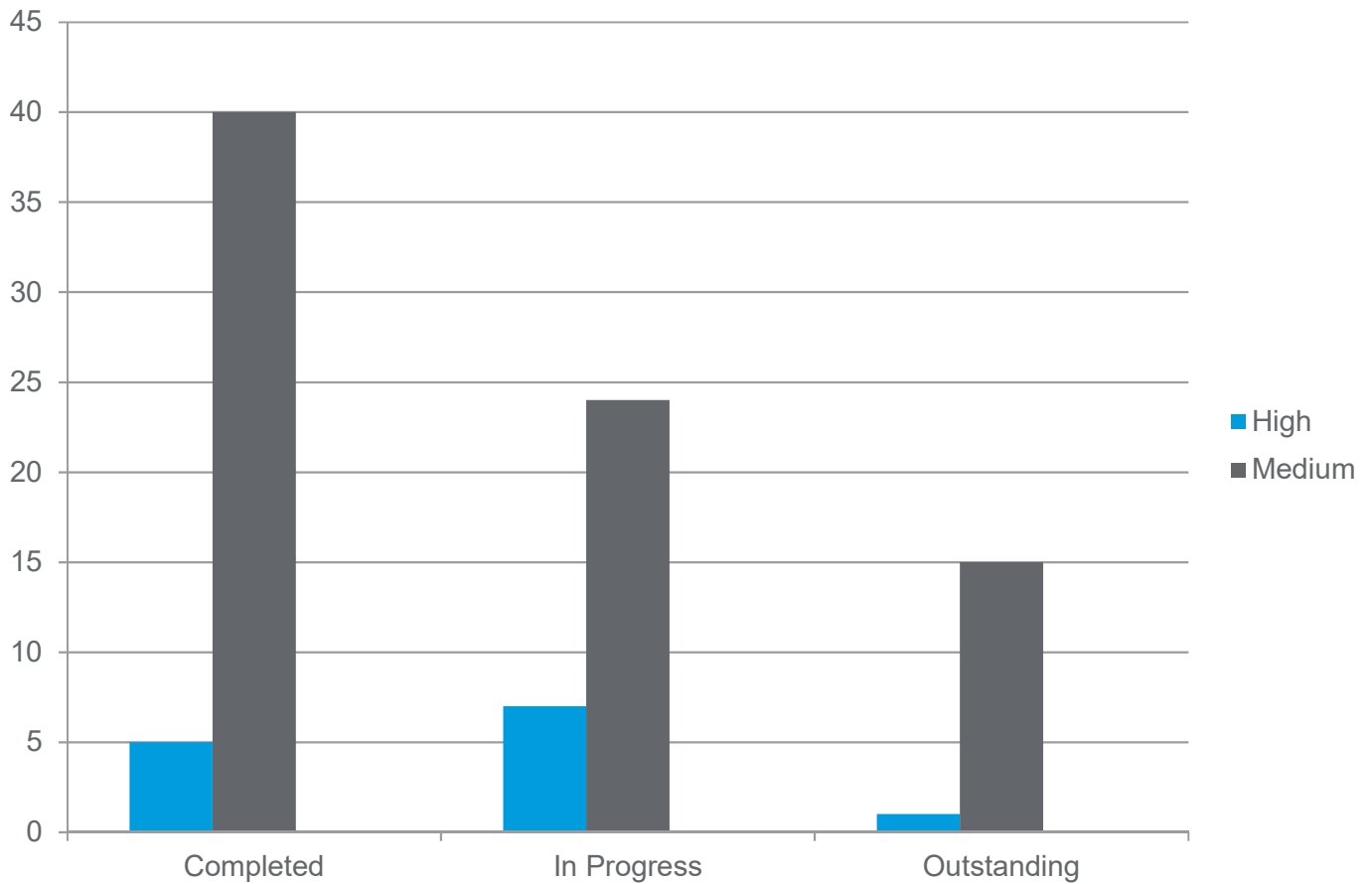
### 2.2 Implementation of internal audit management actions

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, all of these demonstrated that the Council had made **little progress**, in addressing agreed actions, 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	79	37	24	15	3	0	40
High	13	4	7	1	1	0	5
<b>Totals</b>	<b>92</b>	<b>41</b>	<b>31</b>	<b>16</b>	<b>4</b>	<b>0</b>	<b>45</b>

Of the 92 actions reviewed, we found that whilst 41 (44.5%) had been implemented, 16 actions (17.4%) were not implemented, including one high priority action relating to the Neighbourhood ASB enforcement audit.



### 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 Wider value adding delivery

- Issued briefings relating to the sector within our progress reports presented to the Audit and Corporate Governance Committee to assist officers and committee members in being informed on the latest developments within the sector.
- Provided support to the Council in the development of its business continuity arrangements.
- Utilised our Fraud Risk Services specialists to review the Council's whistleblowing arrangements to ensure that they have been developed in accordance with best practice and that cases are being investigated in a timely manner.
- We have provided benchmarking within our reports where possible on the number and category of actions and assurance opinions across organisations similar to yourselves.
- We have made suggestions throughout our audit reports based on our knowledge and experience in the public sector to provide areas for consideration.
- We attend the Risk and Audit Board meetings with a view to helping 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.
- Through our Council Procedures rules audit we have utilised data analytics to identify a number of instances where procedure rules have not been complied with and this has led to the development of a number of additional processes to strengthen this area within the Council.

### 3.2 Conflicts of interest

We have undertaken work in the 2018/19 financial year covering the following areas;

- Business Continuity: We have continued to provide support to the Council during the year to support the development of its business continuity plans.
- 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.

All of this work was undertaken via separate letters of engagements, led by independent engagement partners and delivered by specialist staff separate from the core Internal Audit Team. We have considered as part of all of these additional engagements the safeguards required to be in place and are satisfied that these have been met. We have kept the Director of Finance and Resources sighted and informed throughout the year of potential conflicts and advised how these have been managed.

### **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.

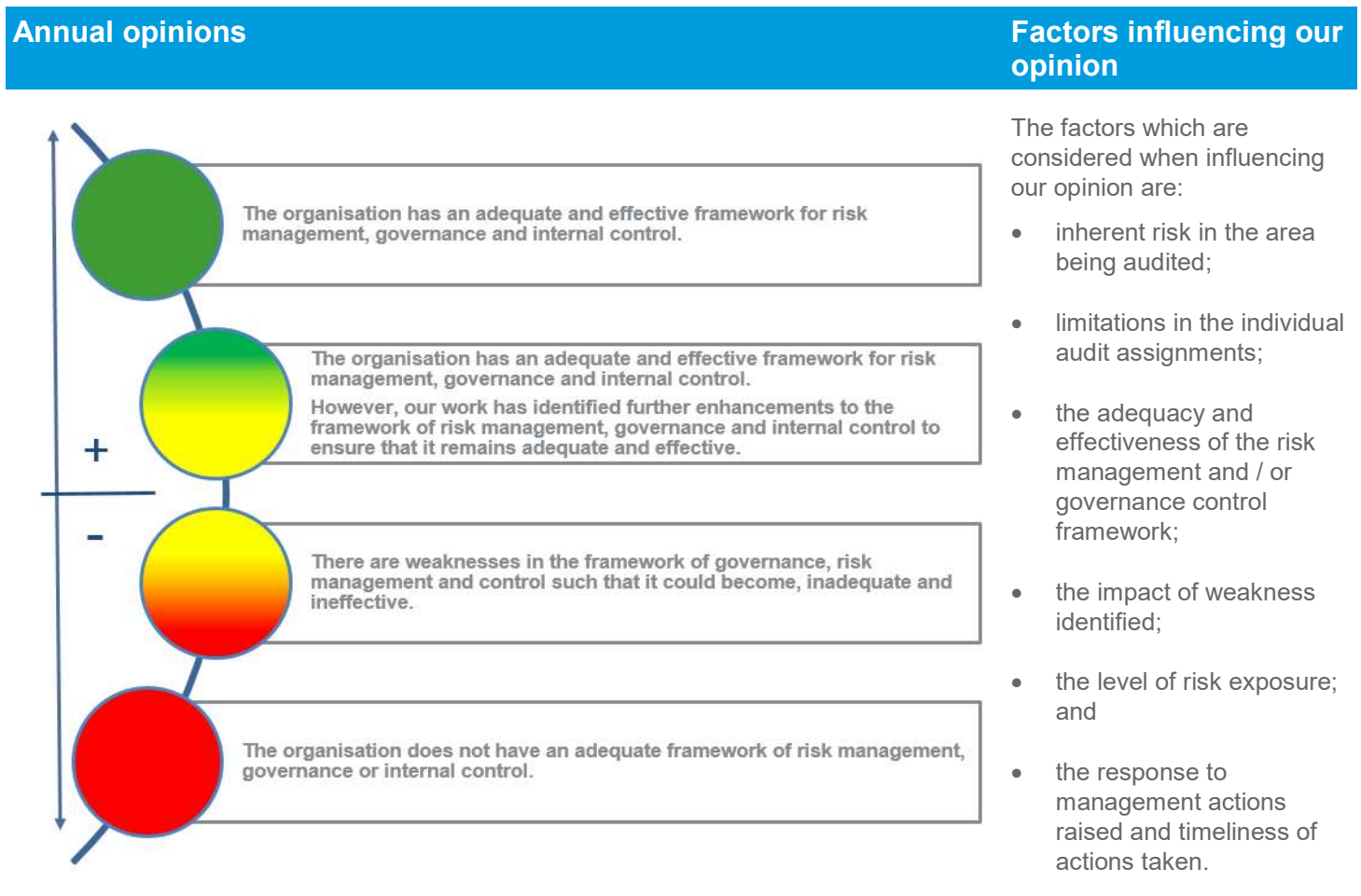
### **3.4 Quality assurance and continual improvement**

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.



# APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2018/2019

Assignment	Executive lead	Assurance level	Actions agreed		
			L	M	H
Debtors	Neil Wilcox – Director of Finance and Resources		1	6	0
Council Buy Backs (DRAFT)	Joe Carter - Director of Regeneration		1	8	1
Contract Procedure Rules	Neil Wilcox – Director of Finance and Resources		0	5	3
Temporary Accommodation Strategy	Joe Carter - Director of Regeneration		4	3	1
School Reviews – Claycots	Cate Duffy - Director, Children, Learning and Skills		2	4	1
Health & Safety	Neil Wilcox – Director of Finance and Resources		2	4	1
Conflicts of Interest (DRAFT)	Neil Wilcox – Director of Finance and Resources		1	6	1
Creditors	Neil Wilcox – Director of Finance and Resources		3	3	1
Budgetary Control	Neil Wilcox – Director of Finance and Resources	<b>Effectiveness</b> 	1	1	0
		<b>Controls</b> 			
Follow Up Q1	Neil Wilcox – Director of Finance and Resources	<b>Little Progress</b>			
Follow Up Q2	Neil Wilcox – Director of Finance and Resources	<b>Little Progress</b>			

Assignment	Executive lead	Assurance level	Actions agreed		
			L	M	H
Follow Up Q3	Neil Wilcox – Director of Finance and Resources	Little Progress			
Follow Up Q4	Neil Wilcox – Director of Finance and Resources	Little Progress			
Schools Financial Value Standard	Neil Wilcox – Director of Finance and Resources		1	3	0
Governance – Overview and Scrutiny Committee	Neil Wilcox – Director of Finance and Resources		0	3	0
Children's Centres	Cate Duffy - Director, Children, Learning and Skills		5	2	0
School Reviews - Baylis Court Nursery	Cate Duffy - Director, Children, Learning and Skills		11	0	0
Policies and Procedures	Neil Wilcox – Director of Finance and Resources		5	4	0
School Reviews - St Bernard's	Cate Duffy - Director, Children, Learning and Skills		4	2	0
Treasury Management	Neil Wilcox – Director of Finance and Resources		5	3	0
Slough Urban Renewal	Joe Carter - Director of Regeneration		5	2	0
Contracts Management - Buoygues	Joe Carter – Director of Regeneration		1	3	0
Capital	Neil Wilcox – Director of Finance and Resources		6	3	0
Rent Accounts	Neil Wilcox – Director of Finance and Resources		2	1	0
Risk Management	Neil Wilcox – Director of Finance and Resources		5	3	0

Assignment	Executive lead	Assurance level	Actions agreed		
			L	M	H
Payroll	Neil Wilcox - Director of Finance and Resources		4	3	0
Asset Register	Neil Wilcox – Director of Finance and Resources		4	3	0
General Ledger	Neil Wilcox – Director of Finance and Resources		2	2	0
Governance – Sub Committee Effectiveness	Neil Wilcox – Director of Finance and Resources		8	0	0
Contract Management - Osborne Property Services Limited	Joe Carter – Director of Regeneration		4	2	0
Council Tax (Draft)	Neil Wilcox – Director of Finance and Resources		0	2	0
Agresso Self-Service	Neil Wilcox – Director of Finance and Resources		4	2	0
Adult Education Service – Ofsted Inspection	Alan Sinclair - Director of Adults and Communities		5	0	0
Cash Collection and Management	Neil Wilcox – Director of Finance and Resources		2	0	0
Housing Benefit	Neil Wilcox – Director of Finance and Resources		3	0	0
Business Rates	Neil Wilcox – Director of Finance and Resources		0	0	0
Whistleblowing (DRAFT)	Neil Wilcox – Director of Finance and Resources	ADVISORY	6	2	2
Parish Council Governance	Neil Wilcox – Director of Finance and Resources	ADVISORY	13 actions agreed		
Adult Social Care - Management of Income	Alan Sinclair - Director of Adults and Communities	ADVISORY	11 actions agreed		

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

**Daniel Harris, Head of Internal Audit**

[Daniel.Harris@rsmuk.com](mailto:Daniel.Harris@rsmuk.com)

Tel: +44 (0)7792 948767

**Chris Rising, Senior Manager**

[Chris.Rising@rsmuk.com](mailto:Chris.Rising@rsmuk.com)

Tel: +44 (0)7768 952380

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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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We have no responsibility to update this report for events and circumstances occurring after the date of this report.

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