

Slough Borough Council

Report To:	Audit and Corporate Governance Committee
Date:	30 September 2024
Subject:	Update on Internal Audit
Chief Officer:	Annabel Scholes – Interim Executive Director of Finance and Commercial (S151)
Contact Officer:	Mike Smith, Interim Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance
Ward(s):	All
Exempt:	NO
Appendices:	Appendix 'A' – Internal Audit Reports (Executive Summaries)

1. Summary and Recommendations

1.1 This report sets out:

- A summary of Internal Audit Reports issued (Appendix A) and in progress.
- Internal Audit Resourcing
- Internal Audit Capability Maturity Assessment
- Internal Audit Plan update
- Internal Audit Delivery commentary
- Audit Charter update

Recommendations:

1.2 The Audit and Corporate Governance Committee is recommended to:

- Note the update in Appendix A on the internal audits completed to date this year.
- Note the progress to recruit staff and other resources to the Internal Audit service.
- Approve the approach to Internal Audit Planning for 2024/25.

Reasons

1.3 Internal audit is a critical function in a local authority, helping the Council to achieve its objectives by evaluating the effectiveness of governance, risk management and internal control arrangements and promoting good corporate governance.

Commissioner Review

One of the best value characteristics of a well-functioning authority is that internal audit functions are challenging, robust, valued and contribute to the efficient delivery of public services.

The Commissioners note the internal audit activity and summary reports in respect of the areas for which internal audit work has recently been concluded. In considering the risk-based plan of internal audit activity, account must be taken of its sufficiency in terms of resourcing and design to support the production of an annual internal audit opinion on the effectiveness of the systems of governance, risk management and internal control.

The Committee's attention is also drawn to the legal Implications section of this report, which provides a summary of the Committee's oversight responsibilities.

2. Internal Audit Reports Issued

- 2.1 The issue of Internal Audit Reports is impacted by factors including resourcing challenges within the Internal Audit function, the absence of an Audit Management IT system and ongoing challenges in obtaining prompt feedback once draft reports have been issued.
- 2.2 Five Final Internal Audit Reports have been issued. Summaries of the findings are set out in Appendix A, as follows:
- The Agresso Application audit, undertaken by a specialist third party, provided Partial Assurance, due to factors including weaknesses in the management of leavers, the failure to create up-to-date process documentation despite the customised nature of the application (highlighted in a number of previous Internal Audit reports) and limited recovery testing.
 - The Agresso Transaction review, also undertaken by a specialist third party, involved the detailed examination of transactions within Agresso using data analytics software. As controls were not assessed as part of the review, no assurance rating was provided, and the main output comprised lists of transactions for further investigation by management.
 - The IT Asset Management audit involved a review of the management of portable devices and resulted in Partial Assurance, due in part to the lack of records provided to the Council when the IT service was in housed, and ongoing challenges in creating up-to-date records of IT assets held. The acquisition of software to help track IT assets is improving control over IT assets.
 - The Asset Disposal Program audit reviewed the processes involved in the program to raise funds via the disposal of capital assets. A Partial Assurance rating resulted from this review, largely due to challenges in historical record-keeping.
 - The Governance Council Subsidiary Companies review was a Follow-Up audit, designed to determine whether recommendations of an audit carried out during 2022/23 had been implemented. All recommendations were due to be implemented in 2022/23, but four of the seven recommendations remained outstanding as at January 2024. Accordingly, a Minimal Assurance rating was provided.

2.3 Themes emerging from these reports include:

- Recommendations from previous internal audit reports not being implemented as agreed (Agresso and Subsidiary Companies), leading to ongoing risk exposure.
- Shortcomings in record-keeping (IT Asset Management and Asset Disposal Program).

2.4 Internal Audit has also completed a Grants audit for Slough Childrens First, an activity that previously has been carried out by the Finance function. No formal audit report was produced for this.

3. Ongoing Internal Audits

3.1 Two internal audits are in progress (Corporate Memory and Contract Management), and a number of confidential special investigations are underway. A number of schools audits are scheduled for September.

4. Internal Audit Resources

4.1 The Interim Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance has been attempting to benchmark the size of internal audit teams. No benchmarking information was available from CIPFA, the Institute of Internal Auditors, the external auditors or RSM, the previous provider of internal audit services.

4.2 Informal benchmarking, involving discussions with the internal audit functions at comparable unitary authorities, indicated that an internal audit team of about six was the norm. Similar informal conversations with a CIPFA-provider of external quality assurance services for Internal Audit, who reported experience of a large number of local authority internal audit functions, indicated that a Unitary Authority such as Slough might have six in the internal audit function. This does not take account of any desire for additional assurance given the financial position of the Council and the current control and risk environments.

4.3 The current Internal Audit team currently comprises part of the time of the Interim Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance, and three internal auditors (one being maternity cover on a one-year contract).

4.4 The current Internal Audit establishment was based on an Options Analysis presented to this committee in 2021 in response to the DLUCH and CIPFA requests for an independent review of Internal Audit, and that concluded that a team of four (plus Head of Service covering other functions) would be appropriate team size for internal audit.

4.5 Since this options appraisal, the Council has had difficulties in permanently recruiting to the team and there has been turnover in the head of service role. The informal benchmarking discussions indicated that a number of internal audit functions had vacancies within their teams, and were experiencing difficulty in recruiting experienced auditors. The CIPFA external quality assurance assessor commented that there seems to be a shortage of experienced auditors who are prepared to accept local government salaries, particularly in areas that are located close to major cities. Therefore, whilst the decision to internalise the internal audit function may have been a sensible one, more consideration is needed to be given to the risks of not recruiting to the team and options to manage this risk.

4.6 Recently, the Interim Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance was informed that recruitment of two apprentices for Internal Audit can take place. The process involves a number of stages, and is work in progress. Recruitment for these apprentices will help to give Internal Audit the critical mass needed to deliver the level of assurance required to the Council, to support an Internal Audit Opinion and the Annual Governance Statement.

4.7 The Interim Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance will develop a resourcing plan for Internal Audit following the completion of the Q2 Corporate Risk Update, for submission to the November meeting. This will reflect the results of the Internal Audit benchmarking exercise that has taken place, and the current risk profile of the Council.

5. Internal Audit Capability Maturity Assessment

5.1 On arrival at the Council, the Interim Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance conducted an informal assessment of the Internal Audit team using the Institute of Internal Auditor's Capability Maturity Model. This confirmed a low level of maturity, with many of the building blocks of an effective Internal Audit service being absent.

5.2 Over the last few months, Internal Audit capability has been developing, with enhancements including:

- The development of a comprehensive Internal Audit Manual;
- The development and deployment of a Risk-Based Audit methodology;
- The development of a suite of Internal Audit working paper templates for use on audits;
- The enhancement of management information, including the production of more granular information that has contributed to the closure of a number of outstanding recommendations;
- Ongoing engagement with leadership groups including CLT; and
- The development of client-relationship management activities.

Challenges remain in a number of areas, including the absence of an Internal Audit Universe, typically used as the basis for the identification of audits to be completed, the lack of resource, the absence of an Internal Audit Management System (leading to the requirement for the time-consuming manual tracking of outstanding recommendations, challenges in planning for / managing ongoing audits, the absence of functionality that supports an efficient / effective internal audit function etc.).

Further, as previously reported to the Committee, it continues to be very time-consuming to complete Internal Audit reports due, in part, to challenges in obtaining management responses to Internal Audit Reports. This is in part due to the high turnover of staff in senior positions and also to issues with poor record keeping. This contributed to the rationale for conducting an internal audit of corporate memory.

Whilst some of these areas / issues are in the process of being addressed, the Internal Audit function remains relatively immature and, until currently-planned internal audits are completed, untested with respect to its ability to deliver high-impact risk-based internal audit reports that provide assurance / draw the attention of Members and Management to significant risk and internal control issues.

The Interim Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance will provide an update on Internal Audit Maturity to the November 2024 meeting of this committee.

6. FY2024/25 Internal Audit Plan

- 6.1 An Internal Audit Plan for 2024/25 was approved by the Committee in March 2024. Completion of the Plan assumed a full complement of staff throughout 2024/25, namely four internal auditors, notwithstanding vacancies at the time including one internal auditor and the Interim Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance.
- 6.2 During most of Q1 2024/25, there were three internal auditors in the team (one on maternity leave), with the Interim Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance joining the Council at the end of April 2024. Maternity cover was recruited in mid-June 2024, giving a team of three auditors available to work on the approved plan of 22 audits. However, the 2023/24 Audit Plan was completed only in September 2024.
- 6.3 The current Interim Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance is concerned about the robustness of the objective assessment of risks facing the Council.
- 6.4 The Interim Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance has been unable to locate a credible audit universe (list of auditable areas) that could be used as the basis of a risk-based Internal Audit Plan. Further, it appeared that the Corporate Risk Register may not be representative of the current risks facing the Council.
- 6.5 In the absence of either a credible audit universe or Corporate Risk Register, the Interim Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance spoke to the Chair of the Audit and Governance Committee about adopting a rolling programme of audits during 2024/25, based on prevailing risks that have been identified.
- 6.6 The newly-appointed Interim Risk Manager, in is prioritising validation of the Corporate Risk Register, which is expected to drive the Internal Audit Plan for the remainder of 2024/25, along with the typical processes employed by Internal Audit to identify emerging risk areas. An update on a new Internal Audit Plan for 2024/25 will be submitted to the November 2024 meeting of this committee.

7. Audit Delivery

- 7.1 It has been reported to this Committee on previous occasions that the completion of audit assignments has taken longer than the timescales that had originally been agreed with the audit sponsor. This has been attributed to factors such as resourcing, limited commitment to ensuring staff are available during the agreed period to provide information or assist auditors with follow-up queries etc.

- 7.2 Previous submissions to this Committee have referred to frustrations being expressed by RSM, the previous internal audit provider, about the culture within the Council.
- 7.3 The development of metrics concerning the progress of Internal Audits is in progress. Performance metrics are expected to be reported to included within the November 2024 submissions to the Audit & Governance Committee.

8. Audit Charter Update

- 8.1 The Internal Audit Charter 2023/24 was approved in July 2023 and is expected to undergo annual review. The Public Sector Internal Audit Standards (PSIAS) are undergoing revision, following significant update to the underlying Standards issued by the Institute of Internal Auditors, with an expectation that they will be published in Q3 or Q4 2024, possibly as early as September. Updating of the Charter by the Interim Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance, following publication of the revised PSIAS, will enable the Charter to reflect best practice.

9. Internal Audit Overdue Actions

- 9.1 As at 31st August 2024:
- 42 Medium and Low risk actions from 2021/22 were overdue:
 - 14 High and 41 Medium and Low risk actions from 2022/23 were overdue:
and
 - 3 High and 20 Medium and Low risk actions from 2023/24 were overdue.
- 9.2 Whilst progress has been made in closing overdue actions over recent months, Management reports that some actions cannot be closed without investment. Plans to resolve these are expected to be included within Directorate Improvement Plans.
- 9.3 A detailed analysis of overdue actions will be presented to the October Committee meeting.

10. Implications of the Recommendation

10.1 Financial implications

- 10.1.1 There are no direct financial implications relating to the updates to the internal audit recommendations, but completion of the actions will improve the Council's processes including those that underpin sound financial management, governance, risk management and internal control.

10.2 Legal implications

- 10.2.1 Under the Accounts and Audit Regulations, the Council must undertake an effective internal audit programme to evaluate the effectiveness of risk management, control and governance processes, considering the PSIAS and sector specific guidance. The PSIAS states the Council should periodically prepare a risk-based plan of internal audit activity designed to support an

annual opinion on the effectiveness of the systems of governance, risk management and internal control.

- 10.2.2 Failure to address those risks, which are associated with the Directions from the Department for Levelling Up, Housing and Communities, will impact the ability to secure the Authority's compliance with the requirements of Part I of Local Government Act 1999. The Council has specific legal duties in relation to certain areas, such as managing health and safety risks and civil contingency. Effective internal audit is a key part of providing assurance on the adequacy of governance, risk management and internal control. The draft best value guidance contains seven themes. This confirms that local authorities should respond to audit recommendations and address issues in a timely way and a sign of potential failure is an internal audit service which does not meet the PSIAS and fails to consider identified high risks.
- 10.2.3 This Committee is responsible for providing an independent and high-level focus on the audit assurance and reporting arrangements that underpin good governance and financial standards. This includes overseeing internal audit. The Committee's terms of reference include making appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations, to consider reports from the head of internal audit on internal audit's performance during the year, including receiving updates on the work of internal audit setting out key findings, issues of concern and actions in hand. Key indicators of effective arrangements for internal audit may include independent assurance from internal audit on managing risk, internal audit conforming with PSIAS and operating in accordance with CIPFA's Statement on the Role of the Head of Internal Audit.
- 10.2.4 The Committee is responsible for approving the internal audit charter, reviewing proposals made in relation to the appointment of external providers of internal audit services and making recommendations, approving a risk-based internal audit plan and any significant changes to the plan. The committee should make appropriate enquiries to consider any resource limitations and any impairment to independence or objectivity arising from additional roles and responsibilities outside of internal auditing of the head of service and approve any safeguards in place to limit such impairment. The committee should receive regular reports throughout the year on auditing work, quality assurance and any concerns that the function does not conform to PSIAS. The committee should receive an annual report from the head of internal audit and consider summaries of specific audits. The committee should provide free and unfettered access to the committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.
- 10.2.4 The Council's annual governance statement (AGS) should be informed by the head of internal audit's opinion and annual report. However, due to staff turnover no internal audit opinion was provided for 2023/24. The committee approved the 2023/24 AGS in July 2024 and this included a detailed action plan in relation to internal control systems. For internal audit this included the following:
- stabilise internal audit team,
 - ensure annual audit plan informed by risk,

- ensure effective escalation procedures including reporting on key risks at member level,
- Commission independent external quality assurance review in accordance with requirements of PSIAS to evaluate effectiveness of internal audit function.

10.3 **Risk management implications**

10.3.1 Having in place an adequate internal audit function is a critical responsibility of a local authority. Failure to operate an adequate internal audit function heightens the risk of poor governance, internal control, and risk management. The draft best value guidance refers to Governance as one of seven best value themes. An indicator of potential failure is having an internal audit function which does not meet the PSIAS and fails to consider identified high risks.

10.4 **Environmental implications**

10.4.1 There are no direct environmental implications in this report.

10.5 **Equality implications**

10.5.1 Section 149 of the Equality Act 2010 requires public bodies to have due regard to the need to:

- eliminate unlawful discrimination, harassment, victimisation, and any other conduct prohibited by the Act.
- advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
- foster good relations between people who share a protected character.