

Slough Borough Council

Report To:	Audit and Corporate Governance Committee
Date:	20 March 2024
Subject:	Update on Internal Audit
Chief Officer:	Adele Taylor – Executive Director of Finance and Commercial (S151)
Contact Officer:	Sati Seehra, Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance
Ward(s):	All
Exempt:	NO
Appendices:	Appendix 'A' – Overdue High Risk Audit Actions Appendix 'B' – Internal Audit Reports (Executive Summaries) Appendix 'C' – Internal Audit Plan 2024/25

1. Summary and Recommendations

1.1 This report sets out:

- Progress on the implementation of internal audit reports and actions for 2021/22, 2022/23 and 2023/24 (Appendix A) with Executive Summaries (Appendix B).
- Progress on recruitment to the Internal Audit Team and the Risk and Insurance Team.
- An Internal Audit Plan for 2024/25 (Appendix C).

Recommendations:

1.2 The Audit and Corporate Governance Committee is recommended to:

- Note the progress update in relation to outstanding internal audit actions.
- Note the progress to recruit staff and other resources to the Internal Audit service.
- Approve the Internal Audit Plan 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

Internal audit will only be effective in assisting the Council to achieve its objectives through improvements to internal control, risk management and governance, if the weaknesses identified and actions agreed with management are actually implemented, and if there is

sufficient quantity of resources, with the appropriate mix of knowledge and skills, effectively deployed to achieve the approved risk-based audit plan.

The Audit and Corporate Governance committee should do its utmost to ensure that the internal audit function can devote the required resource to key areas of the business and control functions, can perform its work effectively and that the level and nature of resources available is not to widely stretched as to impact adversely on the Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance's ability to provide the annual internal audit opinion.

2. Response to Internal Audit Actions

- 2.1 Progress continues to be made regarding completion of internal audit recommendations. All internal audit actions have been allocated to and reviewed by action owners and Executive Directors, including actions that are deemed not relevant due to changes in circumstances. Actions from previous year's audits are also reviewed to ensure they are relevant to the service area to which they have been assigned.
- 2.2 Evidence of actions completed is obtained and quality assured by the Internal Audit Manager and retained for use in follow up audits. The Internal Audit Actions Log details all audit actions along with (but not limited to) information such as action owners, agreed implementation dates and monthly progress updates.

2.3 2021/22 Internal Audit Actions

A total of 37 Internal audit reports were issued in 2021/22 (29 assurance and 8 advisory). The current status of audit actions for the financial year 2021/22 is as follows:

Total 21/22				
Totals	Total	High	Medium	Low
Not Due	0	0	0	0
Overdue	55	1	34	20
Complete	272	54	124	94
Not Allocated	0	0	0	0
Totals	327	55	158	114

Variance to Prior Month 21/22				
Totals	Total	High	Medium	Low
Not Due	0	0	0	0
Overdue	9	1	5	3
Complete	9	1	5	3

Key: + is favourable variance, (-) is adverse variance to prior month.

- 327 recommendations were made in 2021/22 reports, 55 are High, 158 are medium and 114 are low rated.
- 272 actions or 83 per cent of actions due are complete (up from 263 prior month) with a further 55 actions or 17 per cent are overdue the agreed date of

implementation (down from 64 prior month). 1 of these are rated high, 34 are medium and 20 low rated.

2.4 The overdue actions have been shared with each department so Department Leadership Teams (DLT) can consider the current position and respond. Work will continue with DLT's to reduce these numbers with the expectation that these should be closed off by the end of this financial year. Focus on medium and low rated actions will resume in February 2024, driven by the Executive Director – Finance and Commercial and the Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance, and continue into the next financial year.

2.5 The Council has a collective responsibility to ensure that agreed audit recommendations have been actioned. The Council has set a target to have no high-rated actions from FY2021/22 outstanding by March 2024. This target will not be achieved as there will be one action outstanding from the GDPR Governance audit which is dependent upon the current senior management restructure being completed before action to close can be taken.

2.6 2022/23 Internal Audit Actions

A total of 28 Internal audit reports were issued in 2022/23 (25 assurance and 3 advisory). The status of audits actions for the financial year 2022/23 is as follows:

Total 22/23				
Totals	Total	High	Medium	Low
Not Due	34	8	19	7
Overdue	74	16	42	16
Complete	117	30	56	31
Not Allocated	0	0	0	0
Totals	225	54	117	54

Variance to Prior Month 22/23				
Totals	Total	High	Medium	Low
Not Due	19	2	14	3
Overdue	(8)	1	(10)	1
Complete	11	3	4	4

Key: + is favourable variance, (-) is adverse variance to prior month.

- 225 recommendations were made in 2022/23 reports, 54 are High, 117 are medium and 54 are low rated.
- 117 actions or 52 per cent of actions due are complete (up from 106 actions prior month) with a further 34 or 15 per cent of actions not yet due for completion (down from 53 prior month).
- 74 actions or 33 per cent are now overdue of the agreed date of implementation (up from 66 actions prior month). 16 of these are rated high, 42 are medium and 16 low rated.

- 2.7 The overdue actions have been shared with each department so Department Leadership Teams can consider the current position and respond. Work will continue with DLT's to reduce these numbers. However, there was a trend of the number of overdue actions increasing predominantly due to a mixture of optimistic implementation dates having been originally agreed with the previous internal audit provider by action owners, and a high turnover of staff in Directorates over the last two years that has put the focus on prioritising service delivery and improvement in current services.
- 2.8 As mentioned in the January 2024 report, Quarter 4 is traditionally one of the busiest periods for reporting in the Council. The focus on overdue audit actions has become diluted by the action owners, and the wider Council in general due to end of year requirements, and the number of overdue actions have increased once again. The Internal Audit function continues to work with the Directorate Leadership Teams to encourage completion of all audit actions.
- 2.9 The Council has a collective responsibility to ensure that agreed audit recommendations have been actioned. The Council has been set a target to have no high-rated actions from FY2022/23 outstanding greater than 30%. The current year to date achievement is 33% (as of February 2024) which means the Council is above its target by 3%. It should be noted that if no further outstanding or upcoming actions are closed, then the Council will not achieve this target.

2.10 2023/24 Internal Audit Actions

A total of 10 Internal audit reports were issued in 2023/24 (10 assurance and 0 advisory). 8 have been finalised and 2 are still in draft. As of February 2024, 7 reports are currently in fieldwork.

Total 23/24				
Totals	Total	High	Medium	Low
Not Due	29	8	16	5
Overdue	25	2	14	9
Complete	15	5	8	2
Not Allocated	0	0	0	0
Totals	69	15	38	16

Variance to Prior Month 23/24				
Totals	Total	High	Medium	Low
Not Due	6	(3)	6	3
Overdue	(16)	(1)	(11)	(4)
Complete	0	0	0	0

Key: + is favourable variance, (-) is adverse variance to prior month.

- 69 recommendations were made in 2023/24 reports, 15 are High, 38 are medium and 16 are low rated.
- 15 actions or 22 per cent of actions due are complete with a further 29 or 42 per cent of actions not yet due for completion (down from 35 prior month).

- 25 actions or 36 per cent are now overdue of the agreed date of implementation (up from 9 prior month). 2 of these are rated high, 14 are medium and 9 low rated.
- 2.11 12 of the overdue actions are no more than a month over their agreed implementation date, with the remaining 5 actions no more than 2 months over their agreed implementation date and 4 actions no more than 3 months over their agreed implementation date. The remaining actions are 5 months over their implementation date.

2.12 **Governance and Monitoring of Management Actions**

Outstanding internal audit actions are currently monitored on a regular basis including reporting into Corporate Leadership Team, Risk and Audit Board and the Audit and Corporate Governance Committee. Audit and Corporate Governance Committee reports include the executive summaries of all finalised audit reports undertaken by the Internal Audit team highlighting the key findings (Appendix B). This ensures the Committee can determine that the Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance is adhering to the first two principles as a Head of Internal Audit in a public service organisation:

‘objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence based opinion on all aspects of governance, risk management and internal control.’

and

‘championing best practice in governance and commenting on responses to emerging risks and proposed developments.’

- 2.13 It should be noted that certain factors may impact the governance and monitoring arrangements, namely current and future staff turnover from the impact of the senior management restructure that is underway in the Council. However, given the importance of the actions that have been identified and their contribution to strengthening the overall control framework, every effort should be made to minimise the impact of staff turnover.

3. Internal Audit Team Developments

- 3.1 A Senior Internal Auditor has joined the Council on 2nd January 2024. Recruitment for a temporary vacancy for an internal auditor has been advertised on the SBC website. The Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance role and the Internal Audit Manager roles will become vacant in April 2024.
- 3.2 The Internal Audit Manager had procured support from Azets, a professional services organisation to undertake 2 technical audits – the Agresso Finance system audit and the Transactional Data Quality audit. These are 2 of the 7 audits that are currently in fieldwork.
- 3.3 The Risk and Insurance Manager role also needs to be recruited to. The insurance element of the role will be covered by the Risk and Insurance Officer.

The Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance has covered the risk management aspect of the role.

- 3.4 The lack of stability in the team risks having an impact on fulfilling the Internal Audit plan and ensuring there are the right level of skills to contribute to the overall internal control environment.
- 3.5 Internal Audit should meet the UK Public Sector Internal Audit Standards (PSIAS). This requires a Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance with an effective team focused on objectively assessing the adequacy and effectiveness of governance and management of risks, championing best practice in governance and having regular and open engagement across the Council at an officer and member level. The planned recruitment should mitigate these risks.

4. FY2024/25 Internal Audit Plan

- 4.1 Our Internal Audit Plan for 2024/25 is presented for consideration by the Audit and Corporate Governance Committee. In preparing the Internal Audit Plan for 2024/25 we have worked with Officers to produce an audit programme which remains mindful of the Council's financial position, significant financial and operational challenges, the Council's improvement and recovery plan position and weaknesses.
- 4.2 The plan assumes a fully resourced Internal Audit function with the correct capacity and capability (Appendix C). The plan is presented detailing the audits that the current Internal Audit team are proposing to complete in the 2024/25 financial year. This plan has been discussed with the Executive Directors of the Council (or their appointed representatives), as well as the Chair and Vice Chair of the Audit and Corporate Governance Committee.
- 4.3 In addition, there is an indicative audit plan for 2025/26 and 2026/27. It should be noted that the proposed audits are for illustration only as no discussions have been held with Executive Directors.

5. Audit Delivery

- 5.1 During 2023/24, the completion of audit assignments has taken longer than the timescales that had originally been agreed with the audit sponsor. When scoping each audit, our Terms of Reference clearly state the key deliverables that are agreed at the outset with key stakeholders. Furthermore, auditees have 10 working days to review a draft report and to come back with comments to the Audit team. This can be attributed to a number of factors such as resourcing but also limited commitment to ensuring staff are available during the agreed period to provide information or assist auditors with follow-up queries.
- 5.2 Furthermore, as audit reports are drafted and reviewed with auditees, there are requests for multiple changes at multiple times throughout the process, leading to unnecessary delays. This frustration had also been expressed by RSM, the previous internal audit provider about the culture within the Council.
- 5.3 In 2024/25 we will be looking to publish, to the Audit and Corporate Governance Committee, details of metrics detailing when audits had been started and

completed, and the length of time taken to reach key milestones and reasons to those delays. We will also remind Executive Directors and their teams in their Directorate Leadership team meetings as well as in the planning meetings of each audit, of our expectations and their responsibilities.

6. Internal Audit Customer Service Questionnaires (CSQ)

- 6.1 At the issuance of each finalised audit report, the Internal Audit Manager includes a CSQ to allow auditees to provide feedback. This is in order to seek opportunities to make the Internal Audit function 'a best in class, value-adding' service as this would be a requirement for the Institute of Internal Auditors External Quality Assessment criteria.
- 6.2 To date, from the 8 reports that have been finalised, no CSQ feedback form has been returned to the Internal Audit Manager. Therefore, it is not possible to present any feedback to the Audit and Corporate Governance Committee about the effectiveness of the Internal Audit function from a consumer's perspective.

7. Implications of the Recommendation

7.1 Financial implications

- 7.1.1 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.

7.2 Legal implications

- 7.2.1 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.
- 7.2.2 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.
- 7.2.3 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.

7.3 **Risk management implications**

7.3.1 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.

7.4 **Environmental implications**

7.4.1 There are no direct environmental implications in this report.

7.5 ***Equality implications***

7.5.1 *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.

8. Background Papers

CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2019 Edition)