

Slough Borough Council

Report To:	Audit and Corporate Governance Committee
Date:	13 November 2024
Subject:	Update on Internal Audit
Chief Officer:	Annabel Scholes – 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:	None

1. Summary and Recommendations

1.1 This report sets out:

- A summary of Internal Audits completed and in progress.
- Internal Audit Resourcing
- Internal Audit Independence
- Audit Charter Update
- Overdue Internal Audit Recommendations

Recommendations:

1.2 The Audit and Corporate Governance Committee is recommended to note the information provided within this submission.

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

The Commissioners note the content of this report

2. Ongoing / Completed Internal Audits

2.1 Four internal audits from the current financial year (Corporate Memory, Contract Management and two Schools Audits), and four confidential investigations are in progress. Two of the confidential investigations are on hold pending additional information from external parties.

- 2.2 Six audits have been completed during the current financial year, including a number of audits brought forwards from 2023/24 (IT Asset Management, Subsidiaries Follow Up, Asset Disposal Program, Agresso Application Review and Agresso Transactions Report). A Grants Audit was completed for Slough Children First, an addition to the previously approved audit plan.

3. Internal Audit Independence

- 3.1 The Institute of Internal Auditors, the global authority on internal auditing, states that “*Independence is the freedom from conditions that threaten the ability of the internal audit activity to carried out internal audit activities in an unbiased manner*” (Position paper: Internal audit’s relationship with external audit, April 2020).

- 3.2 The Public Sector Internal Audit Standard 1130, Impairment to Independence or Objectivity states:

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations, such as funding.

- 3.3 The Interim Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance has flagged a number of impairment issues to management and the Chair of the Audit and Governance Committee.
- 3.4 Discussions with management to resolve these independence issues are ongoing.

4. Internal Audit Resources

- 4.1 The 2016 KPMG Report “Redefining internal audit Local Government” included the following comments:

4.1..1 “*The case for internal audit is never stronger than during a period of financial austerity*”

4.1..2 “*If you turn off the taps of funding, change the way you operate your governance, your control environment, your service delivery, then naturally the organisation’s senior management and its members have a greater assurance need*” (KPMG Partner)

4.1..3 “*Over the last three years, two thirds of local authorities have seen the scale of their internal audit plan reduced as a result of funding cuts*”

4.1..4 “*A comparison of internal audit plans over a three year period show an average reduction of 18 percent in the number of audit days*”

- 4.2 The above is consistent both with the views expressed by a CIPFA external quality assurance reviewer (that internal audit team sizes have reduced significantly over

the last two decades), and of the personal experience of the Interim Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance, that the internal audit function in Slough was insourced with a team that was a fraction of the size that could have been expected of a similar authority of the late 1990s. This reduction in local government internal audit team sizes has occurred despite risks facing Councils increasing significantly during the same period (cyber risks, ESG, funding, increased pressure on service delivery, expansion of Council responsibilities associated with unitary status etc.), and despite the more stringent requirements of internal audit teams due to changes to the Public Sector Internal Audit Standards.

- 4.3 Considering the above, and contrasting internal audit's role "*internal auditors help organisations to succeed*" (IIA: [What is internal audit? | About us | IIA](#)), with the LGiU's February 2024 comments that "*More than half (51%) of senior council figures warn their councils are likely to go bust in the next parliament unless local government funding is reformed*" ([Over half of councils face bankruptcy within next parliament - LGiU](#)), it seems reasonable to question whether benchmarking Internal Audit team sizes against other local authorities was a reasonable basis for determining the team size when the decision to insource the Council's internal audit team was taken in 2021.
- 4.4 Whilst the insourcing benchmarking exercise recommended a team of four and recent conversations with a CIPFA representative indicated a typical internal audit team size of six for a Unitary Authority (both excluding the Head of Audit), the 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), and one vacancy. The internal auditor on a one-year maternity cover contract has recently resigned and is serving his notice period.
- 4.5 The recruitment of apprentices stalled due to the requirement for the Interim Head of Financial Governance, Internal Audit, Counter Fraud, Risk and Insurance to fund these posts, possibly via deletion of one of the permanent internal audit posts. This, plus factors such as the timing of formal training for apprentices and the availability of experienced staff to train these apprentices resulted in the decision by the Interim Head of Financial Governance, Internal Audit, Counter Fraud and Insurance to abandon the plan to recruit apprentices.
- 4.6 The Interim Head of Financial Governance, Internal Audit, Counter Fraud and Insurance is exploring options for extra resource, including the possible recruitment of interim staff and working with third party internal audit providers, to enable him to prepare an Audit Opinion on the adequacy of systems of governance, risk management and internal control in support of the Annual Governance Statement.
- 4.7 Following the production of the Q2 Corporate Risk Update, the Interim Head of Financial Governance, Internal Audit, Counter Fraud and Insurance expects to be in a position to develop a resourcing plan for the Internal Audit function, and an updated Audit Plan for the remainder of 2024/25.

5. Audit Charter Update

- 5.1 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. It is understood that the revised PSIAS may be published in December 2024 following which the Charter will be updated to reflect best practice.

6. Internal Audit Overdue Actions

6.1 As at 30th September 2024:

- 41 Medium and Low risk actions from 2021/22 were overdue:
- 14 High and 40 Medium and Low risk actions from 2022/23 were overdue:
and
- 3 High and 23 Medium and Low risk actions from 2023/24 were overdue.

6.2 A slight increase in the number of Medium and Low risk actions from 2023/24 resulted from recommendations becoming overdue since the end of August 2024.

6.3 A detailed analysis of overdue actions was presented to the October Committee meeting.

7. Implications of the Recommendation

7.1 Financial implications

7.1.1 Increasing the size of the internal audit team will have financial consequences, and needs to be considered in the context of the Council's current and projected financial position, but this provides additional assurance and should identify improvement opportunities with respect to 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.
- 7.2.4 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.
- 7.2.5 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.

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.